



national committee for
responsive philanthropy

2001 S Street NW, Suite 620
Washington DC 20009

Standards for Foundation and Corporate Grantmaking

The National Committee for Responsive Philanthropy (NCRP) has long advocated for significantly improving philanthropic accountability and responsiveness and the means for providing necessary oversight and enforcement. It is insufficient to call for stronger oversight and enforcement of the standards of philanthropic accountability if the standards are inadequate or completely missing. This statement outlines the elements of philanthropic accountability that should be the basis for both public policy and foundation self-regulation to create a truly responsive and accountable philanthropic sector.

Maximizing Foundation Accountability and Transparency

- Use the foundation excise tax: Reduce and consolidate the private foundation investment excise tax to 1% of investment income and devote the bulk of the tax payment to IRS and state government oversight of nonprofits and foundations—as the foundation excise tax was originally intended to be used when first enacted. The remainder can and should be used to supplement government oversight through grants for nonprofit activities such as research and data collection on the nonprofit sector, nonprofit accountability standard setting, and special investigations.
- Improve IRS forms 990PF and 990: The 990 needs to be radically overhauled to reveal important information about foundations (and public charities) for necessary review and oversight, foundations and nonprofits should be able to e-file, and there should be significant penalties for foundations that do not file their 990PFs on a timely basis. All publicly disclosed data should be available in a free, publicly accessible and searchable format.
- Increase disclosure of corporate philanthropy: The bulk of corporate giving to nonprofits, whether above- or below-the-line, is not disclosed to the public due to the privacy of corporate tax returns and the unwillingness of the SEC to demand disclosure. The recent trajectory of corporate abuses including philanthropic misbehavior makes the need for enhanced disclosure clear.
- Disclose grantmaking by public charities: Private foundations are not the only charitable grantmakers. While some public charities such as community foundations routinely and completely disclose their grantmaking, the grantmaking disclosure performance of public charities overall is spotty. The public deserves to

know who receives how much of charitable grantmaking whether from public or private charities.

- Disclose the grantmaking from donor-advised funds: Donor-advised funds are increasing rapidly, but there is virtually no disclosure of their grantmaking, much less oversight of their philanthropic probity. At a minimum, a comprehensive regime of DAF disclosure should be established.
- Disclosure of all insider relationships with foundation vendors: Foundations only list a small number of their outside vendors providing accounting, investment, consulting, and other services, without any obligation to identify which are related to foundation trustees or officers. Disclosure of vendors should include all firms with business relationships with foundation insiders, piercing the “doing business as” shield some insider vendors currently hide behind. Stronger definitions of and restrictions against foundation trustee self-dealing should be implemented, especially a standard that eliminates the practice of investing foundation assets through foundation trustees’ firms or funds.
- Foundation CEO and staff salaries: NCRP continues to advocate that foundation salaries and other foundation administrative expenses should be removed from calculations of qualifying distributions (payout). Removing administrative costs from foundation payout—while maintaining or increasing the required foundation payout rate—will result in more grant dollars going to nonprofits and the incentive for funders to be more efficient when spending money on themselves as opposed to their grantees. NCRP does not advocate that there should be specific limits or caps on the salaries of foundation executive directors or staff, but that foundation trustees should review executives’ salaries very carefully and include in their calculations pensions, stock options, and other perks. In addition, foundations should disclose the total compensation paid to senior staff members.
- Limiting foundation trustees’ compensation: In nearly all cases, foundation trustees should not be compensated for their board service. If trustee compensation is deemed necessary, NCRP calls for limiting compensation or fees for foundation trustees (not including reimbursement for reasonable travel and incidental expenses) to no more than \$8,000 per year from all sources, not only fees, but also compensation through contracts for services such as legal, accounting, and investment functions. Like salaries and other administrative costs, foundation trustee fees should be removed from foundations’ qualifying distributions.
- Foundation diversity: Despite progress, the diversity of the philanthropic sector still needs improvement. Racial, ethnic, gender, and class diversity should be addressed and increased, particularly among private foundation board members who are still overwhelmingly white, male, and upper class. Information on the diversity of foundation board members, senior staff members, professional staff, and other staff should be publicly disclosed.

Maximizing Foundation Support for Nonprofits

- **Emphasize core operating support grantmaking:** NCRP maintains that at least half of foundation grant dollars should be in the form of core operating support or flexible grants as opposed to restrictive, program- or project-specific grants. NCRP's research indicates that giving nonprofits flexible, unrestricted grant support leads to stronger organizations, better support for the communities they serve, and improved relationships between grantors and grantees. Unlike foundations, nonprofits cannot simply give themselves grants to cover their core administrative costs. Additionally, in program or project support, the full cost of nonprofits' reasonable related administrative or "indirect" expenditures should be included in the foundations' grants.
- **Increase foundation grants payout:** NCRP reaffirms its longstanding position that private foundation spending or payout should be a minimum of 6% per year, with all administrative and operating expenses excluded from the payout or qualifying distributions calculation.
- **Donor-advised fund payout:** There is currently no payout minimum for donor-advised funds. There should be a minimum grants payout from donor-advised funds, established at a 6% level comparable to the payout rate that should be required of foundations.
- **Philanthropic social equity:** Foundations need to better address the needs of disadvantaged and disenfranchised populations—and the nonprofits that serve them. Toward that end, there should be more foundation grantmaking devoted to social justice organizing and advocacy, significantly higher proportions of grantmaking devoted to racial/ethnic minorities, low-income populations, immigrant populations, the disabled, gay/lesbian/bisexual/transgender communities, and a willingness to make grants to smaller organizations as opposed to the current propensity of many foundations to make only a few large grants to a small number of large nonprofit recipients.
- **Maintain and support small foundations:** While some very small foundations may very well be economically impractical, NCRP does not believe that small foundations are any less accountable or probative than large foundations, and in many cases, because of their smallness and localism, they are more responsive to disadvantaged constituencies than others. Therefore, NCRP calls for maintaining and working with small foundations—and resisting calls for establishing and raising arbitrary minimum capitalization levels for foundations.

Maximizing Foundation Support for Justice and Democracy

- **Encourage democratic participation:** Foundations should be encouraged to support nonprofit public policy advocacy, community organizing, nonpartisan voter registration drives, and civic engagement.
- **Foundation investment activism:** Foundations invest hundreds of billions in corporate shares, giving them the opportunity of voting their proxies on critical matters of corporate government, corporate accountability, and other corporate policies. The failure of foundations to take these affirmative steps with proxy actions results in missed opportunities for social change. NCRP encourages foundations to use their powers as shareholders to promote social change.
- **Promote mission-based investing:** It makes social and economic sense for foundations to devote part of their investments to mission-based investment options such as community loan funds, equity funds, and other charitable instruments. Mission-based investing should be a standard component of a foundation accountability regime.
- **Prevent portfolio concentrations:** Foundations should not invest more than a very small proportion of their investments in any one particular corporation, as the law currently calls for, they should desist in asking for exceptions to that standard, and those foundations that have received approval to circumvent this standard should return to the philanthropic norm of preventing such investment concentrations.