

## **Tax Working Group Public Submissions Information Release**

### **Release Document**

**February 2019**

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

WITH COMPLIMENTS

Sir Michael,

Enclosed is a recent edition of "The New Yorker" that contains an interesting and thought-provoking article about philanthropy in the USA. Could what is described be happening here or might it happen? The use of money for - power - is not untypical (wealth transfer is a worry).

Already, there is community concern in NZ about business, using charitable entity status effectively for their (followers/members/owners) benefit and to

DAVID CHARLES STONE LL.B, TEP and Notary Public

DAVID STONE  
LEGAL CONSULTANT  
& NOTARY PUBLIC

printed first in the *Brooklyn Daily Eagle*, then in Britain's *Pall Mall Gazette*, and later reissued in a pamphlet, became known as "The Gospel of Wealth."

The "Gospel" opened with a discussion of inequity. This was the Gilded Age, and, even as most Americans were struggling to get by, the one-per-centers were putting up "cottages" in Newport. The disparity was, in Carnegie's view, unavoidable. It was the price

of concern: what to do with it. Passing on riches to one's children was a mistake, he argued, for inheritances "often work more for the injury than for the good of the recipients." Handing out money to the poor was similarly ill-advised, since "neither the individual nor the race is improved by almsgiving." Rather, the best way to dispose of a fortune was to endow institutions that would aid "those

*Skeptics fear philanthropies have gained undue influence on public policy.*

whole. lessons for NZ?

ATIONS

ing new ones?



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either master nor servant was dated then as today."

who desire to rise." Universities were a good cause; so, too, were public libraries, music halls, and swimming baths. The "man of wealth," Carnegie advised, should consider himself "the mere trustee and agent for his poorer brethren, bringing to their service his superior wisdom, experience, and ability to administer."

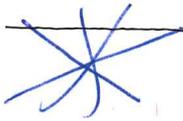
"The Gospel of Wealth" has been called the "ur-text of modern philanthropy." It advocated a new kind of giving, a form of charity that wasn't charity but something more pragmatic and, at the same time, more ambitious—a giving aimed, in Carnegie's words, at improving "the general condition of the people." Acting on his own advice, Carnegie went on to endow Carnegie Hall, the Carnegie Foundation, the Carnegie Endowment for International Peace, the Carnegie Institute of Technology (now part of Carnegie Mellon University), and more than twenty-five hundred local libraries. His contemporaries financed the Rockefeller Foundation, the Russell Sage Foundation, the Field Museum, and the University of Chicago.

The "Gospel" also prompted the ur-critiques of philanthropy. In 1890, the Reverend Hugh Price Hughes, a Methodist minister, wrote that, while he was sure Carnegie was "a most estimable and generous man," his "Gospel" represented a "social monstrosity" and a "grave political peril." William Jewett Tucker, a professor of religion who would later become the president of Dartmouth, was no less horrified. What the "Gospel" advocated, Tucker wrote, was "a vast system of patronage," and nothing could "in the final issue create a more hopeless social condition." To assume that "wealth is the inevitable possession of the few" was to evade the essential issue: "The ethical question of today centres, I am sure, in the distribution rather than in the redistribution of wealth."

Carnegie made his money from railroads and steel. Three years after he wrote "The Gospel of Wealth," he decided to break the union—the Amalgamated Association of Iron and Steel Workers—at one of his company's largest plants, the Homestead steelworks, outside Pittsburgh. Employees were presented with a new contract with pay cuts up to thirty-five per cent. When they rejected it, they were locked out. Carnegie Steel brought in Pinkerton

The detriment of the public by a reduced 'tax take'.  
Time to review the four areas of 'charity' and  
'charitable purpose'. Some think "adverse comment"  
religion - "it abused in NZ. In the DIA via Charities  
Services is getting tough but really, in the 21st century,  
should religion bodies get tax exemption, that school  
teachers don't, and should donors to religious bodies  
get tax relief, when environmental advocacy and activist  
groups struggle to get charitable entity status thus  
reducing their chances to receive donations.  
Hoping you will be bold and innovative and create  
a fairer tax regime. The more who should be paying  
a fair share are not.  
As An all round interesting educationist.  
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8/11/18



