GILDED GIVING
TOP-HEAVY PHILANTHROPY IN AN AGE OF EXTREME INEQUALITY

Chuck Collins, Helen Flannery, Josh Hoxie
November 2016
CO-AUTHORS:

Chuck Collins directs the Program on Inequality and the Common Good at the Institute for Policy Studies, where he co-edits Inequality.org. His most recent book is Born on Third Base: A One Percenter Makes the Case for Tackling Inequality, Bringing Wealth Home, and Committing to the Common Good (Chelsea Green, 2016). He is co-author, with Bill Gates Sr., of Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes (Beacon Press, 2003). He is co-author with Mary Wright of The Moral Measure of the Economy (Orbis, 2008), a book about Christian ethics and economic life. He also wrote 99 to 1: How Wealth Inequality is Wrecking the World and What We Can Do About It (Berrett-Koehler, 2012).

Helen Flannery is an Associate Fellow at the Institute for Policy Studies. She is a longtime researcher and data analysis professional working in the nonprofit sector and has written extensively on nonprofit industry trends, including trends in direct marketing fundraising, online giving, sustainer giving, and the macroeconomic factors affecting donor behavior.

Josh Hoxie heads up the IPS Project on Opportunity and Taxation at the Institute for Policy Studies and co-edits Inequality.org. He has written widely on income and wealth maldistribution for a variety of media outlets and is the co-author of “The Ever-Growing Gap: Without Change, African-American and Latino Families Won't Match White Wealth for Centuries” and “Billionaire Bonanza: The Forbes 400 and the Rest of Us.”

Graphic Design: Kenneth Worles

Acknowledgments: We received significant assistance in the production of this report. We would like to thank Angelique Been, David Callahan, John Cavanagh, Aaron Dorfman, Ray Madoff, Brendan McGuire, Trevor Price, Carl Quesnel, and Carol Rhine.

The Institute for Policy Studies (www.IPS-dc.org) is a multi-issue research center that has conducted ground-breaking research on inequality for more than 20 years.

The IPS Inequality.org website (Inequality.org) is the premiere portal for data, commentary, and analysis on income and wealth inequalities in the U.S. and the world.

Twitter: @inequalityorg

Institute for Policy Studies
1301 Connecticut Ave. NW, Suite 600
Washington, DC 20036
Contents

Key Findings 3

Introduction 5

Record-Breaking Philanthropic Growth 5

Wealth Concentration and Charity 8
   Top-Heavy Mega-Giving 11
   Bottom-Light Small Donations 17
   Possible Explanations for Donor Declines 19

Implications 22
   Risks for Fundraising and the Independent Sector 22
   Risks for Civil Society 25

Recommendations 29
   Changes in Internal Practices for Charities 30
   Changes in Incentives for Individual Giving 30
   Reforms in Foundation Governance 31
   Changes in National Public Policy 33

Conclusion 35

End Notes 36
Key Findings

Charitable donations in the United States have surged in recent years, but these unprecedented levels of giving may mask a troubling trend: charities are increasingly relying on larger and larger donations from smaller numbers of high-income, high-wealth donors, while receiving shrinking amounts of revenue from the vast population of donors at lower and middle income levels.

Growing inequity in charitable giving may hold risks not only for nonprofits themselves, but also for the nation as a whole. This report tracks significant changes in philanthropic giving in recent years, puts forward a number of possible implications of these changes, and suggests some solutions.

Findings

- **Charitable contributions from donors at the top of the income and wealth ladder have increased significantly over the past decade.** From 2003 to 2013, itemized charitable contributions from people making $500,000 or more—roughly the top one percent of income earners in the United States—increased by 57 percent. And itemized contributions from people making $10 million or more increased by almost double that rate—104 percent—over the same period.¹

- **The number of private grant-making foundations and the revenue they hold have shown similarly dramatic growth.** The number of grant-making foundations chartered in the United States grew from 67,736 in 2004 to 86,726 in 2014—an increase of 28 percent over ten years. The amount of assets held in those foundations increased 35 percent over that same period.²

- **Over the past decade, charitable giving deductions from lower income donors have declined significantly,** at close to the same rate that contributions from higher income donors have increased. From 2003 to 2013, while itemized charitable deductions from donors making $100,000 or more increased by 40 percent, itemized charitable deductions from donors making less than $100,000 declined by 34 percent.³

- **The number of donors giving at typical donation levels has been declining steadily.** According to one estimate, low-dollar and midrange donors to national public charities have declined by as much as 25 percent over the ten years from 2005 to 2015.⁴ These are the people who traditionally have made up the vast majority of donor files and solicitation lists for most national nonprofits since their inception.

- **The rate of decline in low-dollar donors correlates strongly with indicators of overall economic security in the United States,** such as wages, employment, and
homeownership rates. This indicates that donor declines are likely closely related to changing economic conditions.

**Implications**

If these trends continue, we will witness the rise of “top-heavy” philanthropy dominated by a small number of very wealthy donors. This has significant implications for the practice of fundraising, the role of the independent nonprofit sector, and the health of our larger democratic civil society.

- Risks to charitable sector organizations include increased volatility and unpredictability in funding, making it more difficult to budget and forecast income into the future; an increased need to shift toward major donor cultivation; and an increased bias toward funding larger or heavily major-donor-directed boutique organizations and projects. The increasing power of a small number of donors also increases the potential for mission distortion.

- Risks to the public include the rise of tax avoidance philanthropy, the warehousing of wealth in the face of urgent needs, self-dealing philanthropy, and the increasing use of philanthropy as an extension of power and privilege protection.

**Recommendations**

This report calls for an urgent reform of the philanthropic sector to encourage broader giving, protect the health of the independent sector, discourage the warehousing of wealth in private foundations and donor-advised funds, and increase accountability to protect the public interest and the integrity of our tax system. Changes in the rules governing philanthropy should include increasing the minimum annual distribution payout for foundations, excluding foundation overhead from the payout percentage, linking the excise tax on foundations to payout distribution amounts, and establishing a two-tier tax benefit structure for charitable gifts, with incentives that encourage direct donations to public charities focused on urgent social and community needs. We also recommend exploring a lifetime cap on tax-deductible charitable giving to ensure that those who possess some of the largest fortunes in the United States cannot use such deductions to entirely circumvent tax obligations.

To fully address the risks of top-heavy philanthropy, however, policymakers will need to not only reform the rules of charitable giving, but also establish policies to reduce, over time, concentrations of wealth and power in our society at large. This would include restoring steeply progressive income and wealth taxation and closing loopholes.
Introduction

Philanthropy is a noble pursuit: an expression of our collective generosity and human solidarity. And the charitable nonprofits we support as a nation are both the lifeblood of a vibrant civil society and laboratories for experimentation into ways to solve our most pressing problems. Without our vibrant independent charitable sector, the quality of life in our communities would be greatly diminished.

For over a decade, the Program on Inequality and the Common Good, based at the Institute for Policy Studies, has examined the impact of income and wealth inequality on civic life, opportunity, social mobility, democracy, and other aspects of U.S. society. Recent reports have analyzed the concentration of wealth at the top of U.S. society and the racial wealth divide. This report, *Gilded Giving*, focuses attention on the impact of increasing financial inequality on the philanthropic sector.

As inequalities of income, wealth, and opportunity grow in the United States, nonprofit organizations are being called on to address and ameliorate the challenges that result. But, at the same time, the management and effectiveness of the charitable sector are being deeply affected by these trends themselves.

