

**WHAT MOSQUES & NONPROFITS SHOULD KNOW ABOUT MANAGING AND DISTRIBUTING CHARITABLE FUNDS**

Presenters:  
Mohamed Sabur  
Karim Hanafy



---

---

---

---

---

---

---

---

**AGENDA**

- Introduction
- Types of Charitable Activities
- What Are Grant-Making Organizations?
- Domestic Grants to Individuals & Other Organizations
- Foreign Grants to Individuals & Other Organizations
- Additional Resources
- Q&A



---

---

---

---

---

---

---

---

**INTRODUCTION**

- Muslim Advocates—who we are
  - National legal advocacy and education organization
- Program to Strengthen Muslim Charities
  - Unique program with full-time staff attorney dedicated to charities & donors
- Our speaker, Karim Hanafy
- Disclaimer



---

---

---

---

---

---

---

---

**TYPES OF CHARITABLE ACTIVITIES**

**501(c)(3) Organizations May:**

1. Directly conduct charitable activities (e.g., schools conducting educational programs, hospitals providing patients with medical care, mosques providing a place of worship);
2. Make grants or distributions to other organizations or individuals (“Grant-Making Organizations”); or
3. Combination of 1. and 2. above.



muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 3

---

---

---

---

---

---

---

---

**WHAT IS A “GRANT/DISTRIBUTION”?**

**Donations or transfers of:**

- Money
- Clothing
- Food
- Medicine
- Religious Supplies



muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 4

---

---

---

---

---

---

---

---

**GRANT-MAKING ORGANIZATIONS**

**Domestic Grants to Other Organizations:**

- Permissible to make a distribution to a 501(c)(3), non-501(c)(3), domestic, or U.S.-based organization operating internationally if the distribution furthers the grant-making organization’s charitable purpose.
- Consider how the grant/distribution furthers your organization’s charitable purpose.



muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 5

---

---

---

---

---

---

---

---

**GRANT-MAKING ORGANIZATIONS**

**Grants or Distributions to Foreign Organizations:**  
 Permissible if the grant or distribution:

- a. Furthers the grantor organization’s exempt purposes; and
- b. Avoids support of groups the U.S. Treasury Department identifies as a threat to domestic security.

muslim  advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 6

---

---

---

---

---

---

---

---

**DOMESTIC GRANTS—INDIVIDUALS**

**Domestic Grants to Individuals.**  
 Permissible if the organization:

- a. Shows the donation furthers its charitable purpose (e.g., a mosque donating money, food, goods or services to the poor, needy, distressed or underprivileged furthers a charitable purpose);
- b. Maintains adequate records with the following information:
  - 1) Recipient’s name, address, and purpose of any distribution;
  - 2) The amount or description of items distributed to each recipient;
  - 3) Selection of recipient was made on a nondiscriminatory basis; and
  - 4) Relationship, if any, to members, officers, trustees, key employees, or donors of funds.

muslim  advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 7

---

---

---

---

---

---

---

---

**DOCUMENTATION GENERALLY REQUIRED**

**Grants or Distributions to Individuals – Domestically or Internationally:**

- o Prepare a checklist or spreadsheet that includes the name, address, purpose of any distribution, amount distributed, documentation reviewed, and relationship of selection members to recipients, if any. **See Attached Document: Model Mosque Fitra and Donation Form.**
- o No guidelines by the IRS regarding the determination of whether a recipient is poor, needy, distressed or underprivileged.
- o No guidelines by the IRS about the documentation that the organization should obtain or review.
- o Can maintain a document signed by the recipient, acknowledging receiving the financial assistance. **See Attached Document: Model Mosque Fitra and Donation Form.**

muslim  advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 8

---

---

---

---

---

---

---

---

**DOMESTIC GRANTS—ORGANIZATIONS**

- No documentation is required by the IRS, if the grant-making organization is a "public charity," but:
- **Recommended Guidelines:** prepare a grant agreement with the recipient (similar to agreements prepared by private foundations) with the following provisions:
  - 1) The tax-exempt status of the grantee organization, if applicable;
  - 2) Description of the charitable activity and tax-exempt purpose that will be served;
  - 3) Terms for transfers of money;
  - 4) Timeline for accomplishment of charitable activity to be supported;
  - 5) Periodic narrative and financial reports on the recipient's use of donated funds;
  - 6) Reports and evaluations that are required upon completion of activity; and
  - 7) Requirement that funds be returned if they are not spent for the intended purpose.

muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 9

---

---

---

---

---

---

---

---

**FOREIGN GRANTS—INDIVIDUALS**

**Grants or Distributions to Foreign Individuals.**

Permissible if the grant or distribution:

- a. Furthers the organization's exempt purposes;
- b. Ensures that the individual receiving the grant is part of the class of individuals intended to be benefitted;
- c. Ensures that the selection of recipients was made on an objective and nondiscriminatory basis;
- d. Maintains records regarding the grant or assistance; and
- e. Verifies the recipient does not appear on U.S. Department of Treasury's *Specially Designated Nationals (SDN) List* at <http://sdnsearch.ofac.treas.gov>.

muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 10

---

---

---

---

---

---

---

---

**FOREIGN GRANTS—ORGANIZATIONS**

- No explicit IRS guidelines for Public Charities, but IRS Rulings give us insight.
- Same recommended grant agreement for domestic grants, with the agreement containing the following:
  - 1) The tax-exempt status of the grantee organization, if applicable;
  - 2) Description of the charitable activity or tax-exempt purpose that will be served;
  - 3) Terms for transfers of money;
  - 4) Timeline for accomplishment of charitable activity to be supported;
  - 5) Periodic narrative and financial reports on the recipient's use of donated funds;
  - 6) Reports and evaluations that are required upon completion of the charitable activity; and
  - 7) Requirement that funds be returned if they are not spent for the intended purpose.

muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 11

---

---

---

---

---

---

---

---

**FOREIGN GRANTS—ADDITIONAL COMPLIANCE REQUIREMENT**

- An additional requirement when making a foreign distribution is that the grant-making organization should search the Treasury Department's *SDN List* at <http://sdnsearch.ofac.treas.gov>.
- Search for names of individuals, organizations, or officials associated with the recipient individual or organization. Print page after running search to evidence absence.
- Read *Guidance On International Charitable Giving* at MuslimAdvocates.org.

 muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 12

---

---

---

---

---

---

---

---

**FOREIGN GRANTS—ANTI-TERRORISM FINANCING LAWS**

- Makes it illegal for charities or individuals to knowingly provide material support or resources to a designated entity.
  - Food, clothing, money to any designated group or individual is illegal
  - Medicine & religious materials exception
  - Example: Qur'ans, malaria medicine, etc., allowed; water to take the medicine is not allowed.
- Country sanctions also apply (e.g., comprehensive sanctions against Iran, Syria, etc.).
- Consequences for organization: all assets frozen, organization shut down—almost no procedural protections
- Know how to check the lists before making a payment to any individual or organization.
- Read *Guidance On International Charitable Giving* at MuslimAdvocates.org.

 muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 13

---

---

---

---

---

---

---

---

**FOREIGN GRANTS—ISSUING TAX DEDUCTION?**

- Passive conduits prohibited: Domestic organization turns over 100% of charitable contributions to a foreign charity.
- In effect: Funds inevitably committed to go to a foreign organization, but in the course of transmittal, they come to rest momentarily in a qualifying domestic organization.
- Contributors may not earmark funds for use or benefit of any specific organization or individual, but donors can designate contributions for a specific foreign project.
- Donor's wishes should not short-circuit board's role.

 muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 14

---

---

---

---

---

---

---

---

**FOREIGN GRANTS—EXAMPLES**

- Foreign organization forms a domestic charity that conducts fundraising in the U.S. After paying administrative expenses, the domestic charity sends the balance to the foreign organization.
- People in the U.S. form an organization to support a foreign charity. The organization's charter says that it will receive contributions and send them to the foreign organization.
- Foreign organization agrees with domestic charity that domestic charity will fundraise on its behalf and remit to it net funds raised.

*These activities are passive conduits, and contributions collected in these cases are not tax-deductible!*

 muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 15

---

---

---

---

---

---

---

---

**FOREIGN GRANTS—CRITERIA**

IRS looks at four criteria (Rev. Ruls. 63-252; 66-79):

- Specific project must fulfill the grantor organization's exempt purposes.
- Grantor organization must not be a passive conduit of earmarked funds.
- Grantor organization's board must review and approve the specific foreign project.
  - Pre-grant inquiry & written agreement are recommended
- Grantor organization must maintain full control and discretion over donated funds.
  - Periodic monitoring, accounting & reporting of grants

 muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 16

---

---

---

---

---

---

---

---

**ADDITIONAL RESOURCES**

- Muslim Advocates: [www.muslimadvocates.org](http://www.muslimadvocates.org) — Access our full, free **Nonprofit & Charity Toolkit** with further guidance on international charitable giving, building donor confidence & more.
- IRS: [www.irs.gov/charities](http://www.irs.gov/charities) — Contains information regarding establishing a 501(c)(3) and maintaining ongoing compliance requirements.
- Council on Foundations: [www.cof.org](http://www.cof.org) — Contains sample grant agreements that are used by private foundations; however, some provisions may not apply to your organization, so please consult with your advisor in preparing your organization's grant agreement.

 muslim advocates  
PROMOTING FREEDOM & JUSTICE FOR ALL 17

---

---

---

---

---

---

---

---

**QUESTIONS?**

  
**muslim advocates**  
PROMOTING FREEDOM & JUSTICE FOR ALL

**Mohamed Sabur**  
Director, Program to Strengthen Muslim Charities  
Muslim Advocates  
[mohamed@muslimadvocates.org](mailto:mohamed@muslimadvocates.org)  
(415) 692-1486

**Karim Hanafy**  
[karim\\_hanafy@yahoo.com](mailto:karim_hanafy@yahoo.com)  
(571) 226-6489

18

---

---

---

---

---

---

---

---