



RAMADAN GUIDE FOR MOSQUES DISPERSING CHARITABLE CONTRIBUTIONS



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Ramadan Guide for Mosques: Dispersing Charitable Contributions

Mosques, Islamic centers, and nonprofit organizations play a critical role in collecting and distributing charitable contributions for social, spiritual, humanitarian, and other important causes. This Ramadan Guide serves as an important reminder of the basics of charitable giving, dispersing grants, documentation requirements, as well as guidance on international charitable giving.

WHAT MOSQUES CAN DO:

Mosques, Islamic centers, and other 501(c)(3) nonprofit organizations may use donations and contributions to:

1. Directly conduct charitable activities through its own operations;
2. Make grants or distributions to other organization or to individuals directly; or
3. Engage in a combination of 1 and 2 above.

Direct Charitable Activities	Make Grants or Distributions to Other Orgs. or Individuals	Combination of Both
<p>Examples of direct charitable activities include:</p> <ul style="list-style-type: none"> • Islamic schools conducting educational programs • Mosques providing a place of worship • Clinics providing patients with medical care 	<p>Examples of mosque grants or distributions include donations or transfers of:</p> <ul style="list-style-type: none"> • Money • Food • Medicine • Clothing • Religious Material 	<p>Engaging in a combination of both direct charitable activities and grants/distributions to others may include:</p> <ul style="list-style-type: none"> • A mosque collects contributions to expand the house of worship; <i>and</i> • Sends funds to another organization for international humanitarian aid.

The information contained in this document is being provided for educational purposes only and not as part of an attorney-client relationship. It is not a substitute for expert legal, tax, or other professional advice tailored to your specific circumstances, and may not be relied upon for the purposes of avoiding any penalties that may be imposed under the IRC or federal or state law. Have questions? Contact our Program to Strengthen Muslim Charities at charities@muslimadvocates.org or (415) 692-1486.

MOSQUES AND DISPERSING GRANTS

Issuing Grants to Domestic Organizations

Mosques and other 501(c)(3) organizations are allowed to issue grants to other U.S. 501(c)(3), non-501(c)(3), or U.S.-based organizations operating internationally **if the distribution furthers the mosque or 501(c)(3)'s charitable purpose**. Muslim Advocates recommends for nonprofits to prepare a **grant agreement** with the recipient organization that includes:

- ☑ **Who they are.** Include the tax-exempt status of the recipient organization, if applicable.
- ☑ **What they'll do.** Describe the charitable activity or tax-exempt purpose that will be served by the recipient organization.
- ☑ **How, when, and how often they'll receive funding.** Explain terms for the transfers of money.
- ☑ **When the work will be completed.** Consider proposing a timeline for completion of the activity, if applicable.
- ☑ **How they'll be providing updates.** Determine what periodic narrative and financial reports the recipient organization will provide documenting its use of the donated funds.
- ☑ **What they're expected to report upon completion of the project.** Include the reports and evaluation mechanisms that are required upon completion of the charitable activity.
- ☑ **What they'll do with unspent funds.** Remember to include a requirement that funds be returned to the mosque or other 501(c)(3) organization if they are not spent for the intended charitable purpose.

Issuing Grants to Foreign Entities

Grants or distributions to foreign entities (individuals or organizations) are permissible, subject to additional requirements. Just like domestic grants, **grants to foreign entities must further the mosque or 501(c)(3)'s exempt purposes**. Similarly, the charity should prepare a donation form (for individuals) or grant agreement (for organizations) as above. Foreign grants must also avoid support of individuals or groups the U.S. government identifies as prohibited parties or those in countries on the country sanctions lists.

To **verify the intended recipient is not a prohibited party**, the charity should use the Office of Foreign Assets Control's (OFAC) *SDN Search* tool to search for names of individuals, organizations, or officials associated with the recipient organization. Remember to **search for phonetically similar names** (e.g., Mohamed and Muhammad). If the search does return a match, the charity should consult an attorney to clarify whether it may be a false-positive or advise whether the charity should apply for an OFAC license to clear the transfer.

OFAC also administers a number of U.S. economic sanctions and embargoes that target geographic regions and governments. The charity should check that **the group or individual to be supported is not from a country on OFAC's country sanctions list**. If in doubt, the charity should consult an attorney knowledgeable in the laws and regulations governing contributions to foreign entities.



