



Is a Maada'ookiing grant from the Northland Foundation taxable?

All or a portion of the grant may be taxable income to the recipient, depending on how the grant funds are used. Although the Northland Foundation cannot provide tax advice to grant recipients, the following overview is intended to help provide a general description of some of the tax issues associated with receiving grant funds.

General Rule. The recipient will generally be required to include the grant in its gross income for income tax purposes, unless an exception applies. The Northland Foundation does not believe that its grants qualify for any of the special exclusions available under the Internal Revenue Code for certain types of grants. However, the recipient may still potentially be able to claim that a grant is excludable from gross income to the extent that it is required to be expended for a specific purpose that does not benefit the recipient. See "Amounts Designated for Third Party Expenses" below.

Amounts that Benefit the Recipient. Any portion of the grant that is used in a manner that benefits the recipient will likely be taxable. This would include any amounts used to compensate the recipient for their time or effort or to reimburse the recipient for a personal expenditure. Similarly, any grant funds used to acquire an asset that would continue to be owned by the recipient following the completion of the grant period would also likely be taxable.

Amounts Designated for Third Party Expenses. The recipient may be able to exclude from gross income any portion of the grant that is required to be expended for a specific purpose that does not benefit the recipient. This might include, for example, amounts used to rent space or purchase supplies for a grant program.

Using Grant Funds to Pay the Recipient's Taxes. Recognizing that a portion of the grant is likely to be taxable to the recipient, the Northland Foundation is allowing recipients to allocate a portion of their grant to help cover the estimated taxes that they will be required to pay due to their receipt of the grant. The taxes owed by each recipient will vary based on the recipient's individual circumstances. For many recipients, the 24% IRS "backup" withholding rate may be a reasonable rate to use in estimating the taxes that will be owed on the taxable portion of the grant.

Information Reporting. If the taxable portion of any grant funds paid in any calendar year exceeds \$600, then the Northland Foundation will generally be required to issue the recipient a Form 1099 after the end of such calendar year, reporting the taxable portion of the grant funds paid. If the recipient is not a U.S. citizen or U.S. resident alien, the Northland Foundation will instead issue the recipient a Form 1042-S reporting the taxable portion of the grant funds paid, regardless of whether or not such amount exceeds \$600.

Withholding. The Northland Foundation may under certain circumstances be required to withhold taxes from the taxable portion of any grant payment. Each grant recipient will generally be required to provide the Northland Foundation with a properly completed Form W-9 containing the recipient's social security number. If the recipient is not a U.S. citizen or a U.S. resident alien, then Northland Foundation will generally be required to withhold 30% from the taxable portion of any grant payment, unless the recipient is able to claim an exemption or reduced rate of withholding under the Internal Revenue Code or an applicable treaty and provides the Northland Foundation a properly completed Form W-8BEN, Form W-8-ECI or Form 8233, as applicable.

Although the Northland Foundation does not currently intend to withhold taxes from or report on a Form 1099 or Form 1042-S the portions of any grant that are required to be expended by the recipient for a specific purpose that does not benefit the recipient, the Northland Foundation's Grant Agreement permits the Northland Foundation to do so if the Northland Foundation later determines that such withholding or reporting is required by applicable law.

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The foregoing discussion is not intended to constitute tax advice or to be a complete description of the tax consequences of receiving a grant. Grant recipients are strongly encouraged to consult their own tax advisors in determining the tax consequences of receiving a grant.