December 21, 2012

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RE: Proposed Amendments to the Regulations Relating to Reliance Standards for Making Good Faith Determinations

Ladies and Gentlemen:

We write to comment on the Treasury Department’s recently proposed changes to Treasury Regulations sections 53.4942(a)-3(a)(6) and 53.4945-5(a)(5),¹ which govern reliance standards for making good faith determinations regarding whether a foreign grantee is the equivalent of a U.S. public charity (the “Proposed Regulations”).

We commend Treasury and the Internal Revenue Service for issuing the notice of proposed rulemaking and appreciate the guidance the Proposed Regulations will provide. We believe that the new regulations will reduce barriers to international grantmaking, particularly by enabling the charitable sector to develop vehicles such as equivalency determination repositories. Such repositories will be able to take advantage of economies of scale to increase the quality and efficiency of good faith determinations for foreign grantees. Creating such a repository has been a goal for us and for many other organizations active in international philanthropy for many years now, and we appreciate Treasury and

the Internal Revenue Service making room for the sector to open the way for such repositories to go forward in a responsible manner. We share Treasury’s hope that this will eventually make equivalency determination opinions more affordable for the sector.

The proposal set forth in the Federal Register includes a request for public comments on three issues. We take this opportunity to address each of those issues. We also discuss two additional areas where further guidance would be helpful, specifically: the ability of other grantmakers besides private foundations, particularly sponsoring organizations of donor advised funds, to rely on any new guidance pertaining to equivalency determinations; and the extent to which a grantmaker may rely on affidavits of grantees and written advice from qualified tax practitioners for purposes of Treasury Regulations section 53.4945-6(c)(2)(ii) relating to expenditures for noncharitable purposes.

Summary of the Proposed Regulations

The Proposed Regulations propose changes to the rules governing reliance standards for making good faith determinations about whether foreign or non-exempt grantees are equivalent to U.S. public charities.

Under the previous regulations, a private foundation would ordinarily be considered to have appropriately made a good faith equivalency determination if the determination was based on an affidavit of the foreign grantee or on an opinion of counsel of the grantor or the grantee. The previous regulations did not address reliance on advice from experts outside the counsel relationship.

The Proposed Regulations no longer limit the experts on whom a private foundation can rely to attorneys with whom the grantor or grantee has a legal counsel relationship. Under the new regulations, private foundations making equivalency determinations may rely on written advice from a third-party “qualified tax practitioner,” including attorneys, certified public accountants, and enrolled agents, as defined in and subject to the requirements of Treasury Department Circular 230. However, because Circular 230 requires practitioners to be licensed to practice in a state, territory, or possession of the United States or enrolled by the IRS, the new regulations would no longer permit foreign counsel of grantees to provide equivalency determination opinions unless they meet these requirements.

The notice of proposed rulemaking requested public comment on the following topics:

- whether the current standards in Revenue Procedure 92-94, 1992-2 C.B. 507, should be modified to take into account changes to the public support test for public charity status under sections 170 and 509 of the Internal Revenue Code;

- whether it is appropriate to limit the timeframe—such as to twelve months from the date of the written advice—during which a private foundation will be permitted to rely upon a qualified tax practitioner’s written advice for purposes of making a good faith equivalency determination, and whether additional guidelines regarding appropriate timeframes for gathering information upon which written advice is based should be provided; and

- whether a private foundation’s ability to base a good faith determination on affidavits should be retained and, if so, whether the use of affidavits should be restricted, such as by prohibiting use
of affidavits for grants above a certain dollar threshold or by requiring additional supporting factual information to corroborate the contents of affidavits.