*V. interesting article. lessons for NZ?*

AMERICAN CHRONICLES

# SHAKING THE FOUNDATIONS

*Are the new donor classes solving our problems or posing new ones?*

BY ELIZABETH KOLBERT



In the spring of 1889, Andrew Carnegie published an essay on money. If possession confers knowledge, then there was no greater expert on the subject: Carnegie was possibly the richest American who ever lived. The essay, which was printed first in the *North American Review*, then in Britain's *Pall Mall Gazette*, and later reissued in a pamphlet, became known as "The Gospel of Wealth."

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of progress, and progress, ultimately, benefitted everyone. "The 'good old times' were not good old times," he observed. "Neither master nor servant was as well situated then as today."

Having dealt with accumulation of wealth, Carnegie then turned to his real concern: what to do with it. Passing on riches to one's children was a mistake, he argued, for inheritances "often work more for the injury than for the good of the recipients." Handing out money to the poor was similarly ill-advised, since "neither the individual nor the race is improved by almsgiving." Rather, the best way to dispose of a fortune was to endow institutions that would aid "those

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"Bile exits the gallbladder, passes through the cystic duct, gets released into the intestines, and, ultimately, winds up on the Internet."

agents to guard the plant, and in the resulting melee at least sixteen people were killed. In the end, the union collapsed.

To critics, the Homestead strike made explicit the inconsistency of Carnegie's position. How could a person ruthlessly exploit his employees and, at the same time, claim to be a benefactor of the toiling masses? The *Saturday Globe*, a Utica-based weekly, published a cartoon showing two Carnegies, conjoined at the hip. One, smiling, handed out a library and a check; the other held out a notice telling workers that their pay had been slashed. "As the tight-fisted employer he reduces wages that he may play philanthropist," the caption read.

We live, it is often said, in a new Gilded Age—an era of extravagant wealth and almost as extravagant displays of generosity. In the past fifteen years, some thirty thousand private foundations have been created, and the number of donor-advised funds has roughly doubled. The Giving Pledge—signed by Bill Gates, Warren Buffett, Michael Bloomberg, Larry Ellison, and more than a hundred and seventy other gazillionaires who have promised to dedicate most of their wealth to philanthropy—is the

"Gospel" stripped down and updated. And as the new philanthropies have proliferated so, too, have the critiques.

Anand Giridharadas is a journalist who, in 2011, was named a Henry Crown Fellow of the Aspen Institute. The institute is financed by, among other groups, the Carnegie Corporation, the Rockefeller Brothers Fund, and the Gates Foundation. The fellowship, according to its Web site, aims to "develop the next generation of community-spirited leaders" by engaging them "in a thought-provoking journey of personal exploration."

Giridharadas at first found the fellowship to be a pretty sweet deal; it offered free trips to the Rockies and led to invitations from the sorts of people who own Western-themed mansions and fly private jets. After a while, though, he started to feel that something was rotten in the state of Colorado. In 2015, when he was asked to deliver a speech to his fellow-fellows, he used it to condemn what he called "the Aspen Consensus."

"The Aspen Consensus, in a nutshell, is this," he said. "The winners of our age must be challenged to do more good. But never, ever tell them to do less harm." The speech made the *Times*; people began

asking for copies of it; and Giridharadas decided to expand on it. The result is "Winners Take All: The Elite Charade of Changing the World." "I hadn't planned to write a book on this topic, but the topic chose me," he writes.