While we celebrate the generous impulse behind so much of the philanthropic activity in the United States, we also recognize that growing inequity in charitable giving may hold potential peril not only for the independent nonprofit sector, but for the nation as a whole. Our report tracks significant changes we have seen in philanthropic giving in recent years, puts forward a number of possible implications of these changes, and suggests some solutions.

Record-Breaking Philanthropic Growth

This past June, the Giving USA Foundation™ published *Giving USA 2016: The Annual Report on Philanthropy for the Year 2015*, its industry gold-standard report on 2015 charitable giving in the United States. The news was good: national charitable donations surged in 2015, reaching a record high for the second year in a row. According to the report, the total amount given to charity in 2015 was an estimated $373.25 billion, which was 4.0 percent inflation-adjusted growth from 2014 and 10.1 percent inflation-adjusted growth from 2013.
Giving USA Foundation Chair W. Keith Curtis applauded this surge in giving, describing it as “a symbol of the American spirit” and “a sign that Americans are embracing philanthropy at a higher level than ever before.”

On the surface, this historic level of charitable giving appears to be a welcome turnaround, an impressive unleashing of generosity after a contraction of the nonprofit sector during the recession of 2007–2009.

This unprecedented level of giving may, however, mask potentially destructive trends. There are indications in giving data that charities are increasingly relying on larger and larger donations from a smaller number of high-income, high-wealth donors, while receiving shrinking amounts of revenue from the vast population of donors at lower and middle income levels. This shift from broad-based public support to narrowly focused giving by a wealthy few is a trend that reflects the escalating wealth and income inequality in our society as a whole.

### PHILANTHROPY THROUGH THE AGES

Humans have survived and flourished in large part thanks to vibrant gift economies that have existed throughout recorded history. There are documented examples of organized giving as early as the classical era, including an endowment fund for Plato’s Academy in Greece and early foundation-like organizations, such as the waqf in Islamic societies.

In the United States, by 1835, the French writer Alexis de Tocqueville described the tendency of Americans to form associations for “the smallest undertakings” as a unique trait and an extension of the democratic spirit in the country. He saw Americans forming associations “to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the antipodes; in this manner they found hospitals, prisons, and schools.”

The rise of large-scale U.S. philanthropy accompanied the growth in great fortunes during America’s first Gilded Age, between 1890 and 1920. In his 1889 essay “Wealth,” industrialist Andrew Carnegie argued that the wealthy had a social obligation to distribute wealth in their lifetime to promote the betterment of society. In 1907, the first foundation, the Russell Sage Foundation, was established with the mission of improving “social and living conditions in the United States.” In 1907, the Cleveland Foundation became the nation’s first community foundation, pooling donations as a form of “community trust.”
The federal government formalized the charitable sector by including a provision in the Revenue Act of 1917 that exempted charities from paying federal income tax. But the modern era of tax-incentive-based giving did not begin until 1921, when Congress allowed individual donations to charities to be tax deductible. Itemized donations that year were estimated to be $1.7 billion in 1921 dollars. In 1935, lawmakers expanded this provision to allow corporate donations to be deductible from corporate income taxes as well.\(^9\)

One of the earliest formalized institutions to use mass national-scale philanthropy was the March of Dimes, founded on the eve of World War II as the National Foundation for Infantile Paralysis to assist those living with polio and to fund research into its cure. The idea of having legions of citizens donating dimes to the effort came from President Franklin D. Roosevelt, who lived most of his life with polio. In the years following a 1949 polio epidemic, the charity had more than 3,100 chapters of volunteers collecting millions of dollars, mostly from small donations. A March of Dimes grant recipient, Dr. Jonas Salk, created and tested a polio vaccine that dramatically reduced occurrence of the disease starting in 1955, and the March of Dimes, successful in its original mission, shifted its focus to birth defects, premature birth, and healthy pregnancy.\(^10\)

Charitable giving expanded rapidly after World War II, including the creation of local giving networks, such as the United Way, community foundations, and matching employee gift programs. The civil rights movement of the 1950s and the social movements of the 1960s and 1970s altered the philanthropic environment yet again, as foundations were created to support movements as catalysts for change.\(^11\) Conservative advocates responded by creating family foundations that used activist giving to build political organizations.

Charitable tax and donation laws were overhauled significantly by the Tax Reform Act of 1969, which made a statutory distinction between public charities and private foundations. This act allowed the government to subject foundations to a minimum payout rate and to charge them an excise tax. It also allowed donors to deduct up to 50 percent of their adjusted gross income and created provisions for noncash gifts, charitable remainder trusts, and charitable lead trusts—mechanisms used primarily by the wealthy to structure their giving.

While donor-advised funds had long been available through community foundations and giving federations, Fidelity Investment’s creation of its Charitable Gift Fund in 1991 accelerated the use of the mechanism. Other investment funds soon followed suit.
In recent decades, philanthropic giving has surged. Millions of Americans donate when disasters strike, such as Hurricane Katrina, the Indian Ocean tsunami, and the earthquake in Haiti. Millions more are inspired to give by popular social media campaigns, such as the ALS Association’s Ice Bucket Challenge. Major donors are contributing at a greater clip than ever before, giving multimillion-dollar mega-donations to universities, arts organizations, and private foundations. And the philanthropic sector itself has grown into a complex, highly expert industry, with research and advocacy groups, donor affinity groups, and professional associations.

Wealth Concentration and Charity

Over the last three decades, private wealth in the United States has become concentrated in fewer and fewer hands. Most of the gains in assets and income have flowed disproportionately to the top 0.1 percent of households in the United States. This top one-tenth of one percent—an estimated 115,000 households with net worth that starts at $20 million—now own more than 20 percent of all U.S. household wealth, up from 7 percent in the 1970s. This elite subgroup, University of California–Berkeley economist Emmanuel Saez points out, now owns as much wealth as the bottom 90 percent of Americans combined.¹²

The members of the Forbes 400 alone now own about as much as the bottom 62 percent of the population. Their holdings are equal to the wealth of the nation’s entire African-American population combined with that of more than a third of the Latino population. And America’s 20 richest people—a group that could fit comfortably in a single Gulfstream G650 luxury jet—now own more wealth than the bottom half of the American population, a total of 152 million people in 57 million households.¹³

These statistics also likely greatly underestimate current U.S. levels of wealth concentration, since the growing use of offshore tax havens and legal trusts has made the concealing of assets much more widespread than ever before.¹⁴

A significant portion of this wealth has made its way into the charitable sector, as evidenced by an explosion of mega-donations, private foundations, and donor-advised funds.

The growth of mega-donations—private gifts over $100 million—has been getting tremendous attention in recent years. These include gifts such as hedge fund manager John A. Paulson’s $400 million gift to Harvard University and Nike founder Phil Knight’s $400 million gift to Stanford University.¹⁵
Less attention has been given to the growth of private foundations, but they have grown substantially as well. The number of private foundations chartered in the United States increased by 28 percent over the ten years from 2004 to 2014. The amount of assets held in those private foundations increased 35 percent over that same period (adjusted for inflation), for an effective 4 percent increase in assets each year.\textsuperscript{16}

The number of sponsoring organizations for donor-advised funds in the United States has grown at an even faster rate, increasing by 19 percent over the six years from 2006 to 2012. Their assets increased by 62 percent over the same time period, for an effective 13 percent increase in assets each year.\textsuperscript{17} Giving to donor-advised funds has seen such growth that the second largest recipient of charitable donations in 2015, after the United Way, was Fidelity Charitable, one of the nation’s largest donor-advised fund managers.\textsuperscript{18}

At the same time, there is evidence of a slow but inexorable decline in the participation of low-dollar and midlevel donors in nonprofit giving—a likely indication of growing economic inequality and insecurity among the wide pool of donors at the lower end of the giving scale.
Over the past decade, charitable deductions have increased substantially for the top ten percent of income earners. For the bottom 90 percent, however, charitable deductions have been declining—in some cases significantly.