**Discussion and Recommendations**

I. **The need to maintain Revenue Procedure 92-94 as a current model for what information grantmakers should obtain from foreign grantees**

The notice of proposed rulemaking requests comments regarding whether Revenue Procedure 92-94 should be modified to take into account changes to the public support test for public charity status under sections 170 and 509 of the Code. For twenty years, this Revenue Procedure has provided valuable guidance to grantmakers about the nature of the information that should be gathered in order to support an equivalency determination. Setting forth this information in a Revenue Procedure has been important because it has allowed the Service to maintain a general good faith standard in the regulations that can be flexible enough to be applied case by case to the endless variety of situations confronting international grantmakers, while still prescribing in Revenue Procedure 92-94 a relatively clear model package of information that grantmakers should obtain (and which grantmakers are encouraged to obtain in order to qualify for its safe harbor). Prior to the advent of Revenue Procedure 92-94, many grantmakers were discouraged from participating in international philanthropy because they were not sure what kind of information the IRS might, in a retrospective audit, decide that they should have obtained as a basis for their equivalency determinations. Revenue Procedure 92-94 has quieted those concerns while having a powerful effect as a standard-setting document.

We believe that the need for such a model affidavit and safe harbor is no less necessary now than it was prior to the release of the Proposed Regulations, which do not address the extent of factual information grantmakers or their qualified tax advisors should gather from their prospective grantees in order to make equivalency determinations. We are therefore concerned by the Service’s implicit suggestion that it might not need to update Revenue Procedure 92-94 to apply current law. That approach would make sense only if the Service thought the Revenue Procedure could be safely obsoleted, and we think such a move would upset settled law and create far more uncertainty in the sector about how to make equivalency determinations than currently exists. Accordingly, we urge Treasury and the Service to take steps to preserve the vitality of Revenue Procedure 92-94 by updating it to reflect current law. Indeed, as we have previously indicated to the Treasury Department, we believe that Revenue Procedure 92-94 should not only be corrected, it should also be improved by providing the answers to several perennial questions that grantmakers face repeatedly as they try to apply U.S. standards for public charity status to foreign entities. Those specific suggestions are discussed in Part IV.

II. **Length of timeframe during which a private foundation will be permitted to rely upon a qualified tax practitioner’s written advice**

The notice of proposed rulemaking requests comments on whether it is appropriate to limit the timeframe—such as to a period of twelve months—during which a private foundation may rely on a qualified tax practitioner’s written advice for purposes of making a good faith equivalency determination. It also asks about time periods for relying on information gathered as a basis for such written advice.
The period of validity for an equivalency determination, whether made by the grantmaker itself or by a qualified tax practitioner, should depend not on when the opinion was issued, but upon the currency of the information upon which it is based. Typically, the qualified tax practitioner would be the person best situated to identify the appropriate reliance period in light of the data reviewed. We think it would add unnecessary complexity to have a separate expiration date based on the date the opinion was issued.

Our recommendation is that, at a minimum, Treasury should provide a safe harbor allowing a grantmaker to rely on a qualified tax practitioner’s opinion so long as (a) the data on which it is based was current in the present or immediately preceding accounting period of the grantee, and (b) any public support information upon which the opinion is based is sufficient to confirm that, for purposes of section 4945, the grantee could not yet be treated as a private foundation.2 This would generally mean that an opinion based on current facts and public support data through the most recently completed fiscal year would typically remain valid for between one and two years (through the end of the grantee’s current fiscal year and for the entirety of the following fiscal year). If the qualified tax practitioner’s opinion identifies its own expiration date, the grantee should be able to rely on that conclusion to the same extent as other conclusions in the opinion (subject to the standards for reasonable, good faith reliance on professional advice set forth in Treasury Regulation 1.6664-4(c)(1)).

Such a safe harbor would coincide with the parallel safe harbor permitted for reliance on affidavits in Rev. Proc. 92-94,3 and indeed we see no compelling reason why the time periods for refreshing the facts should differ depending on whether a grantmaker is analyzing a grantee affidavit itself or relying on a qualified tax practitioner to do so.

