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Foundations Eliminate the Tax Letter Requirement

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"It was so easy," says Dee Slater, The Dekko Foundation's grants manager. "All we had to do was ask."

Back in February of this year, Slater decided to urge her foundation's auditors to support her recommendation to drop the requirement that grantees submit an Internal Revenue Service Tax Determination Letter as part of its grant proposal process.

"The IRS has informally noted that the letter is a dated document and cannot be relied upon," Slater wrote in a letter to the auditors. "To my mind, this is an issue that should be put to bed. We should no longer be asking for IRS letters except in rare circumstances."

The foundation's auditors soon wrote back that they agreed and that "being able to look up a nonprofit's status on GuideStar or the Internal Revenue Service's Publication 78 should be enough—and a lot easier."

Most foundations require grantseekers to include their Tax Determination Letter—the original IRS letter establishing their nonprofit tax status—in grant applications. One problem with this requirement is that it adds yet another hoop to a grant application process that has become so burdensome for nonprofits, as documented in Project Streamline's report, *Drowning in Paperwork, Distracted from Purpose*.

Another problem: the letter doesn't actually prove the organization's current standing with the IRS. Foundations need to check the IRS Business Master File or rely on a third party such as GuideStar's Charity Check to verify that the grantseeker remains in good standing. Yet many funders still collect the Tax Determination Letter for each grant request.

During last spring's grant cycle, Peg Butler, grants manager for Saint Luke's Foundation in Cleveland, brought up the issue with the foundation's CEO, Denise San Antonio Zeman, who then spoke to the auditors who were at the foundation conducting the 2007 audit around the same time. They quickly gave the go-ahead, and Butler subscribed the foundation to Guidestar's Charity Check soon after.

"It was no problem," says Butler. "And I wish we had done it sooner."

Yet for many foundations, obstacles still stand in the way. "I know that we could stop asking for the IRS letter, and could use a system like GuideStar," one grantmaker told Project Streamline researchers as part of the *Drowning in Paperwork, Distracted from Purpose* report. "However, our auditors ask for the tax letter to be in each file."

Part of the challenge, according to both Dekko's Dee Slater and Saint Luke's Peg Butler, is finding the right language. They were able to approach their auditors with a strong argument and with "the lingo that auditors like," as Slater says.

She cited two other ingredients. One was the significant amount of autonomy given to foundation staff, allowing her to "take on these challenges without having to seek permission." Another was the Dekko Foundation's ongoing interest in streamlining. "We're always looking to cut red tape here," she says.

Both foundation staffers see the elimination of the IRS Tax Determination Letter requirement as only the beginning of their foundations' efforts to ease the grant application and reporting burden on nonprofits.

"I advocated for the elimination of the letter as a starting point," says Saint Luke's Butler. "Since then, we've sat down and looked at the process. We've looked at our requirements from start to finish and have come up with a few other ways to streamline the process and make it easier for us and for our grantees so that we're both not inundated with as much paper and data."

Foundations need to "keep it simple," Dekko's Slater says. "Grants managers tend to be process people, and we love our paperwork. For some people, work has more meaning the more boxes we can check. But with that approach we are just making life harder on ourselves and our grantees."

“Project Streamline says to begin from zero and that’s exactly what we’re trying to do,” says Butler, who urges other foundations to engage in this process. “This is one of the most exciting things to ever come down the grantmaking highway.”



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