

# ENCOURAGING WEALTHY AUSTRALIANS TO BE MORE PHILANTHROPIC

## A REPORT FOR THE PETRE FOUNDATION

4 February 2005

### 1. EXECUTIVE SUMMARY

Throughout the world, philanthropy's holy grail is to persuade people, especially the wealthy, to donate at levels appropriate to their capacity.

In a previous report, *How the Wealthy Give*,<sup>1</sup> (also commissioned by the Petre Foundation) we demonstrated that wealthy people in Australia donate less than those in comparable countries, especially the USA.

This paper analyses strategies that have been applied in different countries to encourage giving, especially by the wealthy, and assesses their potential applicability in Australia. It also describes the relevant tax regimes in the US, UK and Australia.

Its main conclusion is that the very large differences between Australian and US philanthropy are mainly due to cultural factors. Because of this it is unlikely that permanent changes in Australia can be achieved simply; for example, through a promotional campaign; by appeals by prominent people; or because of some unusual event, such as the recent tsunami.

Nevertheless, we think that wealthy people in Australia can be taught to give at an appropriate level through concerted action in three areas:

- Through strategies that acknowledge and reward giving, while at the same time (and with appropriate sensitivity) encouraging the idea that charitable gifts should be assessed less in terms of absolute amounts and more as a proportion of the donor's total wealth

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<sup>1</sup> *How the Wealthy Give: comparisons between Australia and comparable countries (USA, Britain and Canada)*, Asia-Pacific Centre for Philanthropy and Social Investment, October 2004.

- Through improving the knowledge, understanding and skills of those who can influence potential donors: board members, staff and fundraisers at charities; and professional financial advisors
- Through further changes to relevant tax laws.

Our conclusions (which appear in greater detail throughout the report) are as follows:

- In the US philanthropy is rewarded in society, in business and in politics. In the UK the Beacon Awards offer recognition and public approval. Other than the AO, Australia has no systematic way of recognising philanthropy
- In the case of a wealthy person who does not give, his or her family, peers colleagues or competitors may provide the means and the opportunity for reassessing his or her priorities
- In the not-for-profit world there are countless stories of people reassessing their attitude to giving because of a discussion with a representative of a cause or organisation, or because of a personal experience with that cause. Similarly, there are many horror-stories of donors being neglected, misunderstood, alienated and, in consequence, lost. More attention needs to be paid to developing the donor management skills of Australian fundraisers; not just professionals, but patrons, board members and senior staff of charitable organisations
- Although there is debate over the extent to which tax-breaks alone persuade wealthy people to donate, there is no doubt that they can reinforce a decision and can also lead to larger donations. The Australian government has introduced several tax-based incentives in recent years, but there are others, such as tax breaks of more than 100% (see p.6), reintroduction of estate tax (p.7) and Charitable Gift Annuities (see p.40) which could be explored.

## 2. RESEARCH

This paper was funded by the Petre Foundation and was written with the help of students of this Centre's graduate programme.<sup>2</sup> It includes material from websites (especially in the USA and UK), from published texts and papers and from the writers' own experience (not always easy to cite). It is arranged as follows:

- Some preliminary comments p.3
- Tax: incentives and penalties p.6
- New mechanisms for giving: Australia; UK; USA p.10
- Comments from the demand side p.13
- Encouraging giving by the wealthy: Australia; UK; USA p.16
- Peer pressure and recognition p.29
- The role of professional advisors: Australia; UK; USA p.33
- Conclusions and recommendations p.36

Detailed information on the tax regimes in Australia, the UK and the USA is contained in an appendix (p.39).

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<sup>2</sup> Especially Rikki Andrews, Christopher Baker, Anthony Gross, Adrian Pyle and Wendy Whelan.

### 3. SOME PRELIMINARY COMMENTS

#### The Tsunami Appeal

While this report was being written, Australians were responding at unprecedented levels to the Tsunami Appeal and it is worth briefly considering whether this has any relevance to this report. It is probably too early to reach firm conclusions on the big questions; why the response was so strong; how it might be maintained and applied to other causes; and whether other causes will suffer in the immediate future, but a few comments can be made now:

- The disaster was entirely an act of God. While this might have made some theologians uncomfortable, the tsunami was seen as morally and politically unambiguous. Unlike a war, a terrorist attack or even AIDS, there could be no suggestion that it was the result of human action.
- The timing was important. People were focused on giving (Christmas) and had time to reflect (many were on holidays). Also, as this is traditionally a quiet time for the media, the disaster received more attention than it might have at another time.
- The tragedy affected an area with which Australians feel an affinity; partly because we have travelled there, partly because we are regional neighbours and, in the case of Sri Lanka, partly because they play cricket. A similar tragedy in West Africa might have received a lesser response.
- The government acted quickly. It immediately encouraged donations by individuals and corporations and fairly promptly announced its own response which was larger than might have been predicted. This raises an interesting question; was the government leading popular opinion here, or being led by it?

It was reported that a few wealthy Australians (Dick Smith, Kerry Packer, Richard Pratt) had made large personal donations to the appeal. As far as we can tell, it seems that they were reacting in much the same way as ordinary Australians, only on a bigger scale. (It seems that no media stories about these donations questioned whether the donor might have had capacity to do more).

#### The view from the left

In 2002, the Institute for Public Policy Research, a left-wing think tank in the UK published *A Bit Rich: what the wealthy think about giving*,<sup>3</sup> which contained some interesting thoughts:-

For the affluent and rich who don't give, the crux of their argument lies in Cohen's basic form of implicatory denial: 'it's not my responsibility'. The construction of 'denial' that non-givers put forward can be summarised as follows:

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<sup>3</sup> <http://www.ippr.org.uk/publications/files/abitrich.pdf>

- It's not my responsibility (Implicatory denial). *I don't really think about it. Charity begins at home. It's the responsibility of Government*
- I don't trust or have confidence in charities (Implicatory denial). *Charities don't deserve my money or time*
- I want to give with a good heart (Implicatory denial). *I don't like the way they ask for donations. I don't want to feel guilty*
- I'm not wealthy, I'm just comfortable (Interpretive denial). *I've got no more responsibility to give than anyone else. I can't afford to give*
- I do give (Literal denial). *I put spare change in a collection tin, donate items to charity shops, give through my credit card.*

## How we see ourselves

It has often been observed that there are very different attitudes towards giving in the US, the UK and Australia. Later in this paper we refer to Karen Wright's excellent article, *Generosity versus altruism: Philanthropy and charity in the US and UK*. This also includes a nice table showing how people in the USA, UK and Australia see their relative positions in society.<sup>4</sup> The USA has more people who place themselves in the top levels, and the UK has more who feel they belong at the bottom. Australians are evidently content to perceive themselves in the middle.

Perceptions of social ranking (%)

	<b>Top rungs</b>	<b>Middle rungs</b>	<b>Bottom rungs</b>
USA	18	72	10
Australia	10	84	6
Britain	8	75	17

No doubt this data needs a lot of qualification, but it somehow rings true; and much of the material that follows tends to support it.

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<sup>4</sup> Karen Wright, *Generosity versus altruism: Philanthropy and charity in the US and UK*, Civil Society Working Paper 17, Centre for Civil Society, London, January 2002, p.17, [http://www.lse.ac.uk/collections/CCS/publications/cswp/cswp17\\_abstract.htm](http://www.lse.ac.uk/collections/CCS/publications/cswp/cswp17_abstract.htm)

## 4. TAX – INCENTIVES AND PENALTIES

A summary of tax regimes in different countries is included as an appendix to this report (p.39).

In Australia and comparable countries it is part of the folklore that paying tax is largely optional for the rich. While most people's income-tax is deducted by their employers, wealthy people's income streams are usually more complex and harder for tax authorities to assess. Wealthy people also have access to good advice on reducing their tax liability.

But how important are tax considerations in encouraging wealthy people to give? For many of the philanthropists interviewed in Denis Tracey's book, *Giving it Away*<sup>5</sup> tax deductions were welcome, but not crucial to their giving. Many respondents said that they would give if deductions were not available – though perhaps not so much.

### Tax Incentives (Carrots)

Throughout the world tax-based incentives for giving range from nil (South Africa), to 2% of taxable income (Brazil), to the more generous arrangements in Australia, US and UK.

A new strategy that is said to be growing in Eastern and Central Europe is so-called 'Percentage Laws'. Introduced for the first time in Hungary in 1996, these allow taxpayers to allocate a percentage of their income tax to specific NGOs.<sup>6</sup>

A number of tax reforms designed to encourage giving have been made in Australia since 1999. They include the introduction of Prescribed Personal Funds (PPFs), tax benefits for workplace giving and a range of deductions for the donation of property. They are described in detail at p.10 and in the appendix. As at December 2004 about 220 PPFs have been approved. Some have suggested that this figure confirms wealthy people's willingness to respond to tax incentives, but another view is that 220 funds in four years is not an outstanding performance, especially as many of the funds have been established by existing donors taking advantage of the lower establishment costs and simpler compliance that PPFs offer. There are also suggestions that some PPFs have diverted donations that might otherwise have gone directly to charities.

An incentive which might be explored further is a tax deduction greater than 100%. In 1981 the government introduced such a scheme to encourage private investment in the Australian film industry. Known as Division 10BA, it allowed investors to write off up to 150% of capital expenditure on an acceptable project and be tax exempt for up to 50% of net earnings from that investment. This scheme was undoubtedly open to abuse and the deduction has since been reduced to 100%. Nevertheless, it was important in developing the industry. Conceivably it would have a similar kick-start effect on philanthropic giving.

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<sup>5</sup> Denis Tracey, *Giving it Away; in Praise of Philanthropy*, Scribe Melbourne 2003.

<sup>6</sup> [www.onepercent.hu/projectpt.htm](http://www.onepercent.hu/projectpt.htm)

Coincidentally, in an Australia Day address in Sydney on 19 January 2005 Richard Pratt suggested a corporate version of this idea – an additional tax rebate for companies which donate at least 1% of their annual profits to community groups.

### **Tax Penalties (sticks)**

A more controversial way to encourage philanthropy is by punishing those who do not give, such as through inheritance taxes (sometimes referred to as estate taxes or death duties).<sup>7</sup> These applied at the state level in Australia, not for any philanthropic purpose but simply as a revenue device, until 1972, when they were abolished, first in Queensland, and soon after in other states.

From time to time the reintroduction of death duties (or the extension of capital gains tax) has been suggested in Australia, but has usually been dismissed as being politically unacceptable. Maybe not: people might be less hostile if the family home was specifically exempt, if there was a high threshold that demonstrated that the tax was aimed only at the wealthy (say, \$20 million), and by clearly associating the tax with charitable giving.

In the USA estate duties have been a hot issue in recent years. Before 2001 the threshold for estate tax was \$675,000 for an individual (double this for a married couple) and the top estate tax rate was 55%, but during that year there were some peculiar legislative changes. Between 2001 and 2010 thresholds will increase and rates will gradually diminish until, in 2010, the law will automatically be repealed and the tax will revert to a threshold of \$1 million and a rate of 55%.

However most people expect further legislative changes before 2010:

The 2001 tax cut was made temporary not for reasons of policy, but as a budget gimmick to hold down the official cost of the 2001 tax-cut package.... Many in Congress also favor permanent elimination of the estate tax. The likely alternative is to reform the estate tax rather than to repeal it – for instance by making permanent the estate-tax policy that will be in place in 2009.<sup>8</sup>

In 2004 the Congressional Budget Office concluded that raising the estate tax threshold to \$2 million or \$3.5 million for individuals would reduce charitable giving by less than 3%, simply by providing more wealth for distribution. It noted:

It is possible that very wealthy people plan to leave fixed amounts to their heirs and to give away the remainder of their estates. Such people would be unaffected by the tax incentive to contribute to charity.<sup>9</sup>

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<sup>7</sup> For those who dislike the notion of punishment, an alternative approach is to present an individual with the choice of giving money to a charity or to the government.

<sup>8</sup> Kamin, David “New CBO Study finds that Estate Tax Repeal would substantially reduce charitable giving” Center on Budget and Policy Priorities <http://www.cbpp.org/8-3-04tax.htm>

<sup>9</sup> “The Estate Tax and Charitable Giving” Congress of the United States Congressional Budget Office, July 2004 p.6.

This is consistent with the views of Paul Schervish, the highly-respected Director of the Boston College Center on Wealth and Philanthropy, who in December 2004 commented:

For the very wealthy, I believe that the repeal of the estate tax will lead to more charitable giving because the ultra wealthy are already limiting the amount they want to give to their heirs. If that is the case, more money in their hands will lead to more, not less, philanthropy.<sup>10</sup>

Schervish is undoubtedly an eminent scholar, but his view is not universal. One of the strongest critics of the new arrangements has been Bill Gates Sr. In December 2003 *USA Today* ran the following story:<sup>11</sup>

#### **Gates Sr. supports estate tax**

President Bush, in pushing big tax cuts for America's wealthiest, is about to get an earful from an unlikely opponent, again. Bill Gates Sr. — father of the co-founder of Microsoft who is the USA's richest man — is fighting to keep Bush from killing the estate tax that hits the super-rich but also some small-business owners and farmers.

His son agrees with him, as do billionaires Warren Buffett, David Rockefeller Sr. and others.

Why? Gates, 78, says the wealthy should pay the tax because they owe a special debt. Their riches, he says, would not be possible without a strong society supporting capitalism.

"Most of the things that have generated the enormous advances in our economy are things that started on some campus or in some laboratory," Gates said in an exclusive interview last week. "And most of those are because the government financed it."

Gates, a semiretired lawyer who runs the \$24 billion Bill & Melinda Gates Foundation, isn't an idle advocate. He's so passionate about it that he recently wrote a book on the subject — his first — and is hitting the publicity circuit this week to use his name and book to battle Bush, who last week proposed killing the tax for good as part of his \$674 billion economic stimulus plan. "I'm relishing it," Gates says of the upcoming battle in Congress.

So are his well-armed opponents. They blame the tax for the deaths of untold small businesses and farms each year. Some of the most powerful corporate and private interests have lined up behind Bush, as they did two years ago.

The stakes are enormous, especially for the 1% of U.S. households who control 38% of private wealth, Gates says. Under current law, the estate of someone worth \$1 billion would have to cough up as much as \$490 million in taxes after he or she dies. Eliminate the tax, and the heirs would gain that much.

The tax generates about \$30 billion in annual federal revenue, about 1% of all, Gates says. That doesn't sound like much, but it will likely go higher as thousands of Americans who amassed fortunes in recent decades begin to die, putting up for grabs as much as \$136.2 trillion in wealth.

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<sup>10</sup> Personal email to Christopher Baker, one of the researchers for this paper.

<sup>11</sup> [http://www.usatoday.com/money/industries/technology/2003-01-12-gates\\_x.htm](http://www.usatoday.com/money/industries/technology/2003-01-12-gates_x.htm)

The effort by Gates, Buffett and others is not as odd as it might seem. Gates' son, with \$43 billion, and Buffett, with \$36 billion, have said they'll give most of their fortunes to charity, which will reduce estate taxes.

The estate tax stems from a 1916 law that taxes the value of property, stocks and other assets valued above certain amounts when someone dies. Unless it is killed, the tax, the dollar values and the tax rates, will reduce gradually until 2010, when the tax will be repealed for one year. Then it reverts to 2001 levels.

Most Americans will never pay the tax because their estates are too small, Gates says in *Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes* (Beacon Press, \$25). Only about 2% of estates qualify each year. But it is those estates and their powerful families that concern Gates.

Without the tax, he says, their wealth could grow to a point where they could have too much control over the national agenda.

Gates first battled to keep the tax in 2001. Bush had been elected the year before and revived the idea to kill it.

Gates, with little political experience, says in his book that he was "stunned" and "astonished" by the buzz saw of opposition to his campaign to save the tax. It included newspaper ads across the nation warning, "Don't Believe the Elitist Millionaire Con."

In the end, the tax was kept but sharply reduced, a loss for Gates and his supporters at a Boston non-profit, Responsible Wealth. Chuck Collins, one of the group's co-founders, worked with Gates on the book.

Gates admits this round could be likewise tough and his impact unclear.

The newly Republican Congress, looking for ways to stimulate the economy, is focusing more than ever on tax cuts. And just 25% of Americans surveyed by Gallup said the tax should be saved, according to a February 2001 poll, the most recent.

***Conclusion: Although there is debate over the extent to which tax-breaks alone persuade wealthy people to donate, there is no doubt that they can reinforce a decision and can also lead to larger donations. As described immediately below, the Australian government has introduced several tax-based incentives in recent years, and there are others which might be explored, such as a tax deduction greater than 100%, some form of estate duty, the new Charitable Gift Annuities scheme in the US (see p.40) or the Charitable Remainder Trusts in the UK (see p.10) .***

## 5. NEW MECHANISMS FOR GIVING

### In Australia

In recent years there have been a number of changes to tax laws designed to encourage and facilitate philanthropic giving. Specific measures include:<sup>12</sup>

- Capital gains tax exemption for bequests to Deductible Gift Recipients and for gifts of significant cultural property through the Cultural Gifts Program to public libraries, museums and galleries
- Tax deductibility for gifts of property held by the donor for more than twelve months and valued by the Tax Commissioner in excess of \$5,000, including environmental and heritage property to approved environmental organisations
- Ability to spread deductions for the following types of gifts over a period of up to five income years: cash, cultural property through the Cultural Gifts Programme and property valued by the Tax Commissioner in excess of \$5,000.
- Tax deductibility for eligible contributions to deductible gift recipients, where an associated minor benefit is received
- Partial tax deduction for the cost of a ticket to a charity fundraising dinner
- Immediate tax benefits for workplace giving.

As described at p.16, the large research project now being undertaken by ACOSS and others will presumably recommend further ideas, but it is not clear whether (or to what extent) these will apply specifically to wealthy people.

### In the UK

In November 2004 a broad coalition of interested parties coordinated by the Charity Tax Reform Group put a proposal to the UK Treasury, Inland Revenue and Home Office advocating the adoption of Charitable Remainder Trusts (CRTs) in the UK: *Lifetime Legacies: Proposals from the charity sector*. The proposal is aimed specifically at addressing the ‘significant group of relatively affluent individuals for whom the existing tax reliefs do not provide sufficient incentive to give.’<sup>13</sup> In essence, it includes the following:

- Tax on settlement: The discounted present value of the future receipt by the charity should form the basis of a limited deduction against the settlor’s taxable income.

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<sup>12</sup> Source: [http://www.partnerships.gov.au/philanthropy/philanthropy\\_incentives.shtml](http://www.partnerships.gov.au/philanthropy/philanthropy_incentives.shtml)

<sup>13</sup> *Lifetime Legacies: Proposals from charity sector* Lifetime Legacies, London 2004, p.1.

- Income tax during period of interest in possession: The income payable by the individual would be subject to income tax. The trust itself would be exempt from income tax, given that any such income would pass to charity.
- Capital Gains Tax: Gifts to the trust should qualify for CGT relief.

The proposal notes that the ‘asset-rich are not, as a category, as generous in relative terms as either the very wealthy or those with little or no assets ... The asset-rich in the UK typically give out of income either sporadically or to a lesser degree on a planned basis but they are nervous about long-term commitments and the prospect of reduced income as they grow older.’ CRTs are favoured by the charity sector in the UK as providing benefits to both the charity and to the donor, including:

- the charity receives an irrevocable commitment from the donor
- charity can rely on eventual receipt of a lump sum (and can make commitments with the underlying certainty of the committed funds)
- CRT enables a charity to acknowledge a gift and to deepen the donor’s involvement with the charity during his lifetime
- By providing secure future income, CRTs can address individuals’ potential fears about financial insecurity in old age.

While this proposal mainly targets the ‘mass affluent’, CRTs may also prove attractive to very wealthy individuals by providing an additional vehicle for giving. One of the key advantages of the proposal is that the establishment of a CRT enables the beneficiary charity and the donor to forge a relationship ‘that could strengthen the links between (them) and possibly lead to further gifts from the individual and/or family members and other associates’.<sup>14</sup>

## In the USA

In recent years the **NewTithing Group** has attracted attention.<sup>15</sup> Founded by money manager and philanthropist Claude Rosenberg (author of *Wealthy and Wise: How You and America Can Get The Most Out of Your Giving*, Little, Brown), it seeks to persuade people and their advisors that affordable charitable donations can be achieved through sound budgeting and by maximising the opportunities available through the tax system. The Group believes that a comfortable donation makes a happier donor and a more effective charitable investor.

NewTithing’s main ‘product’ is PrudentPal® Charitable Giving Planner, an on-line budgeting tool which can be found on the website and is worth exploring.

***Conclusion: Like other tax-based incentives the various measures described here will no doubt reinforce an existing inclination to give, and facilitate the actual***

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<sup>14</sup> *Ibid*

<sup>15</sup> [www.newtithing.org](http://www.newtithing.org)

*giving. But will they actually persuade an individual who does not give to make philanthropy a more important part of his or her life? These schemes and devices may be important as ways and means, but may be less likely to provoke substantial changes of attitude and behaviour.*

## 6. SOME COMMENTS FROM THE DEMAND SIDE

### How are the wealthy approached?

If wealthy Australians don't give as much as their counterparts in the US, it may be partly because they haven't been asked properly. In May 2003 the Institute of Philanthropy in the UK published a study, *Managing Major Donors*.<sup>16</sup> Its main conclusion was that, despite recent advances in database marketing and customer relations strategies, charities in the UK are not good at attracting new major donors or retaining those they already have. Most Australian observers would concede that similar conclusions would apply to most charities here.

Barriers to a more sophisticated and professional approach to major donor funding work are believed to be endemic to the charity sector. These barriers are variously described as:

- Too strong reliance on traditional one-off funding campaigns - charity balls and other fundraising events
- Short term, ad hoc thinking and activities that fail to appreciate what is required to develop a professional plan
- Difficulty in sticking to a strategy even if one is in place
- The perennial charity problem of shortage of resources

The study suggests that charities ought consider a simple question: who are our clients? The obvious answer is the recipients, and charities almost always treat these people with sensitivity and professionalism. But if the charities also saw major donors as their clients they would realise that these people are often treated inefficiently and unproductively. Here are some simple questions that a charity might ask itself about its major donors:

1. What type of contact should we be making and how frequently should we make it?
2. Are we treating this donor with the respect he or she deserves and expects?
3. Are we timing our requests appropriately?
4. Do we know from first hand experience how committed the donor is to our particular charity and how actively involved with the work of the charity does he/she wish to become?
5. Do we know if the donor is in a position to offer professional skills?
6. How much public recognition do donors want and in what form?
7. Who in the organisation and what aspects of the charity's work would the donor like to meet/experience?

A major study now being undertaken by ACOSS and others for the Department of Family and Community Services (see p.16) will examine the capacity of community

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<sup>16</sup> <http://www.instituteforphilanthropy.org.uk/Managing%20Major%20Donors%20report.pdf>

organisations to attract donors, but in the meantime, the views of professional fundraisers in Australia are worth considering.

Bryan O’Keefe, principal of a leading Australian fundraising consultancy, O’Keefe & Partners, has written a useful handbook for fundraisers which explores what motivates people to be generous. Citing US research, the handbook lists seven categories of potential donors:<sup>17</sup>

- Communitarians; typically community-minded male business leaders who want to make contacts with others like them
- The devout; who support their own faith
- Investors; who have no allegiance to a particular cause, but adopt a more businesslike approach and may be more interested in tax advantages
- Socialites; mainly women, typically serving on charitable boards
- Altruists; who may give anonymously to help the truly needy
- Repayers; who give out of a sense of obligation or gratitude
- Dynasts; who are continuing (or commencing) a family tradition of giving.

Another fundraising consultant, Trevor Hancock, believes that the key to securing large donations is to listen carefully:

Fundraising is essentially about listening to people... I remember talking to a fairly young woman who is married to a very wealthy man who owns gold mines. She told me that she and her husband had established a family trust and were looking for ideas. She had been to some of the universities who had promptly wheeled out their wish-list of medical chairs and so on. Naturally I had my own list but I was careful to leave it in the drawer. I asked her; “Tell me what you are interested in”.

After we had been talking for about an hour she said; “Do you know, I have a real concern about the quality of our teachers. They are a forgotten breed, and if we haven’t got good teachers, we won’t have good students.”

After a few more discussions, she established a number of scholarships for teaching. The first batch is worth \$500,000. It took just three meetings to find out what her passion was, but no-one else had tried to find out. They had been more concerned with their own needs.<sup>18</sup>

It is also the case that many board members of Australian charities are often unwilling to act as fundraisers. The reasons for this vary. Some may feel that their giving of time, knowledge and experience is sufficient; others may be troubled by an old-fashioned idea that it’s vulgar to ask friends for money, and others may be influenced

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<sup>17</sup> Brian O’Keefe and Terri Lee, *The Generous Seed*, Hathaway, Queensland 2000. The seven categories come from Russ Alan Prince and Karen Maru File, *The Seven Faces of Philanthropy: A new Approach to Cultivating Major Donors*, San Francisco, Jossey-Bass Publishers 1994.

<sup>18</sup> Tracey, op cit, p.76.

by a more pragmatic reason that was nicely illustrated by Rob Ferguson in *Giving it Away*:<sup>19</sup>

I don't mind giving money, but I dislike asking. If you fang someone for your charity, he'll fang you for his, and you end up being double-fanged.

And

David Gonski has a saying about boards: "You either give, get or get off." I understand that now.

***Conclusion: In the not-for-profit world there are countless stories of people being moved to reassess their attitude to giving because of a discussion with a representative of a cause or organisation. Similarly, there are many horror-stories of donors being neglected, misunderstood, alienated and, in consequence, lost. More attention needs to be paid to developing the donor management skills of Australian fundraisers; not just professionals, but patrons, board members and senior staff of charitable organisations.***

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<sup>19</sup> Ibid, p.202.

## **7. ENCOURAGING GIVING BY THE WEALTHY**

### **... IN AUSTRALIA**

#### **Survey of Private Client Advisors**

In December 2004 we arranged for a small and informal survey of private client advisors at the Melbourne office of Goldman Sachs JBWere. These people don't necessarily know much about philanthropy, but are accustomed to working closely with the sort of people who are the subject of this paper. On the question of why some wealthy people don't give, they offered the following comments:

- Often they are not asked the right way (or they choose to believe they haven't been asked). Also some are difficult to reach
- They are shy about demonstrating their wealth, so give either indirectly or not at all
- They only give to groups they can identify with, so tend to give direct grants for specific purpose; e.g. religious interests, arts, specific health issues
- They feel asset rich and cash poor so choose not to give
- If they have inherited wealth, they often have a value system so distorted from life's everyday trials that they cannot empathise with the broader public stresses
- Some are involved in serious philanthropic ventures that appear to be commercial in nature but are actually very long term e.g. helping indigenous groups to become self supporting
- Some are lazy self centred fools who can't establish their own personality without reference to their bank balance
- Some are nice people who do their best to help but their spouses are not so pleasant.

#### **Current research by ACOSS and others**

In July 2004 the Federal Department of Family and Community Services commissioned a consortium headed by the Australian Council of Social Services (ACOSS) to undertake research into the following questions: <sup>20</sup>

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<sup>20</sup> Other members are Queensland University of Technology, Centre of Philanthropy and Nonprofit Studies; University of Technology Sydney, Centre for Australian Community Organisations and Management; Roy Morgan Research; McNair Ingenuity Research Pty Ltd; and the Fundraising Institute of Australia.

- how much are individuals and business giving to community organisations?
- how do current levels of giving compare with estimates from earlier Australian Bureau of Statistics' surveys?
- how do individuals and business give?
- how are individuals and businesses approached to give?
- what are the attitudes of individuals and businesses to giving?
- what are individuals' and business motivations for giving?
- what is the effectiveness of the various methods used by community organisations to raise support?
- what is the level of foundation support for the community sector?
- what is the level of awareness of the various tax incentives introduced to encourage giving?
- how effective have tax incentives been in motivating potential donors?
- what programs or resources exist to build the capacity of the community sector in relation to its development and fundraising activities? What is the uptake of these programs?
- what is the capacity of community organisations to increase their resources through fundraising and development activities and volunteer programs?

It is expected that through these questions the project will:

- enable some conclusions to be drawn about the culture of philanthropy in Australia
- measure the effectiveness (or anticipated effectiveness) of the specific tax incentives introduced in March 1999
- provide information on the current levels of individual and corporate giving in Australia, as well as attitudes and motivational factors
- map the current capacity of the not-for-profit sector to capitalise on mechanisms to facilitate giving and highlight where further work in this area may be appropriate
- provide a useful base for subsequent policy development relating to philanthropy

- provide reliable market research upon which future communication activities may be developed.

Dr Michael Liffman, Director of this Centre, is a member of this project's steering committee.

It is interesting to note that in its proposal the consortium drew attention to the difficulties in obtaining information from and about wealthy people:

The overall value of weighted sampling must take into account the strategies and capacity that such high income individuals utilise to prevent being the subject of market and other research by telephone (eg silent telephone number listings and domestic staff directed not to respond to telephone surveys). Hence the qualitative components proposed as part of the work to be undertaken by Queensland University of Technology Centre of Philanthropy and Nonprofit Studies (CPNS), making use of their established reputation and networks among high net worth donors, are a particularly important complement to these quantitative methods.

Purposive sampling of 'known givers' presents some difficulties and is not proposed as it would not be controllable or weighable in the way that an over-sampling can. Such an additional survey, standing alone from that which is comparable with the earlier ABS survey, is unlikely to be cost-effective. This limit leads the collaboration to propose that it not be implemented.

## 8. ... IN THE UK

In 2003 a Scottish retail tycoon, Tom Hunter, committed £100 million to his charitable foundation. According to *The Times* this was one-fifth of his wealth and one of the largest-ever charitable donations. It was hailed as an American-style donation (much as Frank Lowy's 2003 \$30 million commitment was here in Australia) and perhaps a harbinger of a changing culture of giving in the UK.

Partly due to the efforts of The Giving Campaign (see below), structures for giving in the UK are now better organised than in the past. They include:

- Gift Aid. A scheme that streamlines the tax deduction process so that both the donor and the charity benefit. The charity receives an additional 28p. in the pound and the donor claims back 23p. in the pound.
- Payroll Giving. As in Australia, the US and other places, money is donated direct from salary before tax is levied.
- Share Giving. Tax relief is available in respect of shares given directly to charities.
- Legacies. This is the biggest source of income for UK charities, largely because it reduces – even eliminates – inheritance tax.

- Corporate Giving. As in other countries, businesses receive tax breaks for donations.

## **The Giving Campaign<sup>21</sup>**

The Giving Campaign was set up by a group of major UK charities and HM Treasury and operated from 2001-2004. Its goal was simply to encourage a culture of giving in the UK. One of its main targets was wealthy people, and it carried out a series of interviews to explore the process by which wealthy people decide whether, to whom and how much to give. Here are the key findings of those sessions:

### **1. The giving decision**

Deciding how much to give is intimately linked with choosing to give in the first place. Deciding how much to give is tied into the primary drivers affecting the desire and implementation of giving itself.

The level of gift chosen is often defined as 'what felt comfortable' and 'what I could afford'. Donors struggle to account for their chosen level beyond these relatively superficial explanations and at times the process seems hidden from their own awareness. However the exploration of the giving decision reveals the dynamic that shapes the level of gift – from initial impetus through to practical implementation.

### **2. Donor considerations**

The process is shaped by a number of key factors which serve to power, express and mediate the desire to give. The key factors at play, perhaps predictably, are:

- The desire to 'do good' and 'make a difference'.
- The identification of a charitable cause/organisation that the donor feels affinity with and is confident will make a difference.
- The financial considerations of the donor at that point in time.

### **3. The challenges**

There are a number of challenges that the gift has to pass through before it achieves the 'comfortable' level that donors thought they could arrive at.

The challenges include:

- The need of donors to be confident that their gift is making a positive difference.
- The widespread need of donors to be confident that charities are concentrating on their core mission and that funds are being spent appropriately.
- The ability of donors to feel that they can afford to give, based on their perception of their personal finances.
- The relative lack, for many donors, of external guidance and support in suggesting an appropriate level.

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<sup>21</sup> [www.givingcampaign.org.uk](http://www.givingcampaign.org.uk)

#### 4. The ask

The charity 'ask' clearly has a key part to play in many people's decision over how much to give. A common assumption was that the charity 'ask' represented the charity need i.e., if the charity is asking me for £3 a month, that is how much they need from me.

#### 5. Benchmarks for giving

Feelings were mixed towards the concept of benchmarks for giving, such as donating 1% of income to charity. They were seen as most likely to work among those who were financially secure and not currently giving at this level.

And...

In an ideal world, relationships with these donors would be nurtured in a bespoke manner that is currently reserved for high value donors, but this simply isn't practical. However steps can be taken to better understand these donors through the use of the information held about them. It is important for fundraisers to appreciate their supporters as people rather than numbers of 'disembodied wallets' as one fundraiser put it.

The mass affluent group of this study represent an opportunity for charities to increase fundraising levels. If charities can learn more about the giving habits of this group, recognise and influence the process they go through to arrive at their level of giving, and support and promote the initiatives such as Payroll Giving and giving accounts recognised by this group as having the potential to increase levels of giving, then they will benefit in the long term.

Here is an extract from The Giving Campaign's final report:<sup>22</sup>

**Generally wealthy people give a lower proportion of their income to charity than those less well-off. Amongst donors, the richest 20% give 0.7% of their household expenditure to charity, while the poorest 20% give 3%.**  
(Our emphasis).

The Campaign targeted wealthy people through media activity to win their hearts and minds. Given their strategic importance in communicating with wealthy people about their expenditure, the Campaign worked with financial advisors and the financial services industry to secure the inclusion of charitable giving in their advice, client contact processes and products. The Campaign's vision is for wealthy people to consider charitable giving in relation to their overall income and wealth as an integral part of their financial planning.

*"The Giving Campaign has shown quite how favourable the climate for giving in the UK has become. It has shown how financial planning and charitable giving really should go hand-in-hand. It has provided the basic information to make giving an integral part of a financial discussion."* Paul Smee, Chief Executive, Association of Independent Financial Advisors.

Over the last three years, The Giving Campaign has worked with The Sunday Times to include information on charitable giving within The Rich List and hopes that The Sunday Times will continue to report on charitable giving in this list.

To put giving on the financial planning agenda, The Giving Campaign has:

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<sup>22</sup> [http://www.givingcampaign.org.uk/images/uploaded/campaign\\_review.pdf](http://www.givingcampaign.org.uk/images/uploaded/campaign_review.pdf)

- published a report, 'Charity Financial Products – a new approach to giving', on the ways in which the financial services industry could integrate charitable giving into its sales processes and products;
- undertaken NOPWorld research showing that 40% of wealthy people would choose a financial product that has a charitable element over a regular one;
- published a guide to tax-effective giving for distribution by the Financial Services Authority, Institute of Financial Planning and the Association of Private Client Investment Managers and Stockbrokers. These were distributed to more than 30,000 intermediaries and clients;
- partnered with HSBC, HBOS, Zurich Financial Services and the Co-operative Bank to incorporate charitable giving within their client advisory services;
- secured the inclusion of tax-effective giving on the financial services industry's Single Examination Framework and worked with industry training bodies to lobby for the inclusion of tax-effective giving in their training programmes;
- liaised with the Inland Revenue to include a guide on tax-effective giving in a mailing to three million higher rate taxpayers. This was followed by 'giftaid it' branded mailings in 2003 and 2004;
- built a network of champions from the financial services sector to support this work and highlight the benefits to the sector.

The net result of these activities is that the Campaign has put charitable giving on the agenda of the financial services sector. Some companies, like the Co-operative Bank, now see advice on tax-effective giving as an integral part of their customer service and regard information provision as a first step into this area. Some major providers are seeking charity partners to work with them on charity financial product launches. And a number of leading charities are looking at fundraising opportunities in this new market. The emerging marketplace in charity financial products, and the existing products provided by Charities Aid Foundation (CAF) and Charity Bank, will undoubtedly become mainstream in the coming years.

CAF will be taking forward this remit, which will add to their own investment of resources in developing the charity financial product market, giving it a new generic dimension. A new Advisory Group will work with CAF to help encourage market developments and support the programme.

In our opinion these findings are neither new nor particularly insightful, but they reinforce what is probably common knowledge among fundraisers and others in the industry.

## **Shares, Land and Property**

From 2002, gifts of shares, land or property attract tax relief (in the form of a deduction for the market value of the asset). Such gifts also attract no capital gains tax if the asset has appreciated in value since purchase. However if the asset has depreciated in value, the taxpayer cannot offset the loss against personal taxable income.

Sharegift<sup>23</sup> is a scheme that facilitates and encourages the giving of shares. It specialises in small parcels of shares (for which the cost of disposal would be more

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<sup>23</sup> <http://www.sharegift.org/>

than the capital return) and the gifting of shares to charities. There is no charge for the service.

## **Bequests**

Unlike Australia the UK has an inheritance tax,<sup>24</sup> payable on the value of a person's estate (when that value is over a threshold). A contribution to a registered charity will reduce the tax.

The Giving Campaign, along with the Institute of Fundraising and over 130 UK charities combined to begin the 'Remember a Charity'<sup>25</sup> campaign. This is an awareness-raising campaign designed to increase the extent to which Britons leave gifts to charities in their wills.

## ***Why Rich People Give, Theresa Lloyd, Philanthropy UK 2004***

It is interesting to compare The Giving Campaign's conclusions with those of Theresa Lloyd. *Why Rich People Give* is based on interviews with 100 wealthy individuals, and concludes that the main motivators for wealthy people in the UK are (in order):

1. Belief in the cause; often influenced by a desire to change society in line with a particular interest or belief of the donor.
2. Being a catalyst for change; includes making a real difference – to society, institutions or individuals – and getting value for money.
3. Self-actualisation; covers the satisfaction of personal development – applying expertise (not money) in a new field, learning new skills, directing money that might otherwise go to the government, addressing causes that have a personal connection, and defining a place in history.
4. Duty and responsibility; about conscience and the obligations of the rich towards the less fortunate. It includes the notion of 'putting back'.
5. Relationships; includes the fun, enjoyment and personal fulfilment of involvement with a range of people, including beneficiaries, other donors and the staff of a charity. Donor networks are sometimes a strong attraction.

Lloyd's methodology was strongly influenced by Paul Schervish of Boston College. To the key question, *What would make you give more?* the most common response she got was, *Having more money* followed by *Finding a new cause I feel passionate about*. In the US Schervish got the same answers, but in the reverse order.

Lloyd also notes that in the UK 'feelings of financial insecurity are unrelated to actual levels of wealth, but are linked to a lack of confidence that lost or diminished assets

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<sup>24</sup> <http://www.inlandrevenue.gov.uk/leaflets/iht3.pdf>

<sup>25</sup> <http://www.rememberacharity.org.uk/>

could be replaced.’<sup>26</sup> The extent to which feelings of insecurity affect a wealthy person’s willingness to give is important, but is difficult to discuss, let alone measure.

A further motivating influence which Lloyd does not explicitly emphasise is the effect of personal experience with a specific cause or issue. Dame Stephanie (Steve) Shirley, one of the UK’s most admired philanthropists, established the Shirley Foundation (which supports research into and treatment of autism) largely because her own son was affected by that condition. Another more local example is Kerry Packer’s 1991 donation of defibrillators to the NSW Ambulance Service.

## New Philanthropy Capital

This London-based agency was set up in 2001 by a team of city financiers.<sup>27</sup> It acts as a bridge between donors and charities, working with people or companies who are exploring philanthropy. Typically it offers the sort of service that is commonly available in finance and business. It carries out research into a specific social issue and draws a potential donor’s attention to organisations that are doing effective work and would benefit from additional support.

## 9. ... IN THE USA

In the first, place, how much do wealthy Americans give? According to the Congressional Budget Office, giving is virtually universal in America’s richest families:

Net Worth	Millions of families	% of families which give at least \$500	Average contribution from families giving at least \$500
Less than \$0.5 Million	90.79	32	\$2,300
>\$0.5 Million to \$1 Million	8.26	73	\$3,000
>\$1 Million to \$3 Million	5.21	82	\$5,900
>\$3 Million to \$5 Million	0.93	90	\$19,200
>\$5 Million to \$50 Million	1.28	95	\$37,500
\$50 Million or More	0.02	95	\$391,400

Source: Congressional Budget Office, *The Estate Tax and Charitable Giving*, July 2004.  
<http://www.cbo.gov/ftpdocs/56xx/doc5650/07-15-CharitableGiving.pdf>

Unlike Australia and the UK, the USA has not seen much government-sponsored encouragement of philanthropy. This is not surprising. One of the factors that has contributed to the growth of US philanthropy is the government’s limited involvement in areas which, in other countries, are seen as core public functions – schools and

<sup>26</sup> [http://www.philanthropyuk.org/why\\_rich\\_people\\_give\\_print.html](http://www.philanthropyuk.org/why_rich_people_give_print.html) - p8 - item 52

<sup>27</sup> [www.philanthropycapital.org](http://www.philanthropycapital.org)

universities, healthcare, welfare and so on. Karen Wright of the Centre for Civil Society puts this nicely:

The framers of the American Constitution were concerned about constraining the power of government, fearing the potential for abuse inherent in unlimited power. The Constitution itself and its Bill of Rights strongly reflect this quite Lockian view. Their explicit structures are reinforced by long-standing traditional beliefs that government—especially national government—should have only a limited role (de Tocqueville, 1994). Despite some of the lowest tax rates in the developed world, many Americans view themselves as victims of federal taxation they see as akin to theft. The large majority (63%) see their tax levels as ‘too high’, while 33% thought they were ‘about right’, and presumably only 6% thought they were too low. Government itself is perceived with moderate to high levels of contempt for its capability, efficiency and ethics. In 1992, 75% of Americans surveyed indicated that they ‘trust the government in Washington’ either ‘never’ or only ‘some of the time’ (Putnam, 2000).<sup>28</sup>

And

Put simply, in the United States money is seen as a good thing. Wealth is considered a nearly universal measure of achievement and success. People who have become rich are viewed with respect; those who have inherited wealth are viewed by some with suspicion. As the dominant indicator of class status in America, wealth is relatively explicitly discussed and visibly displayed. At the same time, money is in many ways a great leveller in a society whose mythology holds that anyone who works hard enough can become rich. Money is at least the primary entrance ticket to social status, and ‘anyone’s money is as good as anyone else’s’. Philanthropy in particular has been a way to demonstrate both social leadership and significant personal wealth, and as such has often been used as a vehicle for entrance into elite circles.<sup>29</sup>

In *Giving it Away*, the present author offers another perspective, this time comparing different approaches in the US and Australia.<sup>30</sup>

Australia was established largely as a division of the British prison system, and from the earliest days the colonial government controlled, or sought to control, virtually all aspects of life. Did this encourage a view that government would always provide basic services and fix problems, a view that continues to influence us today?

...

Many of the early immigrants to the USA, on the other hand, were fleeing from government interference. And later, as the covered wagons rolled across the prairies, people knew that they were on their own. If hostile Indians attacked or the horses dropped dead, there was no guarantee that the government would help.

Given these attitudes it is understandable if the US government feels no great inclination to encourage philanthropy. And since the level of giving in the US has for at least a hundred years been a source of envious wonder in much of the rest of the world, this seems fair enough.

There is, of course, a vast resource of material published in the US by individual charities, fundraising consultants, financial institutions, academic centres and the like,

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<sup>28</sup> Karen Wright, op cit., p.14.

<sup>29</sup> Ibid, p.15.

<sup>30</sup> Tracey, op cit, p. 13-14.

but as this usually includes or implies an assumption that giving is the normal thing for rich people to do, it is of limited practical use for this project. The US literature does however provide many examples of what this can lead to; for example:

- How your giving can be fitted into your financial and estate planning
- How you can use philanthropy to instil values and ethics in your children
- How venture philanthropy works.

In Australia however we are setting out from a more basic position. We need to predispose wealthy people that giving is a good and rewarding thing, if not an absolute moral obligation.

Notwithstanding these comments, a number of US commentators have made important contributions about the charitable inclinations and motivations of the wealthy. Here are some of the more interesting.

**Paul Schervish** (in *Major Donors, Major Motives*) makes two important points:<sup>31</sup>

‘The simple part is that what motivates the wealthy is very much what motives someone at any point along the economic spectrum. The complex part ... is that those who hold great wealth and consciously direct it to social purposes invariably want to shape rather than merely support a charitable cause.’

Schervish concludes his exploration of a number of interrelated fields of research by observing that many wealthy individuals:

- have not been adequately called upon to contribute
- do not realize their level of discretionary wealth
- do not fully appreciate how effective their contributions can be in generating valuable outcomes
- are not sufficiently incorporated into the associational relations that occur in and around charitable organizations.

The second and last points are especially important for the purposes of this paper. In the first place, some researchers (including Theresa Lloyd; see p.22) have noted that some wealthy people do not give because they believe that they cannot afford it and fear that they themselves might become impoverished. No doubt this concern is often unfounded, but if it does deter potential donors it should be taken into account. Tax-based schemes like the Charitable Gift Annuities (see p.40) would seem to have potential here.

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<sup>31</sup> Schervish, Paul *Major Donors, Major Motives: The People and Purposes Behind Major Gifts* published in *New Directions for Philanthropic Fundraising: Developing Major Gifts*, Jossey-Bass, San Francisco 1997, p.85, 86.

With regard to the final point, Schervish describes the ‘identification model’ of charitable giving. He has found that the level of contributions depends on the frequency and intensity of participation and requests for contributions:

‘Our findings also indicate that larger gifts are generated from those already making substantial gifts. Taken together, our general conclusion is that charitable giving derives from forging an associational and psychological connection between donors and recipients.’<sup>32</sup>

**Karen Wright** proposes an interesting paradigm for comparing giving behaviour in the US and the UK.

In the United States, individual giving as a percentage of Gross Domestic Product has consistently hovered around 2%. By contrast, charitable giving in the United Kingdom has yet to reach 1% of GDP. Various strategies, including those imported from the US, have not been able to move that percentage significantly higher, and giving levels were in fact declining in the mid-1990s as incomes were rising. Intriguingly, while the two countries differ dramatically in the total amounts given, rates of participation in giving are quite similar.

These kinds of figures have encouraged some analysts to conclude that the giving culture in the UK is simply less well developed than in the US. This conclusion, however, neglects the complexity of the differences between the political structures, social attitudes, and the role of charitable giving in the two countries.<sup>33</sup>

And

The picture of who is most generous in the two countries is again a paradoxical one. In the US larger gifts have been more likely to come from men, who have had greater access to income and who may see giving as a social requirement for career success; and from retirees, who may have accumulated assets at their disposal. In the UK, the picture is far different. Committed givers are more likely to be women.<sup>34</sup>

She concludes that the dominant motivator in the US is generosity, while in the UK it is altruism. The former implies a strong element of self-interest through tax breaks, benefits from the supported charity or social status. In the US:

Gifts are largely directed towards theoretically ‘particular’ causes, in which the giver may directly participate, such as a church or performing arts group, or ones where they may have received some direct benefit in the past, such as a college or university. Moral motivation rests on values of individual initiative and reciprocity.<sup>35</sup>

In the UK however it is expected that giving should be altruistic; devoid of self-interest and even self-sacrificing:

For the British, moral motivation is deeply rooted in collective duty, a concept that would be quite foreign to Americans, just as enlightened self-interest does not translate across the Atlantic in the other direction.<sup>36</sup>

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<sup>32</sup> *Ibid*, p.97.

<sup>33</sup> Karen Wright, *op cit*, p.3.

<sup>34</sup> *Ibid*, p.11.

<sup>35</sup> *Ibid*, p.23.

<sup>36</sup> *Ibid*, p.24.

Wright summarises the giving culture in the two countries as follows:

#### ALTRUISM (UK)

##### Charity for All

1. Giving is more a private than a public activity
2. Giving is generally peripheral to social identity and goals
3. Giving is generally peripheral to civic responsibility
4. 'Spare change' is the dominant mode of giving, yielding low average gifts
5. Predominant focus: 'universal' causes in which the donor is not directly involved
6. Predominant moral motivation: social (collective) duty

#### GENEROSITY (US)

##### Charity Begins at Home

1. Giving is heavily interlaced with self-interest (with social approval)
2. Giving is more a public than a private activity.
3. Giving is an expression of personal and social identity and goals
4. Giving and volunteering are significant components of civic involvement
5. Giving modes are intentional 'planned' and yield high average gifts
6. Predominant focus: 'particular' causes in which donor is directly involved and reciprocity
7. Predominant moral motivation: individual initiative and reciprocity
8. Suspicion and rejection of mixed motives for giving

While no research has been done on comparable Australian attitudes, it seems reasonable to say that we are a good deal closer to the British model than to the American.

Another useful US case study is the Independent Sector's *Give Five* campaign. This was begun in 1987 to encourage people to give five hours a week and 5% of their income to the causes and charities of their choice.<sup>37</sup>

## 10. ... TWO OTHER COUNTRIES

### Canada

The fastest-growing sector of philanthropy in Canada is community foundations which recorded 83.2% growth in assets between 1994 and 1997.<sup>38</sup> In Australia community foundations are usually not seen as the most appropriate vehicles for wealthy donors, but this is not the case in Canada.

Canadian charities emphasise planned giving. This encourages the donor's confidence that money will be used appropriately and managed well, and also facilitates relationship-building. Many organisations have a connection with 'Leave a Legacy',<sup>39</sup>

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<sup>37</sup> <http://www.independentsector.org/give5/givefive.html>

<sup>38</sup> Stewart, Wayne. Canadian Council for International Co-operation. 1999. *A profile of planned giving and Endowments within the Canadian International NGO Community.*

[http://www.ccic.ca/e/docs/002\\_od\\_profile\\_of\\_planned\\_giving\\_and\\_endowments.pdf](http://www.ccic.ca/e/docs/002_od_profile_of_planned_giving_and_endowments.pdf)

<sup>39</sup> London Health Science Foundation. Founding partner in Leave a Legacy Southwestern Ontario.

a group run by the Canadian Association of Gift Planners that encourages bequests to charities.

The *Canadian Donor's Guide* is sent to some 16,500 lawyers, financial planners, administrators of foundations and community investment managers of major corporations. It is also available online.<sup>40</sup>

Other relevant Canadian data:

- immigrants are more likely to donate than Canadians generally
- Anglo-Canadians are more likely to give than Franco-Canadians
- New technologies have led to new giving, e.g. the Chagnon Foundation was established in 2002 with CAN\$1.5 billion in assets. Andre Chagnon made his fortune from cable TV.<sup>41</sup>

## South Africa

While there are a few similarities between Australian and South African philanthropy (largely British heritage, many Jewish benefactors) the gap between rich and poor is wider and more obvious. In addition, the South African tax system does not include any deductions of the sort that are found in the other countries mentioned in this paper.

South Africa has a few large (by Australian standards) private foundations, including the Helen Suzman Foundation<sup>42</sup> and the Gary Player Foundation<sup>43</sup> (which is a good example of a wealthy and well-known individual who supports communities within his local area). However in general there seems little to be learned from South Africa that would add to this report.

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<http://www.lhsf.ca/Donors/ways/index.html>

<sup>40</sup> The Canadian Donor's Guide. *Online reference for Canadian charities and NFPs.*

<http://www.donorsguide.ca/distribution.htm>

<sup>41</sup> [www.fondationchagnon.org/EN/The\\_Foundation/Management\\_Andre\\_Chagnon.html](http://www.fondationchagnon.org/EN/The_Foundation/Management_Andre_Chagnon.html)

<sup>42</sup> [www.hsf.org.za](http://www.hsf.org.za)

<sup>43</sup> [www.garyplayer.com](http://www.garyplayer.com)

## 11. PEER PRESSURE AND RECOGNITION

'It's such a shame we got rid of knighthoods. I can tell you that during my time here they would have been worth at least another \$20 million to the gallery.'  
(Edmund Capon, Director of the Art Gallery of New South Wales)<sup>44</sup>

In 2003 and 2004 the Giving Campaign worked specifically with Britain's *Sunday Times* to promote its Giving Index, part of the paper's annual Rich List of the thousand richest people in Britain. The Index ranks the top thirty philanthropists based on the amount they give as a percentage of their wealth. In a speech to the House of Lords, Campaign chairman, Lord Joffe<sup>45</sup> noted the absence of some of Britain's wealthiest residents from the list in 2004. He recognised that this may have been because the information about their giving was not provided. Joffe also said that providing such information is not a flaunting of wealth (which is on show in the Rich List anyway) but is a way of setting a good example.

Theresa Lloyd also feels there is a bigger role for media to play in 'publicising the example of giving', for example, by putting giving data in personal profiles for the rich, regardless of the publication in which they appear.<sup>46</sup>

### Family giving

'Part of the reason for believing that my wealth should be given back to society and not, in any substantial percentage, be passed on to my children, is that I don't think it would be any good for them.'  
Bill Gates, in *Forbes*,

Many researchers in the US have commented that a family history of giving is one of the strongest motivators for philanthropy. It seems obvious enough that person who has grown up in an environment where giving was an accepted part of the family culture is more likely to be that way inclined than someone who was not. In Australia the Myer and Fairfax families are often cited as good examples of family-based philanthropy (and it is usually noted that in both those cases, the business which provided the family fortune is no longer a family-controlled one). *Giving it Away* describes other interesting cases of family philanthropy, such as Harold Mitchell whose foundation's board includes his daughter, Amanda; 'She is 27 now and this is my gift to her'<sup>47</sup>; and the businessman who established a charitable fund to be administered by his teenaged children (under the guidance of his lawyer). This was intended to teach the children basic business skills, as well as the value and joy of giving.

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<sup>44</sup> Quoted in Tracey, op cit. p. 71.

<sup>45</sup> <http://www.parliament.the-stationery-office.co.uk/pa/ld199900/ldhansrd/pdvn/lds04/text/40526-05.htm>

<sup>46</sup> [http://www.philanthropyuk.org/why\\_rich\\_people\\_give\\_print.html](http://www.philanthropyuk.org/why_rich_people_give_print.html), p14

<sup>47</sup> Denis Tracey, op. cit., p.182.

For the purposes of this study, however, it should be acknowledged that cases like this are the exception and that most wealthy Australian families lack the USA's shared culture of giving.

Various commentators (including the present writer) have also promoted the importance of philanthropy in a family business context. There it can:

- help establish and maintain a strong shared family culture
- teach business skills; entrepreneurship, the power of money, the value of networks; negotiations skills; decision-making and an understanding of society and human nature
- providing a new career for older people, or an alternative career for people not wanted in the family business
- provide a vehicle to avoid or resolve family disputes
- honour the memory of deceased family members
- generally be 'the glue that holds a family together'.

Consultants in the field sometimes begin by asking leading questions like these:<sup>48</sup>

- What is really important to your family?
- What are the true assets of your family?
- What should you do to guide and support the life journey of each family member over time?
- How wealthy do you want your children to be?
- Do you feel you have a responsibility to society?

### **The Beacon Awards<sup>49</sup>**

The Beacon Fellowship is a charitable organisation set up in 2003 to encourage individual contributions to charitable and social causes, and to celebrate and display best practice in giving. It awards annual prizes to individuals who have made exceptional contributions to charitable causes or to organisations that benefit the public. The overall winner is given a cash award of £20,000, to be invested in an innovative way in a charity of the winner's choice.

Beacon's main intention is to inspire others. Its stated objectives are:-

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<sup>48</sup> These come from *Wealth in Families*, Charles W Collier, Harvard University 2002.

<sup>49</sup> [www.beaconfellowship.org.uk](http://www.beaconfellowship.org.uk)

- To establish a new nationally recognised prize scheme through which the charity sector can acknowledge and reward exceptional philanthropic acts by individuals (giving of time, leadership, money, skills and ideas)
- To highlight motivating role models and forms of giving to inspire and educate the next generation of donors
- To showcase and implement innovative grant-making techniques through an annual grant by Beacon
- To create a Fellowship body of prize winners who, as they grow in number, can become an active force in the charity sector and help raise general awareness and educate the general public

There are several categories of prizes, as follows: Risk Taking, Creative Giving, New Initiatives, Leadership, Community Building and Young Philanthropy. Note that there is no distinct category for giving by the wealthy. The prizewinners for 2003 are a broad and interesting group, but fewer than half of them could be described as wealthy.<sup>50</sup>

It is worth noting that, unlike the PM's Community Business Partnership Scheme in Australia, Beacon apparently receives no financial assistance from government.

## In Australia

Australia does not have a particularly strong record of recognising and honouring philanthropists. Donors regularly receive the Order of Australia, but seldom get the attention given to sports heroes, politicians, tycoons and entertainers. In June 1997 *Business Review Weekly* magazine followed its regular Rich List with a separate list of 'Australia's Most Generous', but has not done so since. The media occasionally publishes stories about giving, but these are usually prompted by an unusually large gift (eg, Frank Lowy in 2003), a celebrity (eg, the Shane Warne Foundation), an extraordinary event (eg, the tsunami) or a report that has something interesting to say (eg, this Report, we hope).

Australians' attitude to giving is not well-researched, but seems to contain a number of paradoxes. For example, we like to be thought of as generous and hospitable, and we mostly enjoy our reputation for tolerance. We also like being recognised as a successful multicultural society. Yet we remained largely unmoved by the incarceration of refugee children and families in desert camps. We have responded magnificently to the Tsunami appeal (and before that to the Bali Bombing and other causes) yet our regular giving is not particularly strong.

We also seem to have mixed attitudes towards wealth. Although we generally like the idea of being wealthy, we are uneasy about people who are born rich (they haven't had to work hard, etc) and also about those who become rich through their own efforts. There is more than a touch of *schadenfreude* in the way the public commonly reacts to the downfall of a wealthy individual.

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<sup>50</sup> [http://www.beaconfellowship.org.uk/2003\\_winners.asp](http://www.beaconfellowship.org.uk/2003_winners.asp)

When it comes to philanthropic gifts by wealthy people, Australians' reactions are sometimes favourable, but the praise is often qualified (*Big deal, he can afford it*), conditional (*He needn't think he's anything special*) and suspicious about motives (*I suppose he's looking for an AO, a seat on a board, an invitation to something, etc*). It follows that an Australian who makes a large gift in the hope of admiration and applause is probably naïve.

This was nicely illustrated in a story about naming rights carried by *The Sunday Age* in Melbourne on 2 January 2005 (admittedly a slow news day):

But if Americans are generous, they are also vain. That's the sad conclusion to be drawn from the fact that almost every new concert hall, museum, hospital wing and university building bears at least one donor's name. The "naming opportunity", as it is called, is the tried-and-true method of coaxing money from wealthy people. The strategy has raised hundreds of millions of dollars for worthy causes. But with its bald pandering, it has also corrupted the spirit of philanthropy.

In fact this article was written by an American and taken from an American wire service, but the fact that an Australian paper chose to publish it suggests that it was thought relevant and likely to strike a chord with Australian readers.

It is also worth noting that Australian media stories about philanthropic gifts seldom, if ever, draw attention to the donor's financial capacity. For example, when Frank Lowy announced his donation of \$30 million to establish the Lowy Institute, there was a lot of favourable media comment, but no-one pointed out that, with an estimated fortune of \$4.2 billion, this was no great sacrifice for Lowy. In this regard, Phillip Adams' comment in *Giving it Away* is worth noting:

I find the philanthropy of the rich less interesting than that of the poor. The most interesting letters I get – the ones that break your heart – are letters from pensioners enclosing \$20. That's an infinitely more generous gift than a multimillionaire who gives \$10 million.<sup>51</sup>

***Conclusions: Obviously there are many excellent reasons for philanthropists to involve their families in their giving. In the case of a wealthy person who does not give, the family may also provide the means and the opportunity for to reassess his or her priorities.***

***In the USA philanthropy offers an entrée to all sorts of happy outcomes – social, business and political. In Britain the establishment of the Beacon Awards suggests that similar conclusions have been reached there. Australia, however, has not successfully exploited this idea. There is no reason to doubt that Australians also seek the approval and admiration of their peers. A programme similar to the Beacon Awards could be successful here. To be successful such an initiative would need very careful planning and the support of some important individuals and institutions.***

***In commenting on any philanthropic donation, it is important to bear the donor's overall capacity.***

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<sup>51</sup> Tracey, op. cit., p.138.

## 12. THE ROLE OF PROFESSIONAL ADVISORS

### In Australia

Over recent years there has been considerable growth in the funds management industry and private banking in Australia, and this is expected to continue. Some providers of financial services here have demonstrated an understanding of the competitive value of including estate planning and philanthropic advisory services into their offerings (e.g., Goldman Sachs JBWere and the Melbourne law firm, Arnold Bloch Leibler). Despite these, there is strong evidence that few professional advisors – financial planners, lawyers, accountants, bankers – have a good knowledge or understanding of philanthropy and especially of the recent changes to its legal and tax aspects.<sup>52</sup>

### In the UK

In the UK there is also evidence that advisors do not properly understand charitable trust options. For example, Theresa Lloyd observes that most advisors see trusts as only being worthwhile for corpus amounts over £100,000 (some said £10 million). This is despite the recent attempts by the Giving Campaign attempts to draw attention to the options for much smaller amounts. Lloyd's research also reveals that while few advisors saw it as their role to promote philanthropy, most wanted to be aware of giving options and mechanisms in order to be able to advise about them.<sup>53</sup> Accordingly, a lot of recent work has concentrated on the value of educating these advisors to give informed responses to clients' enquiries and ideally, to raise philanthropy on their own initiative.