For both opinions of qualified tax practitioners and affidavits, Treasury should confirm that under the updated public support tests recently promulgated in Treasury Regulation sections 1.170A-9(f)(4)(i) and 1.509(a)-2(d)(1), a grantee’s public support data up through a given year is sufficient to demonstrate that grantmakers can treat the grantee as a public charity for the following two years.4 In

3 See Rev. Proc. 92-94, § 4.05 (also requiring data at least as recent as the previous accounting period, or more current data as necessary to demonstrate that the public support test is met).
4 In the typical case, a grantee with a calendar year accounting period and providing an affidavit certifying its compliance with the requirements for public charity status in 2012 would include financial data from 2007-2011. Prior to finalization in September 2011, the regulations defining public support indicated that passing a public support test for the 2007-2011 period would be sufficient to qualify the organization as a charity only through the end of 2012, resulting in a reliance period that might in some cases be only months or days. See T.D. 9423 (Sept. 8, 2008). The final regulations indicate that, even if such an organization fails to meet a public support test for 2008-2012, for all Chapter 42 purposes other than 4940, the organization continues to be considered a public charity until the end of 2013. Treas. Reg. § 1.170A-9(f)(4)(vii); Treas. Reg. § 1.509(a)-3(c)(1)(i). Applying that principle, a 2012 affidavit with financial data from 2011 is sufficient to demonstrate that a public charity will continue to be considered a public charity for purposes of section 4945 until the end of the following accounting period, i.e., 2013, resulting in the expected 1-2 year period of reliance. Treasury should confirm that such an application is appropriate.
the typical case, a grantee with a calendar year accounting period and providing an affidavit certifying its compliance with the requirements for public charity status in 2012 would include financial data from 2007-2011. Prior to finalization in September 2011, the regulations defining public support indicated that passing a public support test for the 2007-2011 period would be sufficient to qualify the organization as a charity only through the end of 2012, resulting in a reliance period that might in some cases be only months or days. The final regulations indicate that, even if such an organization fails to meet a public support test for 2008-2012, for all Chapter 42 purposes other than 4940, the organization continues to be considered a public charity until the end of 2013. Applying that principle, a 2012 affidavit with financial data from 2011 is sufficient to demonstrate that a public charity will continue to be considered a public charity for purposes of section 4945 until the end of the following accounting period, i.e., 2013, resulting in the expected period of reliance between one and two years. Treasury should confirm that it agrees with this way of applying the public support tests as finalized.

Furthermore, any guidance limiting the safe harbor period for reliance should also recognize that circumstances may exist in which relying on an equivalency determination beyond the safe harbor period is entirely in good faith. For example, some foreign grantees have qualified as charities for many years (such as a foreign university chartered hundreds of years ago), and will continue to qualify as charities for the foreseeable future. Obtaining confirmation every one or two years that a well-known university can seem like a waste of charitable resources. One option would be to provide for a longer safe harbor period for renewals when an organization’s status does not depend on public support, particularly if the organization agrees to provide notification of any further changes. However, whether or not that option is pursued for some class of organizations, it will be impossible for Treasury to write a general bright-line rule that addresses all situations in which longer reliance is appropriate. Accordingly, a grantmaker or qualified tax practitioner should continue to be able to determine, applying principles of good faith on the one hand or the standards of Circular 230 on the other, the appropriate period of validity for an equivalency determination on a particular foreign nonprofit organization. While grantmakers obtaining updates less frequently than the 1-2 year schedule suggested above would not be within the safe harbor, the Service should not hold them liable for taxes under section 4945 or section 4942 solely for that reason; rather, liability should be imposed only if their reliance on older data did not satisfy the good faith standard under all the facts and circumstances.

III. Removal or restriction of a private foundation’s ability to rely on affidavits in making a good faith determination

Treasury and the Service have also requested comments regarding whether a private foundation’s ability to base a good faith determination on affidavits should be eliminated or restricted. Examples of restrictions provided in the notice of proposed rulemaking include prohibiting the use of affidavits for grants above a certain dollar threshold or requiring additional supporting factual information to corroborate the contents of affidavits. We firmly believe that foundations’ ability to rely on affidavits in making good faith determinations should be retained and that additional restrictions are unnecessary and would unduly inhibit foreign grantmaking.

