

Charitable Giving: Eyes on the Wrong Metrics?

Philanthropy will beat paying taxes every time.



[Randy A. Fox](#) | May 22, 2020

More causes need more money right now than ever before. But before donating, many people, especially millennials, worry about all the overhead expenses that charities rack up. The concern is that some nonprofit organizations spend their donation dollars inefficiently—or less efficiently than others—and, therefore, can't be trusted to steward our gifts. That's not the right conversation to be having. Instead, we should be talking about measuring the impact of those gifts. The right metrics should answer questions like these:

- How many dollars does it take to change a life, feed a child or cure a disease?
- Did Organization A spend less money to get the same results as Organization B did?
- What's a worthwhile cause anyway?
- Who needs symphonies and art museums when there are homeless people sleeping in the doorways of those same institutions?

We live in an age of Big Data. It's tempting to turn to sites like [Charity Navigator](#) to tell us whether a charity is worthy of our philanthropy. The site has extensive

benchmarks that assess the financial health, transparency and accountability of thousands of charities. While these ratings are helpful, they speak only to metrics and not to the heart, which is how many donors make their giving decisions.

Certainly, we want to be assured that the charity receiving our clients' funds is viable and that the funds are being deployed wisely. However, should this be our only standard of comparison?

Wrong Metrics?

Charities aren't the enemies of other charities. Nor should they necessarily be the bellwethers. Instead of using corporate-style balance sheets to assess charities, maybe we should use government balance sheets as the benchmark (see "**2018 Federal Income Tax Receipt,**" below). If you think about it, federal, state and local governments do work that's similar to what charities do. In fact, charities are intended to fund services that governments are unable to offer on their own.

Sites like Charity Navigator measure things like financial efficiency and financial capacity, citing various metrics before it assigns each charity a financial "score" and overall rating. The site analyzes transparency and accountability by reviewing the charity's IRS Form 990, the independence of the board, the potential diversion of its funds and a number of other factors. All of these items are compiled into a final score (one to 100) and star rating (up to four stars). If you and your client need more financial scrutiny before you make a gift, the data is available—something you're not likely to get from our government agencies.

Just remember that people who give to charity do so voluntarily. Hopefully, they give because something about a certain organization makes them feel better in some way. By contrast, *we pay taxes because we have to, not because we necessarily want to.* We don't focus much time on what our government dollars cost us, but very few charities

are as inefficient as our government organizations. Don't believe me? Below is a breakdown of how \$100,000 of a taxpayer's federal income tax would have been spent in 2018. This doesn't include what happened at the state, county or city level. This table can't tell you how much actually went to government "overhead," but it's telling, nonetheless.

2018 Federal Income Tax Receipt

April 15, 2019

Health \$29,621.65

** Includes \$12,868.07 for Medicaid*

** Includes \$11,370.72 for Medicare*

** Includes \$1,098.21 for National Institutes of Health*

** Includes \$571.46 for Children's Health Insurance Program*

Pentagon & Military \$23,982.98

** Includes \$12,036.21 for Military Contractors*

** Includes \$4,821.99 for Military Personnel*

** Includes \$1,592.74 for Lockheed Martin*

** Includes \$705.40 for Boeing*

** Includes \$691.72 for Nuclear Weapons & Related*

Interest on Debt \$15,777.26

Unemployment and Labor \$7,008.58

** Includes \$1,939.02 for Earned Income Tax Credit**

** Includes \$542.79 for Temporary Assistance for Needy Families*

** Includes \$113.25 for Low Income Home Energy Assistance Program*

Veterans \$5,884.52

** Includes \$2,800.44 for Income Support*

** Includes \$2,493.05 for Veterans Health Administration*

Food and Agriculture \$3,962.36

** Includes \$2,264.83 for SNAP (food stamps)*

** Includes \$754.84 for School Lunch & Other Food Programs*

Government \$3,715.45

** Includes \$703.89 for Immigration & Border Control*

** Includes \$537.53 for Internal Revenue Service*

** Includes \$226.34 for Federal Prisons*

Housing and Community \$3,424.73

** Includes \$859.80 for Disaster Relief*

** Includes \$227.30 for Flood Insurance*

** Includes \$207.59 for Homeless Assistance Grants*

** Includes \$67.92 for Public Housing*

Education \$2,238.80

** Includes \$1,518.45 for College Financial Aid*

** Includes \$704.48 for K-12 Education*

Energy and Environment \$1,302.79

** Includes \$260.23 for Environmental Protection Agency*

** Includes \$155.38 for Managing Wildfires*

** Includes \$56.91 for Renewable Energy & Energy Efficiency*

International Affairs \$1,272.57

** Includes \$850.87 for State Department*

** Includes \$354.74 for Foreign Aid*

Science \$1,042.22

** Includes \$631.84 for NASA*

** Includes \$234.74 for National Science Foundation*

Transportation \$766.09

** Includes \$330.53 for U.S. Coast Guard*

** Includes \$169.70 for Transportation Security Administration (TSA)*

TOTAL \$100,000

As a fun exercise, review the allocation of tax dollars above (that is, “mandatory giving”) and think about how efficiently that money is being spent. Perhaps, these goals align with your clients. More likely, it’s time to empower them to direct their giving with more determination and purpose to create the world they want to live in.

Real World Example

Here's an example of a different way of helping our clients gain more perspective and clarity about their philanthropy. Jim and Karen are considering giving some of their low-basis, appreciated securities to a local homeless shelter—to the tune of \$100,000. They’ve volunteered at the shelter for a number of years, and they truly want to see the facility continue to thrive in their community.

Jim and Karen have made a few small gifts to the shelter in the past, but they’ve always wanted to give more. Their gift of \$100,000 in stock could go a long way to helping the shelter continue its good work. But how do they know this is the right thing to do? As planned giving officers, we thoroughly review the financials of the shelter and see that its overhead is in the same range as comparable shelters. Then, we look at the breakdown of the numbers in the table above. If we paid the government \$100,000 in income taxes, only \$207.59 of that amount would be directed to homeless grants. While that shouldn’t be enough data alone for Jim and Karen to make a decision about their gift to the shelter, it should certainly be part of their thought process.

Emotions and Economics

Giving is a mixture of emotions and economics. Currently, there's a lot of emphasis on the economics and accountability of each charitable recipient. That's all part of responsible giving, but to be fair, we should offer an array of comparisons, not just to for-profit businesses and other nonprofits, but also to the alternative of letting the government reallocate our tax dollars to various causes as it sees fit.

Charitable giving will beat paying taxes every time.

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