According to IRS data, inflation-adjusted itemized charitable deductions increased for households at every income level over $100,000 from 2003 to 2013 (the most recent year for which data is publicly available). In general, the higher the income level, the greater the increase in charitable deductions. Altogether, charitable deductions for households making $100,000 or more increased by 40 percent over those ten years.²⁹

Figure 2: Ten-Year Change in Charitable Deductions by Income Level (2003-2013)
All revenue is adjusted for inflation (2013 = 100%)

Over the same ten years, however, inflation-adjusted itemized charitable deductions declined for households at every income level below $100,000. It is worth noting that the higher a household’s income level, the more likely they are to itemize deductions on their tax return. While four-fifths of taxpayers making more than $100,000 itemize deductions, only one-fifth of taxpayers making less than $100,000 itemize their deductions.²⁰* Altogether, however, for those who did itemize, charitable deductions for households making less than $100,000 declined by 34 percent from 2003 to 2013.²¹*
Findings

As income and wealth in the United States have become increasingly concentrated into the wealthiest households, there has been a corresponding expansion in philanthropic activity by wealthy individuals and in the giving vehicles available to them. As noted, itemized charitable deductions from the wealthiest households have risen dramatically over the past ten years—and the wealthier the household, the greater the rate of increase has been.

Top-Heavy Mega-Giving

Charitable contributions from donors at the top of the income and wealth ladder have increased significantly over the past decade.

According to the Internal Revenue Service, inflation-adjusted itemized charitable contributions from households making $200,000 or more—roughly the top ten percent of income earners in the United States—increased by 52 percent over the ten years from 2003 to 2013 (the most recent year for which data is publicly available).

Itemized contributions from households making $500,000 or more (roughly the top one percent of income earners) increased slightly more—57 percent—over the same time period. And itemized contributions from households making $10 million or more (less than the top one-tenth of one percent of income earners) increased by 104 percent—double the rate of increase of the top ten percent.22

The number of private grant-making foundations and donor-advised funds has shown similarly dramatic growth.

In recent years, the wealthy have been creating foundations at a rapid pace and giving increasingly large donations to them. This, in turn, drives increased grant-making capacity.

- According to the Foundation Center, the number of private foundations chartered in the United States grew from 67,736 in 2004 to almost 86,726 in 2014—an increase of 28 percent over ten years. The amount of assets held in those private foundations increased 35 percent over that same period (adjusted for inflation).23 The number of foundations has almost doubled since 1993, when there were 43,956.24

- According to Giving USA 2016, in 2015 the greatest one-year increase in philanthropic giving from any source of funding came from foundations. (Giving USA 2016 includes
donor-advised funds in its foundation giving reporting.) Independent, community, and operating foundations gave a total of $58.46 billion to charity in 2015, an inflation-adjusted increase of 6.3 percent over 2014. In contrast, individual giving and corporate giving increased 3.7 percent and 3.8 percent, respectively, over the same time period (when adjusted for inflation).25

- When viewed over a longer time period, the rise of foundation giving has been meteoric. Again, according to Giving USA 2016, giving by foundations in the United States grew by 49 percent from 2005 to 2015 (from $39.33 billion to $58.46 billion in inflation-adjusted dollars). And it more than quintupled from 1985 to 2015, growing by more than 441 percent (from $10.80 billion to $58.46 billion). In comparison, giving by individuals grew only 109 percent from 1985 to 2015 (from $126.47 billion to $264.58 billion). The end result is that while foundations made up only 7% of all giving in 1985, they make up 16% of all giving today.

Depending on the year, one-half to two-thirds of all charitable contributions from individuals come from households in the top ten percent.

The Indiana University Lilly Family School of Philanthropy estimates that typically “about 50 percent of total annual giving by individuals/households comes from households with an annual income greater than $200,000 or assets greater than $1.0 million. In some years, this figure could be as much as two-thirds.”27
In 2013, for example, *Giving USA 2016* reported that “46.7 percent of total itemized giving by individuals/households was made by households earning greater than $200,000 that year.”

**Extremely large “mega-gifts” now make up a significant portion of individual giving.**

Because of the immense size of the gifts and the small number of donors involved, mega-gift giving is highly variable and can fluctuate a great deal from year to year. But, overall, mega-gift donations have made an increasing impact over the past decade.

Total revenue from individual charitable donations of $1 million or more has increased significantly in recent years. According to the 2015 *Coutts Million Dollar Donors Report*, over the five years from 2009 to 2014, the number of publicly announced gifts of $1 million or more declined by 31 percent, but the total value of those gifts rose by 20 percent. In 2009, U.S. donors gave 1,563 gifts of $1 million or more, worth a total of $12.83 billion; five years later, in 2014, they gave 1,064 gifts of $1 million or more, worth a total of $14.11 billion.

Over the five years from 2009 to 2014, the average million-dollar-plus gift rose from $8.13 million to $14.06 million. The Giving USA Foundation reports that “very large charitable donations—categorized here as gifts of $100 million or more—have garnered an increasing amount of attention over the past 10 to 15 years. In 2015, the very large contributions that were publicly announced totaled at least $3.3 billion.” This means that in 2015, mega-gifts of $100 million or more accounted for roughly one percent of all individual giving in the United States that year.

This comes on top of similar mega-gift giving in 2014. That year included several gifts of more than $500 million, including one that was almost $2 billion.

**A disproportionate amount of the growth in 2015 individual giving went to sectors favored by the wealthy.**

Nonprofit giving as a whole grew substantially from 2014 to 2015, but two of the three sectors that grew the most—education and the arts—are those that are disproportionately supported by donors of high net worth. As the Giving Institute’s director of research, Una Osili, said, the education and arts sectors “traditionally include organizations and institutions that wealthy donors are most likely to support. In addition, the increase in education giving was fueled by a number of very large gifts to colleges and universities.”
• The education sector, which accounted for $57.48 billion in 2015 (or about 22 percent of all individual giving), had an 8.8 percent inflation-adjusted increase in giving from 2014. A significant portion of this increase came from donors at the top of the income and wealth scales. According to the Chronicle of Philanthropy, “of the $7.0 billion from America’s top 50 donors, colleges and foundations received the lion’s share of funding, at nearly 60 percent of the total.”

• The arts, culture, and humanities sector, which accounted for $17.07 billion in 2015 (or about 6 percent of all individual giving), had a 6.8 percent inflation-adjusted increase in giving from 2014. This sector was arguably one that benefited the most from gifts of appreciated noncash assets from wealthy donors, as we will see in the discussion of appreciated stock and artwork below.

• The only other sector to see a higher increase in giving, from all groups of donors, was the international relief sector, which accounted for $15.75 billion in 2015 and had a 17.4 percent inflation-adjusted increase in giving from 2014. This sector is one that still receives a great deal of giving from lower and middle income donors. But it is also traditionally quite volatile and can be greatly affected by fundraising around high-profile disaster events, which was certainly the case in 2015. Several natural and manmade disasters occurred in 2015, including the ongoing Syrian refugee crisis and a well-publicized earthquake in Nepal, which likely contributed to this sector’s strong performance.