5 See T.D. 9423 (Sept. 8, 2008).
The ability of a private foundation to rely on a foreign organization’s affidavit greatly facilitates international charitable activities by grantmakers unable to afford the high cost of written advice. Use of signed affidavits also promotes collection of accurate information by increasing grantee responsibility for providing truthful information. Removing the ability to rely on grantee affidavits would be an extreme step with wide-ranging repercussions to the grantmaking community and international charities. In many cases the legal or tax questions involved in determining whether an organization qualifies as a public charity are fairly straightforward and uncontroversial, and certainly no more complicated than other questions (such as the correct way to calculate its distributable amount or total qualifying distributions) that the IRS allows a private foundation to resolve on its own without advice from professional advisors. As in other contexts, if a grantmaker goes without professional advice, we believe it is fair for the Service to review its conclusions and its process for reaching those conclusions to see if the grantmaker has complied with the good faith determination and reasonable judgment standards set forth in the regulations. But it would be excessive to suggest that a grantmaker must ordinarily use professional advisors for equivalency determinations in order to be acting in good faith.

Moreover, for two decades Rev. Proc. 92-94 has provided detailed guidance establishing what private foundations must do to take advantage of the safe harbor provided in that Revenue Procedure when relying on grantee affidavits. Among other things, that Revenue Procedure clearly states that a grantmaker must take into account any information in its possession that indicates that an affidavit “may not be reliable,” and we believe that disregarding such information could also affect whether the grantmaker had made its determination in “good faith,” as required under existing and currently proposed Treasury Regulations sections 53.4942(a)-(3)(a)(6) and 53.4945-5(a)(5). The current regulatory language providing that a good faith determination will “ordinarily” be considered as made if the determination is based on an affidavit of the organization (or written advice) does not give a grantmaker carte blanche to rely on the affidavit or written advice regardless of its content or the surrounding circumstances. Rather, background principles of “good faith” still apply to determinations based on affidavits, just as the specific requirements of Treasury Regulations section 1.6664-4(c)(1) apply in the case of written advice. Hence, appropriate safeguards on the use of affidavits already exist.

Treasury’s stated reason for removing the ability to rely on affidavits is a concern that affidavits may be less reliable than opinions prepared by qualified tax practitioners. We agree that there are important differences in the extent to which the two types of documents may be relied upon, but this is not because one is inherently more reliable; it is because individuals acting reasonably and in good faith rely on them for different sorts of conclusions. On matters of law, it may well be true that a grantmaker cannot ordinarily rely on a foreign grantee’s conclusion that the grantee has a particular U.S. tax classification. At the same time, we believe a foreign grantee’s factual statements are ordinarily just as reliable as factual statements contained in a qualified tax practitioner’s opinion. Indeed, in our experience, qualified tax practitioners typically render equivalency determinations on the basis of affidavits or similar written representations obtained from grantees. Grantmakers should therefore be

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7 We share Treasury’s hope that the Proposed Regulations will bring down these costs, but still paying those costs may not be the best use of scarce funds for some charities whose foreign grantees are straightforward enough that they are comfortable taking on the risk of making this determination without professional help.

able to rely equally on facts obtained from either source; it is the application of the law to those facts that differentiates the two.

Similarly, we believe that grantmakers should be permitted to continue to rely on foreign counsel for at least some components of the equivalency determination process. For example, in many cases foreign counsel is best positioned to attest that foreign law applicable to a particular grantee does or does not permit or prohibit certain types of activities—e.g., political campaign intervention—and such information may be necessary or useful to complete an equivalency determination in good faith. We think that foreign counsel may “ordinarily” be relied upon for factual statements about the grantee and for legal conclusions under local law about the legal rights and obligations of the organization. leaving the grantee (with or without the help of U.S. qualified tax practitioners) to determine how U.S. tax standards apply to those substantive rights.