"Winners Take All" is organized as a series of portraits: of a young, idealistic Georgetown graduate who goes to work for McKinsey; of a former McKinsey consultant who goes to work for George Soros; of various wealthy and generally liberal-leaning social entrepreneurs. What these figures all share, by Giridharadas's account, is a desire to do good without questioning too deeply how it is they came to do so well. At one point, he sits down with Laurie Tisch, an heir to a family fortune estimated at twenty-one billion dollars and the benefactor of a philanthropy—the Laurie M. Tisch Illumination Fund—whose stated mission is "to improve access and opportunity for all New Yorkers." Tisch describes herself as racked by guilt. "It's my compass," she tells Giridharadas. But when he asks her whether she thinks inheritances like hers ought to be taxed more heavily, thus leaving her with less to feel guilty about, she won't answer the question. "You'd have to be a better student of history than I am," she says.

Perhaps aptly, a good deal of "Winners Take All" is set in a limousine. One day, Giridharadas rides in a black Lincoln with Darren Walker, the president of the Ford Foundation. The two are headed to the offices of K.K.R. & Co., the investment firm made famous by "Barbarians at the Gate," where Walker is scheduled to give a lunchtime talk.

Like Giridharadas, Walker has expressed skepticism about changing the world one glitzy gala at a time. Not long after Giridharadas delivered his speech in Aspen, Walker published a short essay that he titled "Toward a New Gospel of Wealth." In his "New Gospel," Walker argued that it was time to take a fresh look at the "principles of philanthropy" set forth by Carnegie—"to openly acknowledge and confront the tension inherent in a system that perpetuates vast differences in privilege and then tasks the privileged with improving the system." The essay was posted on the Ford Foundation's Web site and, according to Gi-

ridharadas, immediately "began to ricochet around the philanthropic world, some people receiving the same email from three or four different people."

The "New Gospel" would, you'd think, make Walker a hero to Giridharadas, and, as the limousine inches north—midtown traffic is barely moving—it seems that it has. Walker, who is African-American, grew up poor in Texas, and he tells Giridharadas that he plans to use his position as the head of a major foundation to "deeply interrogate" the "systems and cultural practices" of privilege. But then, where the butter meets the roll, Walker, too, disappoints. At K.K.R., he makes no move to "interrogate" the culture of private equity and leveraged buyouts, and he celebrates one of the firm's founders—the legendary corporate raider Henry Kravis—as a "philanthropist." A few months after the limousine trip, Walker joins the board of PepsiCo, a step that, Giridharadas relates, brings his annual compensation to more than a million dollars a year.

Just about everyone who appears in "Winners Take All" comes out looking the worse for it. This includes former President Bill Clinton—who tells Giridharadas that he doesn't think giving speeches to financial-industry groups at two hundred thousand dollars a pop has in any way influenced his outlook—and Giridharadas himself. "There's almost no problem probed in this book, no myth, no cloud of self-serving justification that I haven't found a way of being part of," he acknowledges. "This is a critique of a system of which I am absolutely, undeniably a part."

Inside Philanthropy is a Web site devoted to high-end giving; its tagline is "Who's Funding What, and Why." David Callahan is the site's founder and editor. If Giridharadas worries that the super-wealthy just play at changing the world, Callahan worries they're going at it in earnest.

"An ever larger and richer upper class is amplifying its influence through large-scale giving in an era when it already has too much clout," he writes in "The Givers: Wealth, Power, and Philanthropy in a New Gilded Age." "Things are going to get worse, too."

Part of the problem, according to Callahan, lies in the broad way that

philanthropy has been defined. Under the federal tax code, an organization that feeds the hungry can count as a philanthropy, and so can a university where students study the problem of hunger, and so, too, can a think tank devoted to downplaying hunger as a problem. All these qualify as what are known, after the relevant tax-code provision, as 501(c)(3)s, meaning that the contributions they receive are tax deductible, and that the earnings on their endowments are largely tax-free. 501(c)(3)s are prohibited from engaging in partisan activity, but, as "The Givers" convincingly argues, activists on both sides of the ideological divide have developed work-arounds.