No other sector had as high an increase in giving in 2015 as any of these three sectors. And the charitable sectors that are traditionally supported disproportionately by lower dollar donors sat toward the bottom end of the growth scale: human services charities had 4.1 percent inflation-adjusted growth, religious organizations had 2.6 percent inflation-adjusted growth, and health-related charities saw only a 1.2 percent inflation-adjusted increase in giving from 2014 to 2015.

Donations by America’s 50 wealthiest donors, including both living donors and estates, totaled $6.9 billion in 2015. Slightly less than one-third of these gifts ($2 billion) funded foundations, according to The Chronicle of Philanthropy’s 2016 Philanthropy 50 list. Eight gifts of $100 million or more were made to educational institutions in 2015; Northwestern University alone received three gifts of $100 million. Stefan Edlis and Gael Neeson donated their private art collection, valued at over $400 million, to the Art Institute of Chicago.
Other major gifts went to endow family foundations: Melinda and Bill Gates gave $272 million to the endowment of the Bill & Melinda Gates Foundation, and Alice, Jim, and Robson Walton gave $243 million to the Walton Family Foundation.  

According to the Bridgespan Group, between 2000 and 2012, the sum total of gifts over $10 million averaged about $8 billion per year (excluding those from the Bill and Melinda Gates Foundation). Of these mega-gifts, just 20 percent went to social change giving: nonprofits and initiatives focused on human services, the environment, and international development. The other 80 percent went to institutional giving—including many already richly funded universities and hospitals—despite the fact that nearly 80 percent of Forbes’s 50 Top Givers cite social change as one of their top two or three priorities.  

A notable portion of gifts in 2015 were of asset types primarily available to the very wealthy, such as appreciated stock and artwork.  

Wealthy donors are disproportionately able to give gifts of high-value assets, such as stock, artwork, and manuscripts. *Giving USA 2016* reported that many “valuable gifts of artwork, books and manuscripts, along with other types of ‘appreciated assets,’ were donated to charitable organizations in 2015,” at a time when “art markets both domestic and global were “at or near peak highs.”  

“As has been the trend in recent years,” *Giving USA 2016* reported, “the giving of very large ‘mega-gifts’ by individuals was prominent in 2015. In-kind gifts of artwork to support institutions of higher education were particularly prominent.” As we will discuss later, donations of appreciated property and art are particularly problematic, as they are types of donations that can be subject to abuse through the appraisal process.  

Charitable giving by donors who itemize charitable donations is growing at rates significantly higher than giving by those who do not itemize.  

*Giving USA 2016* estimated that giving by nonitemizing individual donors grew by 2.5 percent from 2014 to 2015, while giving by itemizing individual donors grew by 4.1 percent.  

In general, donors in higher tax brackets are more likely to itemize charitable deductions on their tax returns, because they stand to benefit more from those deductions. And it stands to reason that high-income and high-net-worth individuals would tend to increase their giving
to charity as their assets increase in value—particularly when tax policy makes it fiscally prudent for them to do so. Research by the Giving Institute has found that the deductibility of charitable gifts is one of the greatest driving factors in the amount given to charity each year.\textsuperscript{44}

**Giving to donor-advised funds has grown significantly in recent years.**

Donor-advised funds, which require somewhat less of a financial investment to establish than private foundations, have seen a particularly meteoric rise in the past few years. Among the nation’s 400 biggest charities, giving to donor-advised funds increased steadily from two percent of total giving in 1991 to 18 percent in 2015.\textsuperscript{45}

- From just 2010 to 2014, the amount of assets held in donor-advised funds more than doubled, from $33.6 billion to $70.7 billion.\textsuperscript{46} The second largest recipient of donations in 2015, after the United Way, was Fidelity Charitable, one of the nation’s largest donor-advised fund managers. Five of the top 11 charities in 2015 were donor-advised funds.\textsuperscript{47}

- A study by the Internal Revenue Service found that the number of sponsoring organizations offering donor-advised funds (such as Fidelity Charitable or the Tides Foundation) grew from 1,779 in 2006 to 2,121 in 2012, an increase of 19 percent over six years. The total value of all donor-advised funds increased from $32.6 billion to $52.9 billion over the same six years—an increase of 62 percent (all revenue numbers adjusted for inflation).\textsuperscript{48}

- A recent survey by the Foundation Center found that the 274 community foundations participating in the survey had a total of ten percent growth in donor-advised fund assets from 2013 to 2014. The revenue in their donor-advised funds increased from $20.3 billion to $22.2 billion over that one year.\textsuperscript{49}

- The assets of commercial donor-advised funds, such as those managed by Fidelity Charitable, Schwab Charitable, and Vanguard Charitable, are growing at even faster rates than those managed by community foundations. In 2014, for the first time, the value of assets held within commercial donor-advised funds exceeded the value of assets held within community foundation donor-advised funds.\textsuperscript{50}
**Bottom-Light Small Donations**

As top-heavy philanthropy has exploded over the past decade, charitable giving from donors at lower and middle income levels has declined precipitously. And the number of donors at more typical donation dollar levels—the donors that make up the vast majority of donor files for most national nonprofits—appears to have been declining steadily for years.

**Over the past ten years, charitable deductions from lower-income donors have declined significantly.**

We saw earlier that itemized charitable contributions from donors in the top ten percent of income-earning households in the U.S. have increased dramatically over the past ten years. At the same time, charitable contributions have been declining for the bottom 90 percent.

According to data from the Internal Revenue Service, inflation-adjusted itemized charitable deductions increased for households at every income level over $100,000 from 2003 to 2013 (the most recent year for which data is publicly available). Altogether, charitable deductions for households making $100,000 or more increased by 40 percent over those ten years.\(^{51}\) In general, the higher the income level, the greater the increase in charitable deductions.

Over the same ten years, inflation-adjusted itemized charitable deductions declined for households at every income level below $100,000. It is true that the higher a household’s income level, the more likely they are to itemize deductions on their tax return; four-fifths of taxpayers making more than $100,000 itemize, while only one-fifth of taxpayers making less than $100,000 itemize.\(^ {52}\) For those who do itemize, however, charitable deductions from donors making less than $100,000 declined by 34 percent from 2003 to 2013.\(^ {53}\)

**The number of donors giving at typical donation dollar levels has been declining steadily for at least a decade.**

The donorCentrics Index of Direct Marketing Fundraising, a quarterly index produced by Target Analytics, reports on giving trends for small and midrange donors giving gifts of less than $10,000 in response to direct marketing. These are the people who have traditionally made up the vast majority of donor files for most national nonprofits since their inception. According to Target Analytics’ report for the full year of 2015, which included data from 79 national-scale nonprofits with large direct-response fundraising programs, the number of donors to these organizations has been declining for more than a decade.
In fact, donor populations declined in 12 of the 14 years since the index was created in 2002. “The only index-wide annual increase during that time came in 2005,” Target Analytics reported, “a year which included unusually large disaster-related fundraising following the Indian Ocean tsunami in January and U.S. Gulf Coast hurricanes Katrina, Wilma, and Rita in the fall.”

Target Analytics has also been able to evaluate the cumulative effect of these declines, quarter by quarter, over the long term, using a rolling twelve-month analysis to control for seasonal differences. Their index’s donors declined a median 25.1 percent over the most recent ten years from 2005 to 2015, an effective decline of 2.8 percent annually.