Perhaps Treasury agrees with these commonsense conclusions but believes appropriate reliance on affidavits or foreign counsel could be permitted under the general “good faith” standard even if these other sources were no longer singled out as a source on which good faith determinations can ordinarily rely. On the contrary, we believe that such a deletion would carry a strong implication that, at least in the general run of cases, a good faith determination should ordinarily be based on a qualified tax practitioner’s opinion—essentially putting the burden on private foundations to identify exceptional circumstances warranting their reliance on other forms of evidence. It is important to preserve the assurance that a foundation may make a good faith determination without having to engage counsel or another qualified tax practitioner. However, we think it would be reasonable for Treasury to indicate explicitly that such reliance is not warranted if the grantmaker knows facts that indicate the materials relied upon are inaccurate. Furthermore, the regulation could be redrafted to clarify that while grantmakers may rely on both affidavits and opinions, reliance on an affidavit, unlike reliance on a qualified tax practitioner’s conclusion, leaves the grantmaker a greater responsibility to make a good faith application of the law to the facts stated in the affidavit.

IV. Revision of specific issues in Revenue Procedure 92-94

As discussed above, we believe that modification of Revenue Procedure 92-94 is warranted because these recent changes to the law have made Rev. Proc. 92-94 incorrect and have complicated grantmaking foundations’ ability to rely on its safe harbors. In a previous communication to you we have set out our suggested changes and the rationales for most of those changes in detail.9 Our recommendations are summarized as follows:

a. Confirm that grantmakers can rely on an affidavit of the grantee that establishes section 501(c)(3) and public charity status for the most recently completed fiscal year. Accordingly, assuming all requirements are met, a grantee’s affidavit would be “currently qualified” in 2013 if

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it contained financial data establishing that the organization satisfied the public support test for 2012, based on a public support period from 2007 to 2011 or from 2008 to 2012.

b. Clarify that a grantmaker evaluating the public support of a foreign organization may treat as 100 percent public support under the section 170(b)(1)(A)(vi) test all support from international organizations such as the United Nations, foreign governments, foreign government instrumentalities, foreign public universities, and foreign charities meeting the section 170(b)(1)(A)(vi) public support test, as would be the case for funding received from a domestic government entity or 170(b)(1)(A)(vi) public charity.

c. Make clear that foreign organizations that do not engage in political campaign intervention or substantial lobbying activities and that do not have governing documents expressly empowering them to do so comply with section 501(c)(3), even if they are not expressly forbidden from engaging in these activities under their governing documents or local law.

d. Remove the requirement that a foreign educational institution must comply with the specific procedures for publicizing its nondiscrimination policy set forth in Revenue Procedure 75-50 (or provide an account of why it has not, which must then be evaluated by the grantmaker). We agree that educational institutions should continue to attest that they operate according to a policy of nondiscrimination, but believe it is unreasonable to expect foreign organizations that may have different national histories regarding racial discrimination to know about and comply with these U.S.-specific requirements, especially the specific publication requirements. In the vast majority of cases, we do not believe that mere noncompliance with these specific procedures would warrant a finding that an otherwise qualified educational institution is operating in violation of public policy and thus ineligible for section 501(c)(3) status.

e. Remove references discussing when a grantmaker would be considered responsible for or aware of a “material change” in an organization’s support, since the special calculation period for determining public support in case of such a “material change” present in prior law has since been removed.

f. Allow a grantmaker conducting an equivalency determination to apply current law for determining whether a new organization will meet the applicable public support test under sections 170(b)(1)(A)(vi) or 509(a)(2), specifically whether there is a “reasonable expectation” that the organization will meet the relevant test at the end of the organization’s first five years of existence.

g. To enable electronic collection of equivalency information, clarify that a physically signed affidavit is not essential.

