

For-Profit Philanthropy

The Implications for Educational Development

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For-Profit Philanthropy

- Practices, players and norms native to the for-profit sector migrate into philanthropy
 - Philanthropy LLCs
 - Commercially-affiliated donor-advised fund sponsors
 - Strategic corporate philanthropy



CZI: A Philanthropy LLC

- Chan-Zuckerberg Initiative
 - Created by Facebook Founder and CEO, Mark Zuckerberg, and his wife, Dr. Priscilla Chan
 - To receive 99% of their net worth during their lifetimes
 - Mission to “advanc[e] human potential and promote equality for all children in the next generation”
- NOT a private foundation
- Formed as limited liability company (LLC)

The Philanthropy LLC: Costs and Benefits

- **Costs**
 - Relative tax disadvantages
 - Income, gift and estate tax costs can be minimized through planning
- **Benefits**
 - Privacy
 - Control
 - Flexibility
 - Freedom from regulation
 - Operational diversity

CZI Example: Operational diversity in the educational context

- Grantmaking
 - E.g., grants to two UC schools to support underrepresented students pursuing STEM careers
 - Complete list of grants
 - <https://chanzuckerberg.com/grants-ventures/grants/>
- Impact Investment
 - Education focus A-Z
 - <https://chanzuckerberg.com/grants-ventures/ventures/>
- Advocacy
 - Core part of its tripartite approach, but little disclosure
 - <https://chanzuckerberg.com/about/our-approach/>

Philanthropy LLCs: The Stakes for Society

Potential Advantages

- More capital for social good
- Efficiency gains
- Impact on broader business norms

Potential Disadvantages

- Crowding out
 - Empirical question
- Magnifying elite influence
 - LLCs skirt transparency requirements and channeling effects of traditional philanthropy regulation

Donor-Advised Funds Explained

- Donor makes contribution to sponsor
 - Donor receives immediate tax deduction
- Sponsor retains donated assets
 - Donor can give instructions on investment
 - Donor can give instructions on distribution
 - Charitable recipients only
 - Advising rights transferable on death
- Largest U.S. sponsors affiliated with large investment companies (e.g., Fidelity, Schwab)

Donor-Advised Fund Facts & Figures

- Over \$110B in assets in 2017
- 2017 = banner year
 - Contributions to donor-advised funds up 41%
 - Number of accounts jumped by one-quarter
 - Fidelity Charitable alone reported an 83% increase in donors and receipt of \$8.5B in contributions
- Commercially-affiliated DAF sponsors 4 of the top 10 recipients of charitable contributions in 2016
 - For 2017 list, Chron. of Phil. changed methodology of Philanthropy 100 to exclude DAFs, which had recently dominated it

Benefits for Donors

- **Privacy**
 - Grants are reported by DAF sponsor in aggregate
- **Control**
 - Donors retain advising powers, even through death
- **Flexibility**
 - Approximates private foundation benefits (e.g., control and endowment-building) without attendant regulatory load
- **PLUS, tax benefits (for itemizers)**
 - Current charitable deduction to public charity
 - Double benefit for gifts of appreciated property

Implications of DAFs for Education

- **Transparency**
 - **No fund-by-fund disclosure**
 - Providing another vehicle for educational mega-giving – outside spotlight
- **Channeling**
 - **Asset-parking reduces funds available**
 - PPA 2006 study on aggregate payouts
 - Foundation use of DAFs exacerbates concerns
- **Blowback**
 - **Operating charities offering DAFs, often white-labeled**
 - Including prominently colleges and universities
 - **Competition changing community foundations**

Thank you.

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[Social Enterprise Law: Trust, Public Benefit, and Capital Markets](#) (Oxford 2017) (with Steven A. Dean)