

REGULATION AND BEHAVIOR OF GRANT-MAKING FOUNDATIONS IN THE USA

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Abstract

This paper investigates the behavior of two different kinds of grant-making organizations in the USA: independent and community foundations. The paper describes the different tax and legal provisions that regulates these institutions in order to determine the effects of - respectively - the “*minimum pay-out requirement*” and the “*public support test*” on the grant-making performance of the two classes of foundations. Analysis of tax return data - for the period 2000-2006 - shows that the endowment size is positively correlated to the amount of grants paid by foundations. Besides that, independent foundations - generally subject to the “*minimum payout requirement*” - tend to rely on income coming from the endowment in order to disburse grants, while community foundations - subject to the “*public support test*” - rely more heavily on annual donations. Therefore, distinct legal and tax provisions appear to create different incentives to the two categories of institutions.

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