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**Employee Relief Funds**

# Employee Relief Funds

In times of crisis, employees may need additional financial support to help them overcome acute periods of hardship.

One response mechanism available for employers is to develop an employee relief fund, which according to the Society for Human Resource Management (SHRM), is a tax-advantaged fund intended to help employees cope with financial problems that render them unable to provide for basic necessities in their personal lives. To establish these funds as tax-advantaged plans, the employer sets up a nonprofit entity that receives contributions and disburses grants (not loans) to employees.<sup>1</sup>

*Please note the below is provided as informational background and does not constitute legal advice.*

## IRS resources

The IRS published information on how members of the public can use charitable organizations to provide assistance to victims of disasters or other emergency hardship situations. According to the IRS in *Publication 3833, Disaster Relief, Providing Assistance Through Charitable Organizations*, all charitable organizations, including those that provide disaster relief, must demonstrate that they serve a public rather than a private interest and serve a charitable class. In the past, employer-sponsored organizations were considered to enhance employee recruitment and retention, resulting in private benefit to sponsoring employers. In addition, there were concerns that employers could exercise undue influence over the selection of recipients. For these reasons, special rules apply to employer-sponsored charities.<sup>2</sup>

The types of benefits a charitable organization can provide through an employer-sponsored assistance program depend on whether the employer-sponsored organization is **a public charity, a donor advised fund, or a private foundation**. When an employer-sponsored organization provides assistance to employees, certain limitations apply that help to ensure that such aid does not result in impermissible private benefit to the employer.

## Three types of employer-sponsored assistance programs

1. **Public charity**—Because public charities typically receive broad financial support from the general public, their operations are generally more transparent and are subject to greater public scrutiny. Accordingly, public charities may provide a broader range of assistance to employees than can be provided by donor advised funds or private foundations. An employer can establish an employer-sponsored public charity to provide assistance programs **to respond to any type of disaster or employee emergency hardship situations**, as long as the related employer does not exercise excessive control over the organization.
2. **Private foundation**—Employer-sponsored private foundations may provide assistance to employees or family members affected by a qualified disaster, as defined in section 139 of the Code, as long as certain safeguards are in place to ensure that such assistance is serving charitable purposes, rather than the business purposes of the employer. Employer-sponsored private foundations **can only make payments to employees or their family members affected by qualified disasters, not in non-qualified disasters or in emergency hardship situations**.
3. **Donor-advised fund**—Donor advised funds can make grants to 501(c)(3) public charities and, under certain conditions, to other organizations for charitable purposes, but cannot make grants to individual persons. However, there is an exception for certain employer-related funds or accounts established to benefit employees and their family members who are **victims of a qualified disaster**.

In summary, public charities may provide a broader range of assistance to employees than can be provided by donor advised funds or private. Compare the flexibility offered to public charities vs. private foundations.

According to the IRS in Publication 3833, Disaster Relief, Providing Assistance Through Charitable Organizations, in some instances a corporation or other non-exempt entity may choose to provide direct assistance to disaster victims rather than funneling its assistance through a charity or governmental entity. In addition, sometimes an employer may provide assistance through a non-exempt fund established to receive contributions from the employer as well as employees. In certain circumstances, payments from such sources may receive favorable tax treatment as well. The Code provides for special tax treatment of qualified disaster relief payments made to victims of a qualified disaster, regardless of the source. Qualified disaster relief payments are not included in the income of recipients to the extent that any expenses covered by these payments are not otherwise compensated by insurance or other reimbursements. Qualifying payments are not subject to income tax, self-employment tax, or employment taxes (Social Security, Medicare, and federal unemployment taxes) even if the payments are made directly from an employer.

### Relief Fund Benchmark

The Emergency Assistance Foundation developed a benchmark from a review of information from more than 100 national Employee Relief Programs.<sup>3</sup> See results below.

#### Employee Relief Program

- Donations are tax deductible.
- Grants are non-taxable.
- Program covers both disaster relief and personal hardship.
- Program is in federal compliance for tax purposes.
- State solicitation and registration met in each state where necessary.
- Robust employee communications is maintained through all internal channels.
- Advisory/oversight committee of 6 to 12 members is established.

#### Funding

- Fifty percent or more of total funding comes from employees.
- Between 20% and 40% of employees participate with a donation.

#### Applications

- One-half to 1% of employees receive grants each year.
- More than 95% of applications are approved.