Issuing Individual Grants or Disbursing Fitra Funds

Grants to individuals—such as disbursing fitra funds—are permissible if the mosque or 501(c)(3) shows that **the donation furthers its charitable purpose**. Therefore, the charity should be prepared to substantiate the connection between its mission and the project or cause that is funded. For example, a mosque uses donated funds to in turn donate money, food, goods, or services to the poor, needy, distressed, or underprivileged in line with religious doctrine. The mosque or 501(c)(3) should also **maintain adequate records** containing the following information:

- Who they are.** Include the recipient’s name, address, and the purpose of the distribution.
- What they are receiving.** Note the monetary amount or description of items distributed.
- How they were chosen.** Show the process behind selecting and approving recipients, and demonstrate that the determinations were made in an objective and nondiscriminatory basis.
- Disclose any conflicts of interest.** Determine and disclose the relationship, if any, of the recipient to members, officers, trustees, or key employees of your organization, or to donors of the funds.
- Secure a written acknowledgment.** Maintain a document signed by the recipient of the assistance.

SAMPLE FITRA/INDIVIDUAL GRANT FORM FOR MOSQUES

Name of recipient: _____

Recipient’s address: _____

Amount: \$ _____

Charitable purpose of the donation (e.g., a mosque contributing to the poor and needy furthers a charitable purpose): _____

Selection and approval process (e.g., who was involved in decision, criteria for selecting recipient): _____

Recipient’s relation, if any, to members, officers, or board of mosque or major contributor to the mosque: _____

Form completed by: _____

ACKNOWLEDGMENT

Amount received: \$ _____ Date received: _____

Recipient’s name: _____

Recipient’s signature: _____

GUIDANCE ON MOSQUE DOCUMENTATION REQUIREMENTS

The Internal Revenue Service (IRS) imposes recordkeeping and substantiation rules on both 501(c)(3) charities as well as donors. Below are some of the requirements provided in IRS publication 1771, *Charitable Contributions – Substantiation and Disclosure Requirements*.

- Mosques are **required to provide a written disclosure** to a donor who receives goods or services in exchange for a single payment in excess of \$75.
- Donors must have a **bank record or written communication** from the mosque before the donor can claim a charitable contribution on their federal income tax return.
- Donors are responsible for obtaining **written acknowledgement** from a charity for any single contribution of \$250 or more before the donor can claim a charitable contribution on their federal income tax return.

Although donors require written substantiation for donations of \$250 or more, we suggest mosques issue a written acknowledgment letter to all donors, regardless of the amount. Below we highlight several of the requirements from the IRS' *Charitable Contributions* guidance. You may wish to consult with an attorney and/or tax advisor for additional information.

WRITTEN SUBSTANTIATION REQUIREMENT FOR CASH DONATIONS OF \$250 OR MORE

A donor must receive from the mosque or other 501(c)(3) a written acknowledgment letter containing:

1. Name of charitable organization (*i.e.*, name of mosque or Islamic center)
2. Name of donor
3. Date
4. Amount of donation (but you do not need to include the dates of the contributions), and
5. A statement whether goods or services were given in exchange and, if so, a description and good faith estimate of the value of those goods or services.

SAMPLE ACKNOWLEDGEMENT LETTER FOR CASH DONATION OF \$250 OR MORE

[MOSQUE LETTERHEAD]

DONOR NAME

DONOR ADDRESS

Thank you for your contributions that totaled \$5,000 to [INSERT MOSQUE NAME] in 2016. Because of your generous contributions, we are closer to moving into a new building. Please continue to support our Mosque and its many projects. No goods or services were given in exchange for your contributions.

WRITTEN SUBSTANTIATION REQUIREMENT FOR ALL NON-CASH DONATIONS

A donor must receive from the mosque or other 501(c)(3) a written acknowledgment letter containing:

1. Name of charitable organization (*i.e.*, name of mosque or Islamic center)
2. Name of donor
3. Date
4. Description, but not the value, of the donated item
5. Date of the contribution
6. A statement whether goods or services were given in exchange and, if so, a description and good faith estimate of the value of those goods or services, or if the goods or services consisted solely of intangible religious benefits, a statement to that effect.

SAMPLE ACKNOWLEDGEMENT LETTER FOR NON-CASH DONATION

[MOSQUE LETTERHEAD]

DONOR NAME

DONOR ADDRESS

Thank you for your contribution of clothes and computer equipment to [INSERT MOSQUE NAME] on [DATE]. No goods or services were given in exchange for your contributions.

