



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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Contact Person:

Identification Number:

Telephone Number:

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Dear

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This responds to your request for general information about the obligations of a grantor private foundation to request, and a grantee to provide, a final report under the expenditure responsibility rules in Internal Revenue Code ("Code") section 4945(h) and Treas. Reg. § 53.4945-5(c)(1). This letter addresses certain rules that apply to a typical kind of grant that has the following characteristics:

- it is to be expended for exclusively charitable purposes, and not to be used by the grantee for increasing its endowment, purchasing capital equipment, or for other capital purposes,
- it is not a program-related investment,
- it is a grant for which expenditure responsibility must be exercised by the grantor,
- the grantee organization provides interim reports to the grantor for each year of the grant term, ending with a full and complete report that is submitted shortly after the grant funds are fully expended, and
- the final report is delivered to the grantor during the same taxable year that the grant funds are fully expended.

Code section 4945(a) imposes a tax on each taxable expenditure of a private foundation. Code section 4945(d)(4)(8) provides that a private foundation's grant to an organization will not be a taxable expenditure if the private foundation exercises expenditure responsibility with respect to such grant in accordance with Code section 4945(h). As part of its expenditure responsibility, a private foundation is responsible to exert all reasonable efforts and to establish adequate procedures to obtain full and complete reports from the grantee on how the funds are spent. Code section 4945(h)(2); see also Treas. Reg. § 53.4945-5(b)(1)(ii).

A grant to an organization will meet the expenditure responsibility requirements only if it is made subject to a written commitment signed by an appropriate officer, director, or trustee of the grantee organization. The grantee must agree in the commitment to, among other requirements, submit full and complete annual reports on the manner in which the funds are spent and the progress made in accomplishing the purposes of the grant. See Treas. Reg. § 53.4945-5(b)(3)(ii).

In the case of a grant described in Code section 4945(d)(4)(B)-other than one that is a program-related investment or to a tax-exempt private foundation for endowment, the purchase of capital equipment, or other capital purposes — the granting private foundation shall require reports on the use of the funds, compliance with the terms of the grant, and the progress made by the grantee toward achieving the purposes for which the grant was made. The grantee shall make such reports as of the end of its annual accounting period within which the grant or any portion thereof is received and all such subsequent periods until the grant funds are expended in full or the grant is otherwise terminated. Such reports shall be furnished to the grantor within a reasonable period of time after the close of the annual accounting period of the grantee for which such reports are made. Within a reasonable period of time after the close of its annual accounting period during which the use of the grant funds is completed, the grantee must make a final report with respect to all expenditures made from such funds (including salaries, travel, and supplies), and indicating the progress made toward the goals of the grant. Treas. Reg. § 53.4945-5(c)(1).

Grantees are required to furnish grantors with two types of reports by the terms of Treas. Reg. § 53.4945-5(c)(1). Grantees must furnish annual reports beginning with the year in which the grant is received and for each succeeding year until the grant is fully expended or it is otherwise terminated. Grantees also must furnish a final report. The regulation does not, however, prohibit a single report from satisfying an annual report requirement and the final report requirement. Therefore, a grantee can submit a single report that satisfies an annual reporting requirement and the final report requirement.

The regulation says that the final report must be made “[w]ithin a reasonable period of time after the close of its annual accounting period during which the use of the grant funds is completed.” Treas. Reg. § 53.4945-5(c)(1). This language is intended to define the deadline by which the required final report can be provided to the grantor in compliance with expenditure responsibility reporting requirements. It is not intended to preclude a grantee from providing the required final report earlier than the close of its annual accounting period in which the grant funds are fully expended. A grantee may submit its final report at any time before the deadline so long as it contains all of the necessary information. Therefore, a grantee may provide the final report referred to in Treas. Reg. § 53.4945-5(c)(1) at any time after it has expended all of the grant funds and before the end of a reasonable period of time after the close of its annual accounting period during which the final expenditure occurred.

We believe this general information will be of assistance to you. However, this letter is for informational purposes only and is intended to provide general statements of well-defined law. It is not a ruling and may not be relied on as-such. See section 3.06 of Rev. Proc. 2013-4, 2013-1 I.R.S. 126 (or its successor). This letter will be made available for public inspection. The Internal Revenue Service will delete any name, address and other identifying information as appropriate under the Freedom of Information Act. See Announcement 2000-2, 2000-2 I.R.S. 295. If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Kenneth C. Corbin
Acting Director, Exempt Organizations