#### Grants

- Grant processes include strong due diligence and vetting procedures balanced with the need to make grants quickly.
- Average grant size is 20% to 30% of the maximum grant amount.
- More than 98% of funds granted are made to vendors.

### Company Examples

#### Wells Fargo

Wells Fargo operates the WE Care Fund, through which employees have helped nearly 4,400 colleagues recover from natural disasters, accidents, and other life-changing events. Established in 2001 in the aftermath of the 9/11 attacks, the WE Care Fund offers two types of assistance: grants for disaster-related assistance and grants for family emergencies and other personal hardships. Money for food, lodging, transportation, and other urgent expenses can be electronically deposited in the employee's checking account. Some grant applications have been completed and funds disbursed within 24 hours of the application having been submitted. In 2016, Wells Fargo expanded the fund to include overseas employees as well. The fund is administered through E4E Relief. Nine percent of employees donate to the fund each year, one of the highest percentages for funds of this type.<sup>4</sup> In 2018, Wells Fargo provided 2,804 emergency grants for team members totaling \$4.9 million.<sup>5</sup>

#### Target

Target's Team Member Giving Fund enables employees to donate and direct funds to their colleagues in need. Target created the fund to assist employees facing financial hardship in the wake of a natural disaster or personal hardship, such as serious illness or domestic abuse. In addition to employee contribution, the

company also supports the fund through financial contributions, for example matching \$500,000 in employee donations in the aftermath of Hurricane Florence in 2018.<sup>6</sup> The fund, administered by the Emergency Assistance Foundation, accepts gifts from U.S. based employees, as well as those abroad, and makes donating easy by accepting employee donations via text message and PayPal.<sup>7</sup>

### Insperty

The Insperty Fund exists to support employees in crisis. As a professional employer organization located in Houston, Texas, the Insperty Fund became critical in 2017 when Hurricane Harvey devastated parts of Texas. Insperty stepped up immediately by reaching out to affected employees and began using the Insperty Fund to assist those employees in need. In 2017, 288 employees donated 9,397 hours of their time to a hardship bank to support 89 employees who had gone through extraordinary events, such as Hurricane Harvey.<sup>8</sup> Since then, Insperty has continued to use the fund, with 308 employees donating 10,342 hours to the hardship bank in 2018 to support 58 employees.<sup>9</sup>

## Endnotes

- 1 Society for Human Resource Management. (n.d.). What is a tax-advantaged employee crisis fund, and what are the guidelines for establishing a fund? <https://www.shrm.org/resourcesandtools/tools-and-samples/hr-qa/pages/crisisfundwhatisatax-advantagedemployeecrisisfund,andwhataretheguidelinesforestablishing-suchafund.aspx>.
- 2 Internal Revenue Service. (n.d.). IRS Publication 3833: Disaster Relief, Providing Assistance Through Charitable Organizations. Retrieved March 26, 2020 from <https://www.irs.gov/pub/irs-pdf/p3833.pdf>.
- 3 Emergency Assistance Foundation, Inc. (n.d.). Frequently Asked Questions. Retrieved April 8, 2020 from <https://emergencyassistancefdn.org/faq>.
- 4 Wells Fargo Stories. (2016, December 14). Employee relief fund marks 15 years. <https://stories.wf.com/employee-relief-fund-marks-15-years/>.
- 5 Wells Fargo. (2018). Corporate Responsibility Report. <https://www08.wellsfargomedia.com/assets/pdf/about/corporate-responsibility/2018-corporate-responsibility-report.pdf>.
- 6 Boston College Center for Corporate Citizenship. (2019). Redefining Employee Well-Being. *The Corporate Citizen*, 28, 37. <https://bc-ccc.uberflip.com/i/1104322-corporatecitizen-issue28-2019/o>.
- 7 Target. (2020). Target Team Member Giving Fund. <http://tmgiving-fund.com/>.
- 8 Insperty. (2017). Transforming communities where businesses and people can thrive. <https://2firk1qsbue2ashgy21ze4i-wpengine.netdna-ssl.com/wp-content/uploads/2017-CSR-Report.pdf>.
- 9 Insperty. (2018). Transforming communities where businesses and people can thrive. <https://2firk1qsbue2ashgy21ze4i-wpengine.netdna-ssl.com/wp-content/uploads/2018-CSR-Report.pdf>.



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