Source: Median Donor Change from Previous Year, Target Analytics donorCentrics Index of Direct Marketing Performance, 2015 Fourth Calendar Quarter Results, April 2016.
Organizations participating in the index have not lost revenue at nearly the same rate as they have lost donors, primarily because they have been able to get more and more revenue per person out of the donors that remain. However, as Target Analytics reports, “this relative revenue stability may be masking the significance of the underlying trend: nonprofits are receiving roughly the same amount of money from fewer and fewer donors each year. This is a strategy that may allow organizations to meet their revenue goals in the short term, but may not be sustainable over the long term.”55

Possible Explanations for Donor Declines

Of course, the donor declines that Target Analytics is seeing in their index have several possible noneconomic causes, which they explored in their analysis. Among the causes they considered were:

- **Demographic change.** In general, most people do not become regular donors to charity until they reach middle age. With the Baby Boomers now all past 50, and with a smaller population of baby-bust-era Generation Xers entering their 50s now, the pool of potential donors may not be as large as it was even ten years ago.

- **Generational differences in giving culture.** There is an argument to be made that the older generations that are now dying off—particularly the G.I. Generation—were more supportive of nonprofit institutions as a group, and more reliable donors in general. The donors that are replacing them—Baby Boomers and Generation Xers—may well be culturally less committed and less consistent in their giving. They also appear to be interested in different giving vehicles, such as for-profit entities and impact investing, outside of the traditional charitable sector that give them more return on investment.

- **Deliberate shifts in organizational strategy.** Target Analytics conducts dozens of collaborative benchmarking meetings with hundreds of nonprofit professionals each year. They report in their index analysis that not only have many national nonprofits deliberately reduced their direct marketing acquisition programs over the past several years, but fundraisers are also consciously focusing more on cultivating higher dollar donors, thus “maximizing net revenue by bringing in more revenue from fewer donors.”56
The intensity of the donor declines, however, combined with gradually increasing lifespans in the United States, makes it doubtful that population change alone is enough to explain the decline of donor populations over the past decade. It is also difficult to separate cultural differences from the economic differences that affect different generations. Shifts in organizational strategy are similarly difficult to quantify and are not universally applied from year to year, even within a single organization. And it is also difficult to separate strategic changes from the increases in revenue per donor that would naturally result from normal inflationary pressure.

The rate of decline in the number of low-dollar donors has an extremely strong correlation with indicators of economic inequality and insecurity in the United States.

In contrast to the relatively unquantifiable demographic, cultural, and strategic factors above, Target Analytics did find a strong, measurable correlation between index donor declines and declines in employment. When Target Analytics plotted their donor trends against the U.S. labor force participation rate, they found that the two matched very closely, with a +0.97 degree of correlation. This is a strong indication that the decline in low-dollar donors is closely related to economic factors.

![Figure 7: donorCentrics Index Donor Trends vs. Labor Force Participation Rate (2005-2015)](image)

Donor change is the cumulative rolling 12-month median change from Q4 2005

Correlation \((r)\) = +0.97

Source for Donors: Cumulative Rolling 12-Month Median Donor Change from Q4 2005, Target Analytics donorCentrics Index of Direct Marketing Performance, 2015 Fourth Calendar Quarter Results, April 2016.

As Target Analytics concluded, “While we do not have enough data to say that this is causative, these trends make intuitive sense; when people are not employed, they are likely to have less disposable income, and will not be as disposed to give to charity.”57

In our own analysis, we found that Target Analytics’ donor declines also correspond extremely closely to other indicators of economic security—such as rate of home ownership, which has a close-to-perfect 0.99 degree of correlation from 2005 to 2015. This is further evidence that current economic conditions are undermining lower and middle income donors’ sense of financial security—and thereby their capacity and willingness to donate to charity.

**Figure 8: donorCentrics Index Donor Trends vs. U.S. Home Ownership Rate (2005-2015)**

Donor change is the cumulative rolling 12-month median change from Q4 2005

Source for Donors: Cumulative Rolling 12-Month Median Donor Change from Q4 2005, Target Analytics donorCentrics Index of Direct Marketing Performance, 2015 Fourth Calendar Quarter Results, April 2016.

Implications

This shift in nonprofit fundraising from traditional, broad-based popular support to narrowly focused giving by a wealthy few mirrors the escalating wealth and income inequality in our society as a whole. An increasing reliance on a small group of very wealthy donors has significant implications for the practice of fundraising, the role of the independent nonprofit sector, and the health of our larger civil society.

Many current fundraising professionals came of age with an “80/20 rule” assumption: the notion that 80 percent of an organization’s revenue comes from roughly 20 percent of its donors. But what will the consequences be if we are drifting toward a 98/2 rule, where 98 percent of an organization’s revenue comes from only two percent of its donors? And what if the giving priorities of that two percent are different from the interests of the other 98 percent—or the mission of the organization itself? Would this create potential vulnerability and volatility? What implications would this have for nonprofits—and for society at large?

Risks for Fundraising and the Independent Sector

The potential risks for the philanthropic sector itself include hazards such as a more volatile and unpredictable revenue stream; a bias toward larger organizations, foundations, and organizations better structured to absorb the greater gifts from the wealthy; and a shift in funding from general operating support to restricted project support.

Increased volatility and unpredictability

An increased reliance on very large gifts from smaller numbers of donors means that organizations may see widely fluctuating revenue streams from year to year. A major donor may give an atypically large gift in one year—for example, to contribute to a capital campaign, to set up an endowment fund, or to release exceptionally appreciated stock—and then not make a similar-sized gift for years to come.

Periodic lump-sum gifts such as these are much harder to predict than a broad-based stream of regular gifts from a large pool of donors and are much more subject to the year-to-year whims of a small number of people. Instead of “walking on many legs,” with diverse support from small donors, major donors, foundations, corporate donations, and program revenue, organizations will be dependent on a smaller and potentially more volatile number of wealthy donors and family foundations.
While major gifts are a desired and valuable part of any nonprofit’s portfolio of giving, a disproportionately increased reliance on them may nevertheless make it more difficult for organizations to budget and to forecast their overall income streams into the future.

Increased shift toward major donor cultivation

As we saw above, Target Analytics has reported anecdotally that many of its national nonprofit clients are actively shifting away from large-scale direct-response fundraising and toward more targeted solicitation of midlevel and high-dollar donors. As fundraisers find they have fewer resources to spend on the acquisition and renewal of donors at the lower end of the economic scale, they may need to refocus their expertise toward major donor prospecting and cultivation. They may also find that they are in increasing competition with peer organizations for donations from a relatively finite pool of potential major donors.

Increased bias toward larger or heavily major-donor-directed boutique organizations

Large-scale giving favors bigger charities and foundations that already have the capacity to manage gifts of enormous size, as well as the infrastructure to accommodate gifts of appreciated stock and high-value noncash assets. While larger national nonprofits can do excellent work, this may nevertheless put smaller, more independent, and potentially more innovative and mobile organizations at a revenue disadvantage.

In fact, this shift may already be occurring. According to a recent survey by the Fundraising Effectiveness Project, large nonprofits experienced significant revenue growth from 2014 to 2015, while midrange nonprofits remained flat, and small nonprofits lost revenue, over the same time period. The survey reported that organizations raising $500,000 or more grew by a median 10.7 percent; organizations raising between $100,000 and $500,000 grew by an essentially flat median 0.6 percent; and organizations raising less than $100,000 had a median loss of 11.8 percent.

