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/](https://chanzuckerberg.com/grants-ventures/grants/)

- **Impact Investment**
  - Education focus A-Z
    - [https://chanzuckerberg.com/grants-ventures/ventures/](https://chanzuckerberg.com/grants-ventures/ventures/)

- **Advocacy**
  - Core part of its tripartite approach, but little disclosure
    - [https://chanzuckerberg.com/about/our-approach/](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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