TOKEN EXCEPTIONS FOR MOSQUES PROVIDING GOODS AND SERVICES

If a charity gives something to the donor, the charity may still include a statement in the donor acknowledgement letter that no goods or services were given in exchange for the contribution **if one of the following is met:**

1. Donor receives an item that is less than 2% of the donation or \$106 (adjusted for inflation annually), whichever is less; or
2. If the payment is at least \$53 (annually adjusted for inflation), the only items a mosque provides to the donor bears the mosque's name or logo (*e.g.*, mugs, calendars, posters, etc.) and the cost (not the value) does not exceed \$10.60 (annually adjusted for inflation).

For example: An individual donates \$100 to the mosque and receives a logo shirt in exchange for the donation. The shirt costs the mosque \$5. A deduction of \$100 would be allowed under the second exception: the donation is over the \$53 threshold, the cost of the shirt is less than \$10.60 and the item bears the organization's logo. Thus, no goods or services were given in exchange. If these conditions were not met, the acknowledgement letter to the donor cannot state, "no goods or services were given in exchange" for the contributions.

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WRITTEN SUBSTANTIATION REQUIREMENT FOR DONATIONS OF \$75 OR GREATER

For any amount received from a donor that **exceeds \$75, a mosque or other 501(c)(3) must furnish a written disclosure statement to the donor.** When issuing an acknowledgment letter to the donor, the letter must include:

1. A statement that the amount of the contribution that is deductible for federal income tax purposes is limited to the excess of money (and the fair market value of property other than money) contributed by the donor over the value of goods or services provided by the organization
2. A good faith estimate of the fair market value of the goods or services.

For example: A mosque holds a fundraising dinner and charges \$100 per ticket. The meal costs \$45 per person. The donor's tax deduction is limited to \$55. However, because the mosque received more than \$75, regardless of the deductible amount for the donor, the mosque must provide a written letter to the donor.

SAMPLE ACKNOWLEDGEMENT LETTER FOR FUNDRAISING EVENT

[MOSQUE LETTERHEAD]

DONOR NAME

DONOR ADDRESS

Thank you for generous donation of \$100 to our fundraising event. Please note that only the portion of your contribution that exceeds the value of any gifts you received is tax-deductible. The estimated fair market value of your dinner is \$45.

FOR MORE INFORMATION:

IRS: <http://www.irs.gov/charities>: An IRS site containing information on establishing a 501(c)(3) and maintaining ongoing compliance requirements.

Stay Exempt: www.stayexempt.org: An IRS site created especially for 501(c)(3) organizations, includes information on new organizations, existing organizations, and in-depth topics.

GUIDANCE ON INTERNATIONAL CHARITABLE GIVING

Muslim Advocates provides this general guidance to donors and charities, such as mosques, engaging in international charitable giving. The laws for international philanthropy are complex and constantly evolving. The U.S. Department of Treasury seeks to protect international charitable giving, while working to combat potential abuse of charitable donations by terrorist organizations. Many international charities may operate in conflict zones and may be vulnerable to exploitation by terrorist groups and potentially subject to abuse.

As of May 2010, 547 individuals and entities were designated by the U.S. Office of Foreign Assets Control (OFAC). Of these, 60 are charities, branches, and associated individuals, with 8 being charities located in the U.S.* The following information is from the U.S. Department of Treasury's *Protecting Charitable Giving: Frequently Asked Questions*, issued in 2010.

FOR DONORS

- Know your charity: Donors should undertake reasonable steps to research publicly available materials in order to ascertain how a charity operates, how it is managed, the nature of its programs and where they operate.
 - This is especially the case for charities that operate in areas where there is known risk of terrorist activity, such as Afghanistan, Pakistan, and Syria.
- Self-regulatory organizations, such as the Better Business Bureau and Guidestar, provide donors with information about specific U.S. charities that may also be useful.
- Check the OFAC SDN List* to make sure that the charity and its key officials are not designated.

FOR CHARITIES

- Charities should conduct a risk-assessment of their operations to determine if they are vulnerable to potential exploitation, such as what type of activities they are engaged and in what regions they are operating. OFAC maintains a risk matrix that may be a useful tool.
- Charities should consider adopting measures to mitigate these risks, such as those found in the Treasury Department's Voluntary Guidelines.