Reduced foundation payout

U.S. law mandates that foundations distribute a minimum of five percent of their assets on an annual basis. According to research by the Foundation Center, larger foundations tend to pay out significantly less each year—much closer to the five percent minimum—than do smaller foundations. As more mega-donations go disproportionately into large foundations,
rather than into small foundations or to traditional nonprofits, the relative payout going
directly to charities is likely to shrink.

According to the Foundation Center study, from 2007 to 2009, the median annual
distribution rate among a large sample of foundations was 5.8 percent. Distributions varied
dramatically, however, depending on the size of the foundation. For example, mid-size
foundations, with assets from $10 million to $50 million, distributed 11.0 percent of their
assets, while the largest foundations, with assets over $500 million, distributed only 5.4
percent of their assets each year. And the minimum amount distributed during that time by
the mid-size foundations was 4.8 percent, while the minimum distributed by the largest
foundations was just 1.7 percent.\textsuperscript{60}

Donor-advised funds do not have a payout requirement, since the donation to the fund is
itself considered a charitable gift. But, as pools of capital, their distribution percentages are
no more impressive. A study by Paul Arnsberger, a statistician at the Internal Revenue
Service, found that the median payout rate of donor-advised funds for tax year 2012 was
just 7.2 percent, smaller than that of mid-range foundations. In addition, he found that
“nearly 22 percent of the sponsoring organizations reported no grants made from their DAF
accounts.” In other words, their payout was zero.\textsuperscript{61}

**Shift from general support to project support**

Large foundations are more likely than small foundations to give to specific purposes than
for general operating support. So as donations shift increasingly toward larger foundations,
and as foundations themselves grow larger, the proportion of donations going toward the
support of specific restricted projects, as opposed to general operating support, is likely to
shift as well.

According to Foundation Source, in 2014, private foundations with assets greater than $10
million provided more than twice the amount of funding for special purpose grants ($66.3
million) than they gave for general operations ($28.7 million). In contrast, private
foundations with assets less than $1 million gave almost half of their grant dollars to
support general operations.\textsuperscript{62}

Evidence indicates that a shift toward even more restricted funding may be occurring.
According to the same Foundation Source analysis, foundation support for general
purposes—funds that are used to sustain a nonprofit’s day-to-day operations—declined
between 2013 and 2014, from 42 percent to 37 percent. Foundation support for specifically
designated purposes increased from 58 percent to 63 percent in the same period.63

Risks for Civil Society

Among the potential risks for civil society as a whole are the distortion of organizational
missions and a shift toward using charity not as a vehicle for the benefit of society as a
whole, but as a means to protect and preserve individual wealth.

These risks likely apply to a relatively small segment of givers and do not reflect the
motivations of most mega-donors and foundations. However, when abused, philanthropy
can become a tool for the self-interested defense of private privilege—and can be used to
exacerbate poverty and inequality rather than alleviating it. And such abuses are likely to
grow in an increasingly top-heavy philanthropic environment.

Mission distortion

There is a distinct risk that an increased reliance on funding from a small group of people,
foundations, and corporations could divert organizations away from their original missions.
Whether it means acquiring a particular piece of art for a museum, conserving a particular
piece of land, or funding a particular pet research project, it is easy to imagine nonprofits
tweaking or adjusting the work they do, either consciously or unconsciously, to meet the
wishes of a very large benefactor to secure essential funding.

On a large scale, this trend could shift the work of individual charities, or even that of the
nonprofit sector as a whole, away from popular priorities and toward a more elite agenda.
Most activities in the philanthropic and independent sector follow strong ethical guidelines.
But as “top-heavy philanthropy” grows, the lack of oversight and accountability in this area
may contribute to distortions of philanthropic intent.

Increasing shift toward tax-avoidance philanthropy

While the increased giving to private foundations in recent years can be seen as an
outpouring of generosity, it can also be seen, at least in part, as a protection of wealth
through the use of strategic tax-avoidance measures. Over the last two decades, wealthy
donors have been steadily expanding their use of many kinds of tax-avoidance vehicles,
such as offshore tax havens and trusts.
Strategic tax-deductible giving is also increasingly appearing in the form of donations of appreciated high-value property primarily available to the wealthy, such as land and artwork. This not only removes a sizeable liability from a donor’s tax burden, but gives them a deduction for it as well. And this can be an area of concern, since such appreciated property may have a significantly—and perhaps artificially—infated value, allowing donors to claim a large deduction for something that may have cost them much less, or for which the actual sale value may have been much lower.\textsuperscript{64}

Increased tax-avoidance philanthropy will also likely mean a shift away from nonprofit sectors focused on ameliorating both immediate and long-term needs for the many—such as social service and social change organizations—and toward the sectors favored by the wealthy few.

\textbf{Warehousing of wealth in the face of urgent needs}

When tax avoidance is a significant driver of philanthropic giving, the urgency of moving funds directly to charities on the ground becomes a secondary consideration. By giving to private foundations, donors receive immediate tax deductions for the full amount of their donations, but the recipients are not required to distribute any more than five percent of the principal each year to destination organizations. Similarly, with donations to donor-advised funds, there is no timetable for donating those assets to public charity once they have been given to the fund.

The result is that these charitable assets can be warehoused, sitting for years or decades after the charitable deduction has been taken, before any significant payout is made from them. CharityWatch estimates that the growth of donor-advised funds has delayed an estimated $15 billion in donations to public charities.\textsuperscript{65}

Large portions of the five percent minimum payout also can be eaten up by management costs, legal fees, and other foundation overhead expenses, reducing the overall payout and potential impact still further.
Self-dealing within foundations

While most foundations adhere to voluntary governance guidelines and are prudent stewards of resources, there are unfortunate abuses of the philanthropic system.

The trustees of private foundations are legally able to use foundation principal and income to reimburse themselves, family members, and other associates for their work managing the foundation’s assets and distributions. And these overhead expenses are included in the five percent of the principal amount that foundations are required to pay out each year to charitable causes.

In this way, private foundations can be used as strategic vehicles for the defense of wealth. They allow wealthy families to receive both tax advantages and a form of income from their donations while still retaining a significant amount of control over, and benefit from, donated assets—and spending only a small portion of them on direct donations to public charities. A lack of accountability in the philanthropic sector allows for both greater abuses of the charitable entities themselves and the use of their funds for tax avoidance.

Philanthropy as an extension of power and privilege protection

In a troubling number of cases, private foundations and high-profile charitable gifts have become tools for the defense of personal power and privilege. Through strategic use of charitable giving, wealthy families of all political persuasions have been able to deploy private assets to advance a narrow set of interests under the guise of philanthropy. For example:

- **Legacy admissions.** Donors can use large donations to universities to secure legacy admissions for their relatives. Daniel Golden, a Wall Street Journal reporter and author of *The Price of Admission: How America’s Ruling Class Buys Its Way into Elite Colleges—and Who Gets Left Outside the Gates*, chronicles the “wealth effect” on college admissions and how charitable donations open doors for affluent family members to gain admission.66

- **Affluent public school districts.** Foundations in affluent public school districts allow parents to make tax deductible contributions to support their children’s schools, compounding inequalities between school districts.67
• **Promoting personal policy agendas.** Wealthy donors can fund nonprofit think tanks that themselves further a wealth-protection agenda in the political arena. As journalist Jane Mayer has documented in her book, *Dark Money: The Hidden History of the Billionaires Behind the Rise of the Radical Right*, a segment of multi-millionaire donors have “weaponized philanthropy” to advance a narrow self-interested public policy agenda.68
Recommendations

Nonprofits can take some steps, detailed below, to protect themselves from the increasing influence of large-scale mega-donations. It is important to note, however, that while these internal changes may help charities to reduce the risks of volatility and mission distortion, they are not a substitute for national policy reform.

