

CHANGING OUR APPROACH TO CHANGING THE WORLD:

Encouraging and Enhancing American Engagement in
International Philanthropy Through Tax Law Reform

Joseph E. Miller, Jr.



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S.D.G.

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*We do not necessarily need to feel guilty about our wealth.
But we do need to get up every morning with a deep sense that
something is terribly wrong with the world and yearn and strive
to do something about it. There is simply not enough yearning and striving going on.¹*

Introduction: Crossing Borders to Bridge the Gap

Much has been written about the uniquely robust level of philanthropy in the United States, both historically and in a contemporary context. Individuals and organizations in the United States indeed have established long and deep patterns of benevolent giving throughout American² history. Such giving has been measured and analyzed innumerable times and convincingly supports the conclusion that Americans generously support charitable, educational, religious, and other worthy causes.³ In 2010, for example, Americans gave nearly \$300 billion to charitable causes in the midst of the worst recession in three-quarters of a century.⁴

American Philanthropy and its Legal Framework

As Americans' patterns of giving have matured, a vast system of laws at the federal and state levels also has developed to regulate, encourage, and even protect⁵ the many actors who populate the universe of philanthropy: individual and organizational donors; charitable organizations; directors, officers, and trustees who govern charities; and numerous others. As described herein, those laws provide effective and comprehensive *regulation* of philanthropic giving in the United States, generally ensuring that

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- 1 Steve Corbett and Brian Fikkert, *When Helping Hurts: Alleviating Poverty Without Hurting the Poor . . . and Yourself* (Moody Publishers, 2009), at p. 29.
 - 2 Individuals of various nationalities throughout North, Central, and South America can lay equal claim to the term "American." In this book, however, the term occasionally is used merely as a convenience for the purpose of denoting United States nationality in a succinct manner.
 - 3 The term "charitable" periodically is used in this book to include religious, educational, and other purposes described in 26 U.S.C. sec. 501(c)(3).
 - 4 See Bruce R. Hopkins, *The Law of Tax-Exempt Organizations* (10th ed., John Wiley & Sons 2011), 2012 Supplement at p. 5 (citing *Giving USA* (Center on Philanthropy, Indiana University, 2011)).
 - 5 For example, through civil immunity statutes designed to limit the liability of individuals who serve as volunteer officers and directors of charitable organizations.

charitable gifts are used for their intended purposes, preventing the diversion of donated funds for private gain, and promoting the accountability of charitable recipients to donors and the general public.

At the same time, federal and state laws offer affirmative *encouragement* of philanthropic giving and charitable activity by offering donors the opportunity to deduct charitable gifts for purposes of the federal and state income, estate, inheritance, and gift taxes, and by providing exemptions from federal and state income tax and certain state sales taxes and local property taxes to qualifying charitable organizations. Nevertheless, such legal encouragements of philanthropy have their limits, and many of those limits may be found at the borders of the United States.

Stopping at the Water's Edge? The Need for More and Better International Philanthropy

American philanthropy does in fact stretch beyond the borders of the United States to support many charitable activities conducted in other countries. But such giving often is accomplished through gifts made to a United States charity that conducts or supports charitable activity in a foreign country if the charity determines that such programming or support furthers the United States charity's own purposes. Less frequently, American private foundations make grants directly to foreign charities, and they do so only after completing onerous processes of due diligence to avoid prohibitive penalty taxes. Rare indeed is the charitable gift by an American individual or corporation directly to a foreign charity – not surprising, in light of the fact that under current federal income tax law, such a gift usually is not eligible for deduction from the donor's gross income.

The robust level of philanthropic activity *within* the United States is both encouraged and well regulated by a mature system of federal and state laws. In this book, however, I contend that several well-placed legal reforms could encourage American individuals, corporations, and private foundations to complement their domestic philanthropic efforts with more frequent and more effective *international* philanthropic engagement.

In this context, I use the term "effective" to describe a learning-driven model of international philanthropy: an approach that places a high value on direction and control by the foreign recipient while emphasizing a posture of learning and support on the part of the United States donor. This philanthropic approach admittedly reflects a normative preference for the primacy of the foreign recipient's judgments, preferences, and objectives. Nevertheless, it comports with some of the most significant traditional motives and objectives of philanthropy. Moreover, such a learning-driven model of international philanthropy furthers key national interests of the United States.

This viewpoint on effective international philanthropy also stems from my own experiences providing legal counsel to grant makers and charitable organizations for more than fifteen years. My perspectives on this issue have been further refined by my involvement as a volunteer in transnational partnership-style charitable ventures between American and foreign charitable organizations in international settings including South Africa and a Canadian First Nations reserve. As a lawyer and a volunteer worker, I have observed firsthand the enhanced outcomes – for the recipients of charity in other countries, as well as for American donors and volunteers who benefit from these relationships – when American philanthropy and charitable engagement is conducted with an emphasis on learning from indigenous foreign leadership. The learning-driven approach offers an alternative to traditional efforts that often reflect ill-informed presumptions regarding the superiority of American judgments on the appropriate use of grants and the methodologies that will best implement grant-supported programs.