As a left-leaning example, Callahan cites Tim Gill, who's been called "the megadonor behind the L.G.B.T.Q.-rights movement." A software designer, Gill became rich founding and then selling a company called Quark, and he's donated more than three hundred million dollars toward promoting L.G.B.T.Q. rights. While some of this has been in

the form of straight-up political contributions, much of it has been disbursed by Gill's tax-exempt foundation, which has financed educational efforts, message testing, and—perhaps most important—legal research. "Without a doubt, we would not be where we are without Tim Gill and the Gill Foundation," Mary Bonauto, the attorney who argued the 2015 Supreme Court case that legalized gay marriage, told *Rolling Stone* last year.

On the right, Callahan points to Art Pope, the chairman of a privately held discount-store chain called Variety Wholesalers. Pope has used his wealth to support a network of foundations, based in North Carolina, that advocate for voter-identification—or, if you prefer, voter-suppression—laws. In 2013, pushed by Pope's network, the North Carolina state legislature enacted a measure requiring residents to present state-issued photo I.D.s at the polls. Then the North Carolina Institute for Constitutional Law—another Pope-funded group—led the effort to block challenges to the measure. (The

## BE UNCOOL

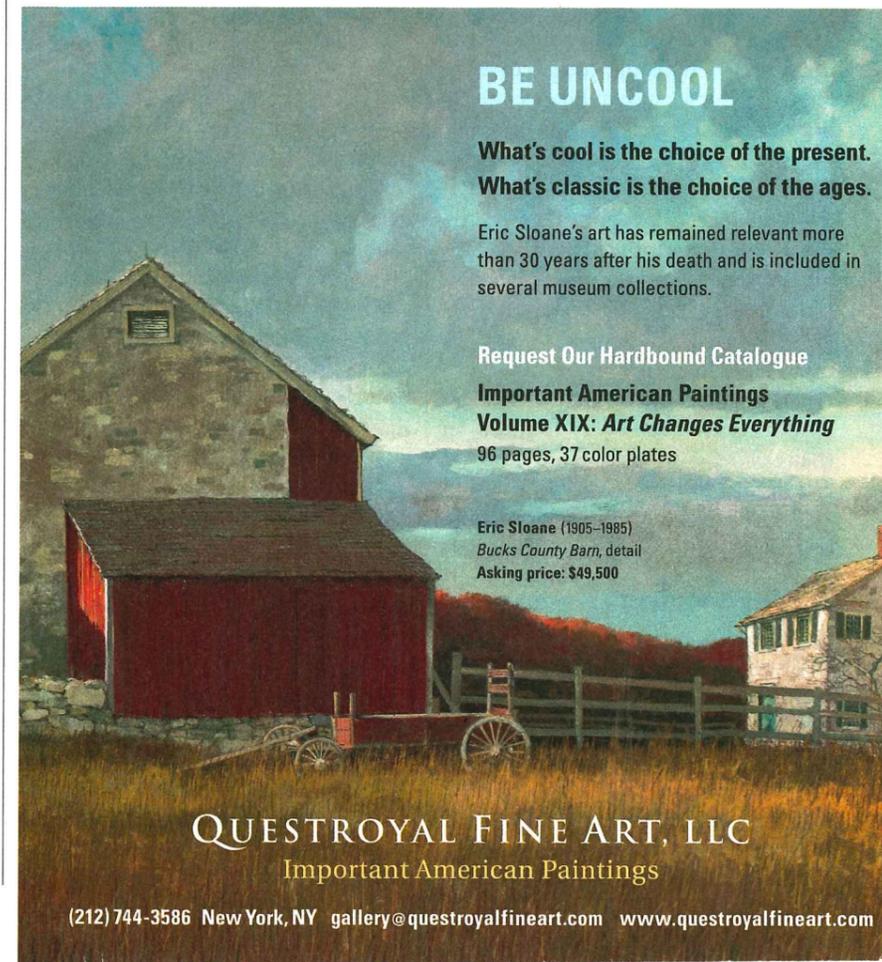
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I.D. law was struck down, in 2016, by a federal appeals court that held it had been “passed with racially discriminatory intent.”)

