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Client Alert: IRS Private Letter Ruling Confirms Large Grant Can Be Excluded From Public Charity's Support Test as an "Unusual Grant"

In Private Letter Ruling (PLR) 202641017, the Internal Revenue Service (IRS) concluded that a substantial cash grant a public charity expects to receive from an unrelated organization, to fund a three-year planning and capacity-building project, qualifies as an "unusual grant" under Treas. Reg.

§1.170A-9(f)(6)(ii) and related provisions, so the charity may exclude it when calculating its public support. The organization is classified as a public charity under I.R.C. §§509(a)(1) and 170(b)(1)(A)(vi) and must show that it is "normally" publicly supported, a showing that one very large gift could undermine.

The IRS found that the grant came from a disinterested party, was unusual or unexpected in amount, and would otherwise hurt the organization's status as normally publicly supported, noting that the grantor had never contributed to or controlled the organization, the organization had historically attracted significant public support and met the public support test, and the grant carried no material restrictions or conditions.

Although a PLR binds only the taxpayer that requested it and cannot be cited as precedent, the ruling shows that a single large gift need not jeopardize public charity status, and charities expecting major grants should assess the effect on their public support percentage in advance, document the donor's independence and the absence of conditions, and consider seeking a ruling where certainty matters.

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Shumaker's Nonprofit & Tax-Exempt team continues to monitor these developments and their potential implications for tax-exempt entities.

For additional information on how these changes may affect your organization, please contact Felix C. Pelzer or Hannah Campbell.