

# Public Support Test

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**To meet the test:  
public support/total support  
must equal  $33\frac{1}{3}\%$**

# How to set up the test

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**Step 1:** Add all the donations over a 5-year period – called “total support”

**Step 2:** Determine your magic number –  $33\frac{1}{3}\%$  x total support

**Step 3:** Assign a percentage to each donation – either 2% or 100%

**Step 4:** Determine the “public support” by adding up the 2% and 100% donations

**Step 5:** Determine the total public support = public support/total support

# Example 1

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The Nonprofit receives total support of \$100,000 over a 5-year period from ONE donor.

**Step 1:** add up all the donations over a 5-year period = \$100,000

**Step 2:** Magic number = \$33,333 (100,000 X 33 1/3%)

**Step 3:** assign a percentage to each donation – either 2% or 100%;

\$100,000 from one individual = 2%

2% X 100,000 = \$2,000 Maximum allowed for any one donation (from the 2% group)

<u>2% Group</u>	<u>100% Group</u>
Corporate entities = 2%	501(c)(3) = 100%
Individuals = 2%	Government grants = 100%
Private Foundations = 2%	

# Example 1 (cont.)

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**Step 4:** determine the “public support” by adding up the 2% and 100% donations

Public support = \$2,000

**Step 5:** determine the total public support = public support/total support

**Public support/total support = 2,000/100,000 = 2%**

# Example 2

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Individual donations:

1. Donor A - \$1,000
2. Donor B - \$3,000
3. Donor C - \$ 500
4. Founder - \$95,000

**Step 1:** add up all the donations over a 5-year period = \$100,000 total support

**Step 2:** Magic number = \$33,333 ( $100,000 \times 33 \frac{1}{3}\%$ )

**Step 3:** assign a percentage to each donation – either 2% or 100% of total support;

If it's a 2% donor, then  $2\% \times 100,000 = 2,000$  maximum allowed for any one donation from the 2% group

**\$33,333 must come from donors donating up to \$2,000 each to pass the public support test**

## Example 2 (cont.)

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**Step 4:** determine the “public support” by adding up the 2% and 100% donations

Maximum allowed from each donor:

1. Donor A = \$1,000 is allowed
2. Donor B = \$2,000 (even though donated \$3,000)
3. Donor C = \$500
4. Founder = \$2,000 (even though donated \$95,000)

Total amount of public support = \$5,500

**Step 5:** determine the total public support = public support/total support

**Public support(5,500)/Total support(\$100,000) = 5.5%**

# Example 3

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**Step 1:** add up all the donations over a 5-year period = \$100,000

**Step 2:** Magic number = \$33,333 ( $100,000 \times 33\frac{1}{3}\%$ )

**Step 3:** assign a percentage to each donation – either 2% or 100%;

## 2% Group

Corporate entities = 2%

Individuals = 2%

Private Foundations = 2%

## 100% Group

501(c)(3) = 100%

Government grants = 100%

1. Donor A - \$1,000 (\$1,000 is allowed);
2. Founder - \$3,000 (\$2,000 is allowed);
3. Donor C - \$ 500 (\$500 is allowed);
4. Nonprofit - \$95,000 (\$95,000)

**Step 4:** determine the “public support” by adding up the 2% and 100% donations = \$98,500

**Step 5:** determine the total public support = public support/total support -

$$\frac{\$98,500}{\$100,000} = 98.5\%$$



# Example 4

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100,000 total donations

1. Donors 20 X \$1,000 (\$1,000 allowed for each) = \$20,000 allowed
2. Donors 10 X \$3,000 (\$2,000 is allowed) = \$20,000 allowed
3. Donor 20 X \$ 500 (\$500 is allowed) = \$10,000 allowed
4. Founder -\$60,000 (\$2,000) = \$2,000

$$\text{\$52,000} / \text{\$100,000} = 52\%$$

# Example 5

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100,000 total donations

1. Nonprofit - \$32,000

2. Founder - \$68,000 (\$2,000) = \$2,000

**$34,000/100,000 = 34\%$**

# How the Public Support Test Works

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1. Nonprofit donations or government grants will always help you to meet the public support test
2. Large donations from individuals will hurt
3. If you cannot get donations from nonprofits or the government, then you must receive meaningful support from numerous members of the 2% group
4. Dividends, interest, gains from stocks, crypto or real estate do NOT help – they're not treated as public support or total support
5. Cash contributions, in-kind donations, and non-cash contributions are treated as public support and total support

# How the Public Support Test Works

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6. Nonprofits making a donation to your nonprofit must also be a publicly-supported organization
7. Rent may help you but there are different rules – it depends on whether you are receiving donations from individuals, the government or other publicly-supported organizations
8. Public support is determined using a rolling 5-year period – you may meet the test in Years 1 through 5, but must meet in Years 2 to 6, 3 to 7, 4 to 8, etc.
9. If you receive a large one-time donation, then you can exclude if it's one-time only and is from an unrelated third party.

# Facts and Circumstances

## Between 10% and 33 $\frac{1}{3}$ %

1. Continuous and bona fide programs that solicit funds
2. Larger number of donors rather than a single or limited number of donors – even if the donations are small
3. Representative governing body including public officials, subject matter experts and community leaders
4. Services and public participation in programs

# If You Fail Both Tests

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1. Reclassification to a Private Foundation – effective after the 6th year
2. Does not affect your donations made in the first 5 years
3. Does not jeopardize the exemption
4. Can apply for reclassification again if can meet the support test
5. Don't be afraid of operating as a Private Foundation – different rules but the rules are intended to ensure the PF carries out charitable activities and spends money in furtherance of its charitable purposes.

# Private Foundation Rules

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1. Must spend 5% of non-charitable assets – should make grants or donations to other public charities/501(c)(3) organizations.
2. May pay yourself reasonable compensation
3. Loans are prohibited (for example, IUL policies)
4. Furnishing goods, services or facilities must be free (for example, 280A reimbursement for holding business meetings)
5. Leasing property (for example, leasing home office to the private foundation)

# Think and Operate Like a Public Charity

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1. Charities are intended to serve a public benefit
2. Expand your board to include experienced and passionate individuals
3. Create a website or an email asking for support
4. Learn about social media and crowdfunding platforms
5. If you can't do it, then hire someone who add board members who can
6. Add board members who understand social media or operating a website; are socially connected; and understand marketing