It is difficult to say what fraction of philanthropic giving goes toward shaping public policy. Callahan estimates that the figure is somewhere around ten billion dollars a year. Such an amount, he says, might not sound huge, but it’s more than the annual contributions made to candidates, parties, and super-PACs combined. The result is doubly undemocratic. For every billion dollars spent on advocacy tricked out as philanthropy, several hundred million dollars in uncaptured taxes are lost to the federal treasury.

“It’s not just that the megaphones operated by 501(c)(3) groups and financed by a sliver of rich donors have gotten louder and louder, making it harder for ordinary citizens to be heard,” Callahan notes. “It’s that these citizens are helping foot the bill.” That both liberals and conservatives are exploiting the tax code is small consolation.

“When it comes to who gets heard in the public square, ordinary citizens can’t begin to compete with an activist donor class,” Callahan writes. “How many very rich people need to care intensely about a cause to finance megaphones that drown out the voices of everyone else?” he asks. “Not many.”

Rob Reich is a professor of political science at Stanford and a co-director of the university’s Center on Philanthropy and Civil Society. He begins his forthcoming book, “Just Giving: Why Philanthropy Is Failing Democracy and How It Can Do Better,” by noting that for every foundation that existed in 1930 there are now five hundred. The growth in foundation assets in that time has been even more staggering, from less than a billion dollars to more than eight hundred billion dollars.

Meanwhile, the losses to the U.S. Treasury keep mounting. In 2016, the tax deduction for charitable contributions cost the federal government at least fifty billion dollars. Is there any justification for this arrangement? Reich considers several possibilities. One is that the government, by encouraging giving to private philanthro-

pies, is fostering participation in civic affairs. This rationale he discards, since, if anything, the correlation seems to be negative. “The rise of nonprofit organizations in the United States and the use of the charitable contributions deduction coincides with the decline of civic engagement and associational life,” he observes.

A second possibility is that giving promotes equality. Once again, Reich is skeptical. The deduction for charitable contributions is available only to taxpayers who itemize their returns, and these people tend to be relatively affluent. And the more affluent they are the more the deduction is worth: families in the highest tax bracket get a much bigger break than those in the lowest.

How about all the needy families that are being assisted? Here the figures are harder to come by, but, even so, they don’t look very good. A recent study suggests that, at most, a third of all tax-deductible giving goes toward aiding the poor. And the donors who are getting the biggest tax breaks are, it turns out, the least likely to be aiding the indigent: Reich cites research that suggests “the inclination to give to help meet basic needs declines as one rises up the income ladder.”

Instead of promoting equality, Reich worries, tax subsidies for philanthropy may actually be doing the reverse. He cites, in particular, local-education foundations, or LEFs. These are, essentially, souped-up PTAs, formed to supplement public-school budgets, and they’ve grown dramatically in recent years. Some LEFs raise only enough money to buy paint sets or musical instruments, but some, in more affluent districts, raise thousands of dollars a pupil. In the town of Hillsborough, California, just north of Stanford, Reich reports, parents of public-school students get a letter at the start of the year asking for a contribution of twenty-three hundred dollars for each child enrolled. While the contributing parents can’t dictate exactly how the money will be spent, Reich writes, it’s easy to imagine groups of parents pressing the district to hire specialized teachers or to purchase sophisticated equipment that “can be targeted to benefit their own children.” This arrangement, in his view, exacerbates existing inequities in school funding, and,

since contributions to LEFs are tax deductible, rich districts are, in effect, receiving a subsidy from other taxpayers.

“Just Giving” takes up only legal forms of self-dealing, not the illegal sorts that the Donald J. Trump Foundation has recently been accused of engaging in. But, as Reich observes—and as the Trump Foundation case demonstrates—regulation of charitable organizations is extremely lax. “The current practice of state-supported philanthropy, especially in the United States, is indefensible,” he concludes.

Critiques of “The Gospel of Wealth” didn’t have much impact on Andrew Carnegie. He continued to distribute his fortune, to libraries and museums and universities, until, at the time of his death, in 1919, he had given away some three hundred and fifty million dollars—the equivalent of tens of billions in today’s money. It is hard to imagine that the critiques of the new Carnegies will do much to alter current trend lines.