Prohibited Items or Activities:

- Money (in any form) or any item (e.g., food, blankets, tents, explosives, weapons, personnel, lodging, transportation, communications equipment) **to a designated group***
- Money (in any form) or any item directed to **a country on the sanctions list**** (e.g., Libya, Syria, Iran, etc.)
- *Note: For non-US citizens, material support to any terror group listed or not listed by the U.S. government can result in deportation or other adverse immigration action.*



Permissible Activities

- Permissible donations **not going to a designated group*** include:
 - Donations to lawful, U.S.-registered 501(c)(3) charities
 - Food, drinking water
 - Tents, blankets, clothing
 - Latrines, sanitation equipment
 - Medical services, medical equipment
 - Medicine
 - Religious materials

*To determine whether an organization or entity has been designated a terrorist organization by the U.S. government, use OFAC "SDN Search" tool at <http://sdnsearch.ofac.treas.gov>.

** For information on the country sanction list, visit <http://www.treasury.gov/resource-center/sanctions/Programs>.

GUIDANCE ON CHARITABLE GIVING TO SYRIA

Muslim Advocates provides this general guidance to mosques, charities, and donors engaging in charitable giving to NGOs, friends, and family in Syria and neighboring countries. The laws for foreign charitable giving are complex and constantly evolving. We urge donors to exercise due diligence prior to providing money, items, or services abroad and to consult with an attorney to provide guidance for your specific circumstances. For the comprehensive information on restrictions on transactions with Syria, visit the U.S. Treasury Department's Syria Sanctions page. <http://www.treasury.gov/resource-center/sanctions/Programs/pages/syria.aspx>.

FREQUENTLY ASKED QUESTIONS

Q. Can I donate money or goods to a U.S.-based 501(c)(3) public charity that provides assistance to Syrian refugees?

A. *Yes. As with any donation, exercise due diligence when choosing a charity to support. If possible, review the organization's annual report, IRS Form 990, financial statements, and/or audit reports. When donating, make it clear in writing that you'd like to support a specific humanitarian effort and keep records of your donation. Make sure you know who or what group is receiving the funds overseas, for what purpose, and where and how the funds will be used.*

Q. Can I send money to family or friends in Syria?

A. *Yes, provided that the money is (1) a gift or personal loan to your family or friends; (2) not a charitable donation to or for the benefit of any entity, or for use in supporting or operating a business; (3) sent through a U.S. bank, registered securities agent, or registered money transmitter; and (4) not sent by, to or through the Government of Syria, a blocked entity, or entity on the OFAC List of Specially Designated Nationals (at <http://sdnsearch.ofac.treas.gov>). Funds cannot be sent through the Commercial Bank of Syria, the Syrian-Lebanese Commercial Bank, or the Syria International Islamic Bank (SIIB). [OFAC Syria Gen. License No. 6; Exec. Order No. 13,582]*

Q. Can I donate directly to a non-governmental organization (NGO) that operates inside Syria or a neighboring country? How about donating through family or friends traveling to the region?

A. *As with any donation, we urge all donors to exercise due diligence when choosing a charity to support. If possible, review the organization's annual report, IRS Form 990, financial statements, and/or audit reports. If you chose to send money to an NGO rather than a U.S. based 501(c)(3), you must ensure when transferring funds to a U.S. or third-country NGO, that the organization supports (1) humanitarian projects to meet basic human needs in Syria, (2) activities to support democracy building in Syria, (3) activities to support education in Syria, or (4) activities to support noncommercial development projects that directly benefit the Syrian people. However, you may not send the funds directly to an NGO in Syria and you may not donate through individuals (family, friends, etc.) taking cash to Syria for charitable distribution. If you wish to send a charitable donation directly to Syria, or for the benefit of the Government of Syria or any other blocked person or entity, you must apply for and obtain specific license authorization from OFAC to transmit such funds. [31 C.F.R. § 542.408; OFAC Syria Gen. License No. 11; Exec. Order No. 13,582]*

Q. Can I give money to a friend or family member who says they will collect and transfer the funds to a contact in Syria, possibly for non-humanitarian assistance or some other non-NGO purpose?

A. *No. A person trying to donate money to Syria through a friend or family member cannot be sure that the donation will be sent through one of the authorized institutions, or that the funds will go only to an authorized person or entity and for an authorized purpose. Because of the restrictions on where and how transferred funds may be used in Syria, it is important that you exercise due diligence in determining how your funds will be transferred, how they may be used and by whom. If your money is sent to or used in Syria in an impermissible manner, you can be held liable even if you had no actual knowledge of the facts.*