Congress has not substantively changed the rules governing philanthropy since the Tax Reform Act of 1969. The charitable sector has changed dramatically in the past half century, and the rules governing it need to catch up. Reforms in philanthropic governance should be aimed at discouraging the warehousing of wealth, increasing transparency and accountability, and providing incentives for contributions that directly further the public good. And we need a clear articulation of who has control over how philanthropic funds are managed and utilized: private donors or public charities.

Philanthropy is shaped by public rules and, through tax deductions for charitable gifts, effectively subsidized by taxpayers. According to U.S. Treasury estimates, the charitable deduction will cost the U.S. government $750 billion in lost revenue over the next ten years. And any annual expenditure of $75 billion—which is about three times more than the entire combined federal budget for the Environmental Protection Agency; Head Start; and the Women, Infant, and Child nutrition program—should expect to have oversight to ensure the public interest is being upheld.

In addition, the transition to top-heavy philanthropy is a reflection of larger economic changes and, as such, cannot be addressed entirely within the nonprofit sector or by changes in philanthropic governance. Philanthropic giving can never be a complete substitute for adequate taxation and public investment. Over the last three decades, government policies and practices have enhanced asset expansion and worsened wage stagnation for the bottom 80 percent of the population—which has had a significant impact on giving by small donors.

To fully address the risks of top-heavy philanthropy, policymakers will need to not only reform the rules of charitable giving, but also establish policies to reduce, over time, concentrations of wealth and power in our society at large. From a charitable giving perspective, the goal of these public policy changes should be to broaden wealth ownership and opportunity, provide incentives for broad-based charitable giving, maintain the level of public investment that charitable giving cannot (nor should not) replace, and increase the capacity of every person to contribute to charity.
With all of this in mind, we offer recommendations for changes in internal practices for charity self-protection; for reforms in nonprofit governance; and for reforms in national public policy.

**Changes in Internal Practices for Charities**

Don’t abandon small donor acquisition and retention programs. It may seem like a good idea in the short term to save money by cutting out new donor acquisition programs and scaling back on low-dollar and midlevel donor retention, but these are strategies with long-term negative consequences. Cutting these efforts will result in significantly less revenue over the long run from a large number of low-dollar but very loyal donors who give consistently year after year. Allowing donor counts to decrease will put fundraising at risk of increased volatility and unpredictability. And it will, in later years, result in smaller pools from which to cultivate major and planned giving donors.

Set up systems to manage large, episodic windfall gifts. With prudent investment and increased staff expertise, the benefits of these gifts can be spread wisely over several leaner years; they also may be used to endow the organization, to reduce risk in the future.

Educate the board and other stakeholders about the organization’s core mission. Emphasize the importance of adhering to programmatic activities that further the organization’s mission, along with ensuring governance and fundraising practices that further it as well. Educate the board and your major donors about the dangers of being sidetracked by pet projects.

Give courageous direction to your major donors. Decline gifts that would inappropriately shift the organization’s work—or propose creative alternate uses for those gifts that better fit the purpose of the organization.

**Changes in Incentives for Individual Giving**

Expand incentives for broader giving and nonitemizers. Several current policy proposals are aimed at providing incentives for low and middle income people to give more, including replacing the current deduction with a nonrefundable tax credit available to all taxpayers who make charitable contributions. In 2011, the Congressional Budget Office analyzed eleven different reforms and their potential impact in both giving and lost revenue.70
Capping the annual charitable deduction. Under our current system, donors in top tax brackets are able to deduct a higher percentage of their donation than donors in lower tax brackets. In essence, this means that we subsidize the charitable choices of wealthy people at higher levels than the charitable choices of low and middle income people. One proposal to reduce this inequity would be to cap the charitable deduction at a lower percentage than the top tax rate. In President Obama’s 2016 budget proposal, the administration suggested a 28 percent cap, which would only impact donors with incomes over $250,000. This was vigorously opposed by the Council on Foundations, but some in the independent sector suggested that the impact would be negligible. 71

Consider a $1 billion lifetime cap on charitable tax deductions. The changes to the tax system that we suggest below may provide additional incentives for the creation of foundations and charitable entities as a way to reduce or avoid tax obligations. It is therefore important that we begin a national discussion as to whether we should institute a lifetime cap on the amount of wealth that can be given to charity without being subject to any taxation. Without such a policy, the wealthy are increasingly likely to try to take advantage of the charitable sector as part of their tax avoidance strategies.

Reforms in Foundation Governance

Increase the minimum annual distribution payout percentage for foundations. Foundation assets have grown substantially over the last 30 years, paralleling the expansion at the top of the wealth ladder. Foundations have resisted policy proposals aimed at raising the minimum payout rate, saying that this would lead to an erosion of capital and the ability of foundations to exist in perpetuity. But a number of studies have shown that foundation assets would not decline even with a payout of 7 percent or 8 percent per year. 72

Grant foundations and donor-advised funds charters with limited lifespans. As Pablo Eisenberg observed, “there is nothing sacred about perpetuity.” There is a strong argument that foundations, charitable trusts, and donor-advised funds should not live forever, and that the charters for these entities should be changed to require a spend-down within a designated period. Donor-advised funds, for example, could require distribution within five years, while foundation charters could require complete payout in 20 years. Requiring a payout in a specific time frame would put enormous sums of foundation assets to work solving problems in the immediate term, rather than encouraging them to exist only for long-term self-preservation.
Link the excise tax on foundations to payout distribution. In a *New York Times* piece, Boston College Law School Professor Ray Madoff wrote, “The 5 percent rule was enacted to provide a floor for charitable giving, but most private foundations use it as a ceiling as well.” To avoid penalties, foundations only need to meet the five percent annual payout requirement and to pay a standard two percent federal excise tax on any income their investments earn in a given year. We propose restructuring the excise tax to encourage larger annual disbursements as follows: increasing it to three percent for foundations that pay out below six percent in grants in a given year; keeping it at two percent for foundations that pay out six to eight percent; and lowering it to one percent for those that pay out more than eight percent.

Exclude foundation overhead from the payout percentage. Any spending on foundation overhead expenses should not be deducted from the foundation payout minimum. This would reduce the incentive for lavish internal spending on salaries, accommodations, and other administrative costs.

Eliminate compensation for foundation board members and trustees. There is no research indicating that public performance of foundations improves with paid trustees. As Amy Markham and Susan Wolf Ditkoff observed, in fact, “compensation turns board members into ‘insiders,’ a status that weakens their ability to act on behalf of the public and, when necessary, to dissent.” Charities can always hire outside experts to advise them, but those hired experts should not be in a position to vote on organizational matters.

Require independent boards. If a charity is truly a public interest organization, it should not have a board composed entirely of family members and paid staff. Many states currently require 51 percent of corporation board members to be independent; this rule should be extended to the nation as a whole.

