**Tipping and Public Charity Status**

"Tipping" refers to the impact of an overly-large grant (made by a private foundation or individual contributor) to a tax-exempt not-for-profit organization that qualifies as a "public charity" under IRS rules and regulations. Public charity status is beneficial to tax-exempt organizations since it allows them to avoid numerous excise taxes and maximize the tax deductions for contributions made by donors to the organization. Tipping can interfere with the public charity status of the recipient organization because the large dollar amount violates certain IRS criteria for public charity exemptions.

According to IRS rules, an organization is granted public charity status if it meets one of two tests:

* *The organization receives more than 33.3% its support in the form of contributions from publicly supported organizations, governmental units, and/or the general public. Example: A human service organization whose revenue is generated through widespread public fundraising campaigns, federated fundraising drives, or government grants is a publicly supported charity.*
* *The organization receives no more than one-third of its support from gross investment income and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions. Examples: A membership-fee organization, such as parent-teacher organization, or an arts group with box office revenue is a publicly supported charity.*

**Impact of Tipping on a Public Charity**
Failing the public support test and losing public charity status could impact the level of deductibility of individual donor contributions and cause other charitable donors (foundations) to potentially have "taxable expenditures". In addition, tipping a public charity would terminate the charity's exemption from excise taxes (the 2% and 1% tax on investment income), the tax on failure to distribute 5% of assets annually, and the taxes on taxable expenditures.

**Computation of Public Support Percentage**

Public Support

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ = Public Support Percentage\*

 Total Support

*\*Must exceed 33.3% over a 5-year period*

If you are a charitable organization under Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi) you will use Part II of Form 990-Schedule A to complete your calculation on the attached worksheet.

If you are a charitable organization under Sections 509(a)(2) you will use Part III of Form 990-Schedule A to complete your calculation on the attached worksheet.

**Consult Your Tax Advisor**
If the calculation of your Public Support Percentage falls below 33.3% there is a “facts and circumstances” test that can be applied and you should consult your tax advisor to ensure that your public charity status is protected.

The C. E. and S. Foundation provides the above for informational purposes only. It should not be interpreted as tax or legal advice to your organization.