While I propose basic policy arguments in favor of the learning-driven approach to international philanthropy, a full scientific evaluation of the relative effectiveness of the approach lies outside the scope of this book, which instead features more modest objectives. First, I seek to confirm through analysis that while the current system of American laws governing philanthropic activity is appropriately well developed for the purpose of encouraging and regulating domestic philanthropy, the system is less well suited to promoting effective international philanthropy by Americans. Second, I wish to summarize the most significant policy issues affecting American philanthropy (both domestic and international) while developing arguments favoring the encouragement of learning-driven international involvement by American philanthropists. Finally, I aim to investigate and advocate tax law reforms that would encourage Americans to make learning-driven gifts directly to international charities.

Many Americans discern a vast chasm between the way things are and the way things could be throughout the world, particularly in underdeveloped countries that face systemic poverty, disease, hunger, lack of educational opportunities, and myriad other structural challenges. Through several discrete and carefully circumscribed changes to federal tax laws, more Americans – including individuals, corporations, and private foundations – could be encouraged to play a part in bridging that chasm through philanthropic giving to foreign charities. The law cannot and should not mandate global philanthropic activity by Americans, but it can encourage more frequent and more effective “yearning and striving.”

Overview of Analytical Structure

To provide context for the legal reforms suggested above, I first offer a survey of the existing framework of United States laws that affects philanthropic activity on both the domestic and international fronts. Chapter One thus begins by summarizing the scope of philanthropic activity in the United States and the breadth of the sector in which

charitable grants are made. The opening chapter then offers a review of the various forms of legal entities utilized by philanthropists, as well as the state-specific procedures addressing the formation of organizations with charitable objectives. This background should provide a useful framework for exploring the connections between state-level legal forms and the classifications used in federal tax law to distinguish among various tax-exempt organizations.

Chapter Two explores the positive and negative impacts of various federal and state laws on general philanthropic activity. Following an initial overview of the policy rationales justifying federal income tax exemption, this chapter addresses the most significant legal regimes affecting philanthropy, including federal laws providing and regulating income tax exemption for charitable organizations; laws of general applicability governing the operation of charities, including federal-level reporting requirements, public disclosure rules applicable to charities, state-level regulation of charitable solicitations, and exemptions from state and local taxes; the important distinctions between private foundations and public charities, including the excise taxes and other unique rules imposed on private foundations; and the rules governing the tax deductibility of charitable gifts made by individuals and corporations, including an overview of the current legislative state of affairs as it relates to proposed deductibility limits to reduce the federal government's burgeoning debt.

Chapter Three turns to an examination of legal frameworks specifically impacting international philanthropy. In this chapter, I first analyze the general prohibition on the deductibility of gifts to foreign charities from individual and corporate income. The analysis then focuses on the detailed rules governing private foundation grants to foreign organizations, accompanied by a brief discussion of recent developments in the laws governing program-related investments by private foundations in the international context. Finally, Chapter Three compares the foregoing legal regimes to the equally detailed rules applicable to gifts made by individuals, corporations, and private foundations to intermediary United States charities that use such gifts to conduct or support foreign charitable activities.

Chapter Four shifts the discussion from analysis of legal frameworks to an investigation of the non-legal policy and practical issues that inevitably affect, and to some extent circumscribe, any discussion of charitable giving. In this chapter, I initially address general policy issues affecting all philanthropy, whether domestic or international, including an overview of relevant economic, sociological, and philosophical commentaries on philanthropic motivations. This general policy analysis also includes a discussion of the effects on private philanthropy of political and ideological views regarding the appropriate roles and limits of governmental responsibility for social services, the reality of persistent federal budget deficits, and the erosion of the tax base. Moving to a more specifically international context, Chapter Four next contextualizes the United States' role as a traditionally generous nation by studying the

extent of international giving by Americans, acknowledging debates on the roles of government-sponsored foreign aid, and exploring the varied perceptions of American charities in other countries.

Chapter Five commences with a description of the learning-driven approach to international charitable giving, which accounts for the policy factors described above while promoting a mode of global philanthropic engagement that emphasizes a presumptive preference for local foreign leaders, rather than American grant makers, as the appropriate framers and solvers of problems. The balance of Chapter Five reviews literature across diverse disciplines as a backdrop for arguments favoring the utility of the learning-driven model, including (among others) its use as an effective problem-solving approach to persistent problems of poverty in under-developed countries, an incentive to innovation and risk-taking on the part of individual and institutional philanthropists, an encouragement of closer identification with grantees on the part of grant makers, and a means of protecting and projecting the national interests of the United States.

In Chapter Six, the discussion returns to legal analysis with a discussion of specific proposals for tax law reform that would promote the policies undergirding the learning-driven approach to international philanthropy. Chapter Six includes a critique of the recent proposal to create a repository for equivalency determinations that could ease the burdens associated with private foundations' grants to foreign charities.⁶ The chapter and the book conclude with a proposal to offer limited federal income tax deductibility for charitable gifts made directly to certain foreign charities by American individuals and corporations. The discussion of this proposal includes a technical description of the requisite changes to federal law, a consideration of relevant practical difficulties and policy objections, and an examination of the methodological and technological tools (including the use of electronic equivalency determination repositories) that could be developed to implement such legal changes in an effective and responsible manner.

6 See, e.g., Diane Freda, *Private Foundations Ask IRS to Allow Repository for Foreign Grant Information*, BLOOMBERG BNA DAILY TAX REPORT, May 2, 2012.

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