Establish a two-tier tax benefit structure for charitable gifts, with incentives that encourage direct donations to public charities focused on urgent social and community needs. Currently, all charitable gifts receive the same level of tax deductibility, regardless of their purpose and of how quickly they are put to work on the ground. Gifts going to public organizations actively alleviating poverty, for example, have the same tax status as gifts going into the coffers of foundations, where that revenue may sit unused for decades—and the same tax status as gifts going to think tanks that promote policy initiatives designed to reinforce the economic status quo.
Under a two-tier structure, donations to qualified public charities that address urgent community problems such as poverty, inequality, and environmental degradation should continue to receive the full deductibility under existing charitable tax laws. Donations to other types of nonprofits and to warehousing entities such as foundations and donor-advised funds should have reduced tax benefits.

**Changes in National Public Policy**

**Restore steeply progressive income tax rates.** In 1954, under President Dwight Eisenhower, the top tax rate paid by the wealthiest taxpayers was over 91 percent. Since 1960, Congress has steadily chipped away at the top tax rate for the highest income earners. By 2013, the top tax rate on the wealthiest group of taxpayers—those with annual incomes averaging more than $250,000—was down to 39.6 percent, less than half of its 1954 level. And the amount those taxpayers actually paid, their effective tax rate, was just 23 percent. Remarkably, the wealthiest 0.01 percent of earners at the very tippity-top had an effective tax rate of just 17.6 percent, in large part because of aggressive use of shelters and other tax-avoidance vehicles. Restoring the progressivity of the federal income tax would greatly reduce income inequality.77

**Tax wage and capital income at similar rates.** Over the last two decades, lawmakers have passed policies steeply reducing taxes on wealth, such as the capital gains tax, and leaving payroll taxes comparatively untouched. This has resulted in an enormous tax savings for the wealthy, who pay the lion’s share of capital gains, while forcing governments to cut services disproportionately needed by lower and middle income taxpayers. Bringing taxes on capital and wealth back to levels commensurate with taxes on earnings would not only reduce societal inequality but also provide much needed revenue.

**Reinstate robust estate and inheritance taxation.** An estimated $24 billion a year is given in charitable bequests, thanks, in large part, to the estate tax. Most studies, according to the Congressional Budget Office, have found that the estate tax not only increases charitable bequests but also increases charitable donations over a lifetime.78 Over the last decade, the federal estate tax has been weakened through sunsetting provisions and the increased use of loopholes, such as the Granter Retained Annuity Trust (GRAT). As a result, more wealth is passing to family members and less to charitable entities. Closing these loopholes and instituting a graduated rate structure would generate additional revenue and reduce the distorting impact of concentrated wealth. Reform proposals such as the Sensible Estate Tax
Act and the Responsible Estate Tax Act would generate between $161 billion and $200 billion in estimated additional revenue over the next ten years.⁷⁹

**Reinstitute estate taxes at the state level.** In 2001, Congress phased out the linkage between state and federal estate taxes, leading to the expiration of estate taxes in 30 states. Eighteen states and the District of Columbia proactively retained their estate taxes, however, preserving an enormous source of revenue for public programs. In the state of Washington, for example, estate tax revenue capitalizes the Education Legacy Trust Fund that funds K–12 and higher education in the state. If the states currently without estate taxes reinstituted them, they could combined generate $3 billion to $6 billion a year that could be invested in expanded opportunities for all residents.⁸⁰

**Implement a net worth tax on fortunes.** Lawmakers should explore the creation of an annual net worth tax on wealth over $50 million, or a similarly high threshold, at a low rate of one percent to two percent. Annual net worth taxes have existed in other OECD countries and are part of a constellation of policies that reduce concentrated wealth and generate revenue for opportunity investments.
Conclusion

If current trends are any indication, income and wealth disparities will continue to grow over the coming decades. As they do, the number and size of private foundations and mega-donations from very wealthy households will grow accordingly, and the relative amount of charitable giving coming from households in the bottom 90 percent of income will shrink further. Philanthropy will become more and more top-heavy, with increasingly large proportions of charitable revenue coming from an ever smaller number of wealthy donors.

Charities are already struggling to fill gaps left by cuts in government services and to address such dauntingly large social concerns as poverty, inequality, injustice, and environmental destruction—so more revenue will naturally be welcomed.

But if we do not demand more transparency, accountability, and public-interest action from donors, the philanthropic sector will become even more of an extension of the influence, power, and privilege of the few.

These trends are alarming for the health of a self-governing republic that aspires to widely held prosperity and opportunity. Although it is beyond the scope of this report, we believe the long-term trajectory of these trends will result in a shift from adequate taxation of high income and wealth to the expansion of mega-philanthropy as a method to protect private assets and interests. Government budget cuts and austerity measures will grow along with multibillion-dollar foundations. Such warehousing of private fortunes will threaten fundamental values of equality of opportunity and basic standards of environmental protection, human dignity, and human rights.

Without intervention, we will drift further toward an oligarchy of wealth and power, with some charitable entities becoming an extension of this power. We have an opportunity now to address the more negative aspects of top-heavy philanthropy while rewarding the natural positive impulse of individuals and families to share the wealth.
End Notes


3 Internal Revenue Service, *Table 2.1*.


5 Flannery, et al., *2015 Fourth Calendar Quarter Results*, p. 25.


7 Ibid.


Also see:


Internal Revenue Service, *Table 2.1.*


See also:


*In theory, the standard deduction utilized by non-itemizers factors in a certain amount of charitable giving.

Internal Revenue Service, *Table 2.1.*

*Some recent articles have suggested that giving by middle class families may actually be on the rise. In particular, a recent *Chronicle of Philanthropy* study of IRS tax data stated that the proportion of households with income under $100,000 that gave to charity rose by 4.5% from 2006 to 2012, while the proportion of households earning $100,000 or more giving to charity dropped during that time. The exact source of this data was unclear; when we looked at IRS data from the table above, however, we found that the proportion of households earning less than $100,000 giving to charity increased from 3.6 percent in 2006 to 3.7 percent in 2012. We believe this one percentage point increase is not statistically significant, and also belies the fact that overall revenue from this group actually declined over the six years analyzed. For these reasons, we feel that more study in this area would be helpful. To see the *Chronicle* article, see: Alex Daniels, “As Wealthy Give Smaller Share of Income to Charity, Middle Class Digs Deeper,” *Chronicle of Philanthropy,* October 05, 2014. Accessed November 1, 2016. https://www.philanthropy.com/article/As-Wealthy-Give-Smaller-Share/152481.

Internal Revenue Service, *Table 2.1.*


Ibid.

30 Ibid.


40 Ibid.


45 Swanson, “Wall Street is sitting on billions meant for American charities.”


Arnsberger, “Donor-Advised Funds: An Overview Using IRS Data.”


Ibid.

Internal Revenue Service, *Table 2.1*.

Internal Revenue Service, *Table 1.2*.

Internal Revenue Service, *Table 2.1*.

Flannery, et al., *2015 Fourth Calendar Quarter Results*, p. 21.

Flannery, et al., *2015 Fourth Calendar Quarter Results*, p. 23.

Flannery, et al., *2015 Fourth Calendar Quarter Results*, p. 25.

Flannery, et al., *2015 Fourth Calendar Quarter Results*, p. 23.


Ibid.

For examples of these abuses, see Chuck Collins, *Born on Third Base: A One Percenter Makes the Case for Tackling Inequality, Bringing Wealth Home, and Committing to the Common Good* (White River Junction, VT: Chelsea Green, 2016), Chapters 10 and 11.

Swanson, “Wall Street is sitting on billions meant for American charities.”


See also:
