

TECH

## Mark Zuckerberg is Giving Away His Money, but With a Twist

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Mark Zuckerberg's pledge to his new daughter is an impressive one: Namely, that he and his wife Priscilla Chan will give away 99% of their net worth in their lifetime, as described [in an open letter](#) to their new offspring. That works out to about \$45 billion, based on the current value of Facebook stock.

The Facebook co-founder is using a somewhat unusual structure in order to fulfill his charitable pledge, however—one that gives him more control over what happens to the money he is promising to give away, but still provides tax benefits.

As BuzzFeed and others [have pointed out](#), the charitable foundation Zuckerberg and Chan have set up is a limited-liability corporation, not a charitable trust. Some in the tech and media community have [criticized this](#) as making the announcement less obviously charitable, but others note that it will enable the Facebook co-founder to do things that charitable trusts are not allowed to do.

That flexibility could make the foundation more effective, although it could also benefit the Zuckerberg family more than a traditional trust.

Laurene Powell Jobs, the widow of Apple (APPL) co-founder Steve Jobs, also has an LLC foundation, called the [Emerson Collective](#), and the flexibility of that structure

was apparently one of the things that made it appealing. Corporations can make for-profit investments and political donations—and unlike charitable trusts, they don't have to report their political donations.

Zuckerberg has said that any money earned by the foundation will be put back into charitable efforts. Private foundations that are LLCs can generate tax savings for their owners, but only for funds that are given by the foundation to registered 501(c) non-profit entities.

"The beauty of having an LLC in today's world is No. 1, you have the ability to act and react as nimbly as need be to create change," Laura Arrillaga-Andreessen, a philanthropy expert who also runs a private foundation with husband and Silicon Valley VC Marc Andreessen, [told The New York Times](#). "You have the ability to invest politically, in the for-profit sector and the nonprofit sector simultaneously."

Some of Zuckerberg's previous charitable attempts have come under fire for being mismanaged or poorly structured: In 2010, he and Chan donated \$100 million to the Newark public-school system, to try and improve education success rates. Critics say much of the money was soaked up by consultants, and that the donation [didn't ultimately improve](#) the school system or the outcomes for students—and in some cases may have even exacerbated the problems.

Some tech industry insiders speculate that these kinds of problems could be part of the reason why Zuckerberg decided to make his foundation an LLC rather than a typical 501(c) trust. Instead of just giving money to existing charitable entities or non-profit services, which involves a loss of control, the structure could allow him to have a greater say in where and how the money is used.



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Part of the reason for the makeup of the foundation could also be a desire to maintain his grip on Facebook (FB, +1.15%) even as he gives away the shares that give him that control. Zuckerberg owns about 419 million Class B shares of the company, each of which has 10 votes. And not only does he have a majority of the voting shares, but he also controls the board of directors in part through the use of proxy votes.

The Securities and Exchange Commission [filing](#) that Facebook made as part of the announcement of the Zuckerberg charitable foundation makes it clear that he intends to control the company for a long time. The document says that the Facebook co-founder promises not to give more than \$1 billion per year to his foundation over the next three years, and says that he "intends to retain his majority voting position in [Facebook] stock for the foreseeable future."

Some of the differences between the Zuckerberg Chan Initiative and the charitable foundation set up by former Microsoft (MSFT, +0.59%) CEO Bill Gates and his wife Melinda (which is a 501c trust) stem from the fact that the Facebook co-founder is doing his charitable donating at a much younger age. The Gates set up his foundation near the end of his time as CEO, when he was 42. Facebook's CEO is only 31, and he shows no signs of wanting to step

aside to focus on charitable donations the way that Gates did.

Apart from the structure of the entity doing the giving, however, Gates and his charitable foundation are the closest comparison to what Zuckerberg is trying to do.

The Microsoft co-founder set up the Bill and Melinda Gates Foundation with his wife in 1997, and his friend and fellow billionaire Warren Buffett later joined as a partner [and committed to](#) donating 85% of his \$44 billion in stock to the couple's efforts.

In June, the Gates Foundation had a total of \$41.3 billion, which makes the Zuckerberg foundation slightly larger—although obviously that value could change over time, since it is based on the market price of Facebook's stock. The Gates Foundation has given away more than \$30 billion since it was created.

Donating to charity on a large scale is a well established trend in Silicon Valley. Tech billionaires who have committed to giving away some or all of their net worth include Intel ([INTC, +0.28%](#)) co-founder Gordon Moore (the inventor of Moore's Law). So far he has donated about \$3 billion of his assets, and still has \$5 billion left in the foundation he created with his wife.

Other significant tech benefactors include eBay ([EBAY, -0.23%](#)) founder Pierre Omidyar and former eBay president Jeff Skoll, both of whom have donated more than \$1 billion to a variety of charitable interests, and Microsoft co-founder Paul Allen, who has given away about \$1.5 billion.

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