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10 These international organizations are treated as section 509(a)(1) public charities for purposes of section 4945. Treas. Reg. § 53.4945-5(a)(4).


h. Confirm that a grantmaker can also make a good faith determination that a grantee is an international organization, foreign government instrumentality, or other entity treated as a public charity under Treasury Regulations section 53.4945-5(a)(4).

i. Rev. Proc. 92-94 currently assumes that all information will be provided by the foreign organization seeking a grant or an equivalency determination. Clarify that grantmakers may rely on translations and public information about foreign laws from other sources, as well as on nonprofit-provided affidavits that the grantmaker does not receive directly from the foreign nonprofit organization. We wish to stress that the ability for multiple grantmakers to rely on a single affidavit or a single opinion of a qualified tax practitioner is crucial to the cost savings that we believe can be generated once equivalency determination opinions can be given outside the traditional attorney-client context.

Any of the above clarifications should be made in a way that clearly indicates that both grantmakers and qualified tax practitioners can rely on these clarifications in making equivalency determinations.

V. Additional recommendations

In addition to the issues about which Treasury and the Service have requested comments, we would like to request further guidance on two topics:

a. the ability of other grantmakers besides private foundations to rely on opinions or information provided by qualified tax practitioners; and

b. the ability of grantmakers to rely on a grantee’s affidavit or the written advice of a qualified tax practitioner in making a “reasonable judgment” that than an organization is described in section 501(c)(3) for purposes of Treasury Regulations section 53.4945-6(c)(2)(ii), which relates to expenditures for noncharitable purposes.

A. Other grantmakers’ reliance on affidavits or opinions

While the regulations under sections 4945 and 4942 are naturally addressed to private foundations, other grantmakers also have reason to assess whether their foreign grantees are in fact section 501(c)(3) organizations or public charities. This is clearest in the case of sponsoring organizations of donor advised funds that have to exercise expenditure responsibility unless their grantees are described in section 170(b)(1)(A), but it may also be true for other charities determining whether a particular grant would further charitable purposes. It would be a helpful clarification if Treasury were to indicate in its preamble to any final regulations that these other grantmakers can apply these same standards, at least until further guidance more particular to them is issued.

13 I.R.C. § 4966(c)(1)(B), (2).

14 For example, a foreign organization’s status might be relevant for a public charity’s determination about whether grants to that organization should be made subject to the standards for grants to non-charitable organizations set forth in Rev. Rul. 68-489, 1968-2 C.B. 210.
B. Reliance on affidavits or written advice for purposes of Treas. Reg. § 53.4945-6(c)(2)(ii)

Finally, the Proposed Regulations do not address the extent to which a private foundation can rely on a grantee’s affidavit or written advice of a qualified tax practitioner for purposes of making a “reasonable judgment” about whether a grantee qualifies as an organization described in section 501(c)(3) (other than section 509(a)(4)) for purposes of Treasury Regulations section 53.4945-6(c)(2)(ii), which defines taxable expenditures for noncharitable purposes. It is common practice for grantmakers to rely on equivalency opinions and grantee affidavits in making this “reasonable judgment,” and indeed Revenue Procedure 92-94 explicitly allows reliance on affidavits for purposes of Treasury Regulation section 53.4945-6(c)(2) as well as for purposes of section 53.4945-5(a)(5) (which explicitly references affidavits). A specific authorization of reliance on affidavits and opinions by qualified tax practitioners in Treasury Regulation section 53.4945-6(c)(2), parallel to the one in Treasury Regulation 53.4945-5(a)(5), would make clear that grantmakers could use the same documents as a basis for these two parts of the equivalency determination process.

In particular, we believe that the same “reasonable and good faith reliance” standard that applies to a grantmaker’s reliance under the Proposed Regulations for purposes of determining the foundation status of a potential grantee should also apply to a grantmaker’s reasonable judgment about the section 501(c)(3) status of that grantee. In both cases, however, it should remain clear that grantmakers can make these determinations themselves without reliance on professional advice, subject to the caveat that their determinations will then remain reviewable for reasonableness or good faith, as applicable.

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We appreciate the opportunity to submit these comments. Please do not hesitate to contact us if you would like to discuss them.

Thank you for your time and attention to this matter.

Respectfully submitted,

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