

Real World Graduation: Question 70: Charitable Foundations

Edward D. Duvall
16 Feb 2019

Question 70

A famous person decides to set up a tax-exempt Foundation. He names the Foundation after himself (like the Ford, Carnegie, and Rockefeller Foundations), files all the necessary paperwork, and begins to solicit tax-deductible contributions from the public. Although the Foundation has zero assets at the beginning, the Foundation receives a great deal of money from the public owing to the founder's personal popularity. After withholding a small percentage for administrative costs, he bundles all the contributions received from the public into large amounts and gives the money away to various causes, such as AIDS research, literacy, etc. All of the donations are made in the name of the Foundation. What is the main benefit of this arrangement?

- a) People get to take a tax deduction for their contributions.
- b) The money contributed, except for administrative costs, goes to good causes that help the less fortunate.
- c) Enough money can be concentrated in each of the charitable areas to make a real difference.
- d) People feel better about themselves by helping others.
- e) All of the above.

Answer to Question 70

This is a trick question. The main benefit accrues to the person who established the Foundation, because he gets to put his name on the charitable contributions, despite the fact that the money really came from contributions he received. Note that the Foundation had zero assets before he started receiving contributions; that is, he did not put any of his own money into it. The big difference between this scam and the Ford Foundation is that the Ford Foundation was funded by money actually contributed by Henry Ford.

All of the given answers are true to some extent, but they are equally true for all charitable giving. They are false in the context of this question because none of them explain why this person established the Foundation. He established the Foundation to magnify his name and reputation at the expense of all the chumps who donate to it. He is using their money as if he were the generous one, despite the fact that not a dime of what goes out in his name actually came out of his pocket.

If you donate to such a Foundation established by a famous person, be sure to inquire as to how much of their money goes into it.