The Gates Foundation alone, Callahan estimates, will disburse more than a hundred and fifty billion dollars over the next several decades. In just the next twenty years, affluent baby boomers are expected to contribute almost seven trillion dollars to philanthropy. And, the more government spending gets squeezed, the more important nongovernmental spending will become. When congressional Republicans passed their so-called tax-reform bill, they preserved the deduction for charitable contributions even as they capped the deduction for state and local tax payments. Thus, a hundred-million-dollar gift to Harvard will still be fully deductible, while, in many parts of the country, the property taxes paid to support local public schools will not be. It is possible that in the not too distant future philanthropic giving will outstrip federal outlays on non-defense discretionary programs, like education and the arts. This would represent, Callahan notes, a “striking milestone.”

Is that the kind of future we want? As the latest round of critiques makes clear, we probably won’t have much of a say in the matter. The philanthropists will decide, and then it will be left to their foundations to fight it out. ♦

## SHOUTS & MURMURS



# TICK CHECK

BY COLIN NISSAN

According to the Centers for Disease Control and Prevention, cases of tick-borne diseases in the United States have doubled in recent years. Frequent and thorough tick checks, however, can significantly reduce your chances of enjoying summer. As a matter of fact, checking yourself for ticks after going outside may be the only way to see what your body looks like covered in ticks.

Ticks wait in the grass and the leaves with their legs outstretched, ready to attach to a passing host, burrow into the host’s skin, and feed on the host’s blood while transmitting disease through their saliva, often within a few hours of contact, so it’s crucial to recognize how fucking gross that is.

Kids are particularly vulnerable to ticks because of their exposure to the outdoors, so get in the habit of checking them every ten minutes. More if they’re yours. The elderly, too, are highly susceptible to the diseases transmitted by ticks, simply because they no longer have the strength to argue with Medicare.

If you finish a hike and see a “freckle” on your arm that you hadn’t noticed before, you might take a closer look at this “freckle” only to realize, luckily, that it is just a freckle. But that thing next to it is a *freaking tick!!!*

When checking for ticks, start at the bottom. First the feet and the ankles, then the legs. Keep going up until

you’re high enough to introduce yourself to the person you’re checking and explain what you’re doing.

Ticks infected with Lyme disease are typically carried by deer or small rodents. If you see any deer or rodents in your area, it’s important that you check them for ticks. God, it’s not easy, but it’s important. Even your dog can carry infected ticks into your yard or your home, which is difficult to believe, considering all the crap you’ve done for him.

Nymph ticks can be as small as a poppy seed. Just a little something to think about the next time you check your bagel for ticks.

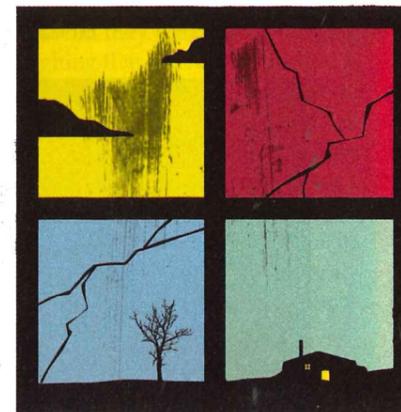
If you find a tick on your body that hasn’t yet embedded itself, resist the urge to rip it out as quickly as possible while shouting, “Get it off! Get it off!” Instead, take a breath, find a good pair of pointy tweezers and a bright lamp, and then carefully remove it while shouting, “Get it off! Get it off!”

While it’s impossible to completely protect yourself from ticks, spraying the area around you can at least create a momentarily safe space in which to sit, relax, and check yourself for ticks.

In addition to checking and spraying, it’s a good idea to monitor your health for sudden changes—if you feel feverish, or experience fatigue, headaches, or muscle aches, this could be a sign that your body is, in fact, experiencing the effects of too many tick checks. ♦

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