Despite these comments, the UK does offer examples of good practice in this area. JP Morgan Private Bank has applied the knowledge and experience from its US parent to run an impressive programme of seminars and other events. These include presentations by philanthropic leaders and the bank's own experts.

### In the US

In the US, the picture is very different. For example, the Community Foundation Silicon Valley (one of the largest and most successful in the US) has developed close relations with advisors and now offers a range of services for them, including workshops, online resources and an advisory council.<sup>54</sup> This seems to have been an effective strategy as, according to INSP, the five largest donations to CFSV in 2004 were financially complicated and involved close collaboration with the donor's advisors.

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<sup>52</sup> Dr Kym Maddern, *2002 Study of the Financial Advisor's Role in Philanthropy*; Working Paper No CPNS25, Queensland University of Technology; Brisbane 2004.

<sup>53</sup> [http://www.philanthropyuk.org/why\\_rich\\_people\\_give\\_print.html](http://www.philanthropyuk.org/why_rich_people_give_print.html) , p.8.

<sup>54</sup> [http://www.cfsv.org/advisors\\_why.cfsv.html](http://www.cfsv.org/advisors_why.cfsv.html)

However, even in the US, the picture is not perfect. A paper written for the Planned Giving Design Centre analysed a report from The Philanthropy Initiative (TPI):<sup>55</sup>

Many advisors are well aware of their clients' needs for effective counsel about philanthropy as part of the wealth-planning process and are genuinely eager to help. But, many are "too afraid to ask the hard questions" and many "move too quickly" to discussions of giving mechanisms before fully engaging their clients around values and motivations.

Here are some of the key findings from the study:

- Over half of those advisors interviewed, many of whom are highly experienced practitioners, do not discuss their clients' charitable or social values, or help them develop a philanthropic mission. There is still a perception that values-based discussions about philanthropy are highly personal and therefore risky.
- A substantial majority of these advisors would like to become more knowledgeable about how to make charitable giving conversations with clients more effective. That said, many would continue to refer their clients with complex philanthropy objectives to third-party philanthropy professionals.
- A majority of advisors want more and better materials, templates and other resources to help counsel clients about their philanthropic options. There is a perception that there is adequate access to technical tools, but that methods and materials for addressing broader-based philanthropy planning are in short supply and not easily found.
- Nearly two-thirds of the advisors interviewed employ a very limited number of charitable planning tools, consistently relying on one or two planned giving vehicles, regardless of the clients' circumstances or charitable intent.

TPI also interviewed donors and found that:

- In overwhelming numbers, the donors who were interviewed report it is they, and not their advisors, who typically raise the subject of philanthropy.
- These donors wish their advisors were more knowledgeable about philanthropic planning and that advisors would take a more comprehensive approach to their giving, rather than focusing heavily on tax planning and specific giving vehicles.
- Most of the donors surveyed believed their advisors are technically competent, but they also believe most advisors lack the tools and comfort levels to link technical counsel to more personal values-based philanthropy planning.
- If their advisors are not knowledgeable about philanthropic planning, donors seek referrals to others who are knowledgeable.

***Conclusions: New Philanthropy Capital (the UK financiers agency acting as a bridge between donors and charities, see p. 23) is a good example of a highly-developed professional advisory service for philanthropists. There are many comparable resources in the USA and a few in Australia. But how influential are they? We can assume that most wealthy people will at least consider the advice of their advisors in matters of investment, tax, financial planning and so on. Similarly, if wealthy individuals are considering whether or even how to make a donation***

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<sup>55</sup> <http://www.pgdc.com>

*most effectively, they may well ask their advisors for help and advice. (An individual may even instruct the advisor to seek out specific information). But is he likely to accept unsolicited advice on so sensitive an issue? No doubt some advisors do enjoy the close personal relationships with their clients that would allow this sort of conversation, but it seems more likely that most Australian advisors would demonstrate the unwillingness identified by The Philanthropy Initiative to attempt ‘discussions of giving mechanisms before fully engaging their clients around values and motivations.’*

*That said, it is clearly very desirable:*

- *that advisors should be able to advise their clients on the most effective and efficient ways to give*
- *that their ability to do so should be encouraged through educational programmes*
- *that such programmes should be developed and delivered in cooperation with financial institutions and the various professional bodies.*

*In our opinion, this process will be more effective if it coincides with a greater demand by clients for knowledge of and advice on philanthropic options.*

## 13. CONCLUSIONS AND RECOMMENDATIONS

How can wealthy Australians be encouraged to give more? Ideally we want to create a culture where more of our wealthy give more often, thus increasing dramatically the pool of funds available from wealthy Australians. The challenge is not just to help the philanthropic wealthy to continue, but to motivate those who do not see philanthropy as compelling.

In a recent published discussion Theresa Lloyd and Denis Tracey agreed on a few simple propositions:<sup>56</sup>

- it is important to engage donors personally
- it is important that there are opportunities for such engagement to be fun. This ranges from the pleasure of giving to the buzz of being involved with other donors and meeting beneficiaries
- there's no point in trying to convince people to be more generous by criticizing them
- people don't decide to give out of obligation, but because their intellect and their imaginations have been unlocked.

There are deep differences in the philanthropic cultures of the USA and Australia, and strategies that are successful in the US will not necessarily work here. However as a general theme, the idea of promoting social investment rather than donations seems worth developing. Under this paradigm, an investment brings rewards that apply across society generally and everyone benefits.

From our exploration of this issue, three important characteristics of very wealthy people seem to have emerged:

- They may not be greatly influenced by taxation incentives alone
- They need to be engaged by other social investors
- They often prefer to influence events, rather than simply give money.

These are important in considering how best to stimulate greater giving by the wealthy in Australia. One model of the wider process of influencing change is explored in the current edition of the *Stanford Social Innovation Review*:

Individuals and institutions that lead must be able to identify when an issue is ripe for public attention and corrective action. ... The public is more likely to pay attention to proposed solutions to a problem it is already concerned about.<sup>57</sup>

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<sup>56</sup> 'Getting rich people to give', *Alliance* Vol 9, No 4, December 2004, London

The specific conclusions that appear throughout this report can be summarised as follows:

- Tax breaks and well-informed advisors can remove impediments to giving. They can also reinforce the decision to give and help make the giving better-informed and more effective. For these reasons alone, they should be encouraged. But it is unlikely that by themselves they will alter the culture of giving in Australia.
- People associated with specific causes and charities (including professional fundraisers) can sometimes be in a position to influence wealthy people. They should be trained and equipped to do so more effectively.
- The people who are best-placed to win the hearts and minds of wealthy Australians are people like them; people who they admire or wish to be admired by. This might include their own families, and exemplary figures in business, culture, sport or entertainment.

These lead to the following specific recommendations:

- Skills development for people who are in a position to influence potential donors. This includes board members and senior staff of charities and professional fundraisers (including through the Fundraising Institute of Australia and through formal training in tertiary institutions).
- Encouragement of more and better training for financial advisors, probably through the various professional bodies, but also involving major financial institutions and some tertiary institutions.
- Introduction of further tax incentives to encourage and facilitate giving. Examples that have been described in this report include reintroduction of estate tax, income-tax breaks greater than 100% and some form of Charitable Gift Annuity
- The establishment in Australia of an awards scheme that focuses on philanthropy. This might be operated by a consortium that includes:
  - a media group (eg, *The Financial Review*, *The Women's Weekly*)
  - some well-regarded national charitable organisations (eg, The Smith Family, an environmental body)
  - businesses with good reputations for CSR (eg, Westpac, Bakers Delight)
  - leaders in different fields who are generally admired in society and who are known to give

Support from government should be considered with caution.

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<sup>57</sup> Heifetz, RA; Kania JV; & Kramer, MR "Leading Boldly" Stanford Social Innovation Review, Winter 2004, P28. [http://www.ssireview.com/articles/article.php?article\\_num=187](http://www.ssireview.com/articles/article.php?article_num=187)

## **Further Research**

The information contained in this paper has mostly been collected through desk research and through sounding out various knowledgeable individuals around the world. It would be useful to complement with by some qualitative research based on focus groups of wealthy individuals in Australia. A couple of major agencies, the Brotherhood of St Lawrence and the Benevolent Society, have expressed interest in participating in and supporting this research.

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4 February 2005

## APPENDIX: DETAILS OF TAX LAWS IN AUSTRALIA, US, UK AND CANADA.

### Tax law in Australia <sup>58</sup>

Charity law in Australia is based on the Statute of Elizabeth of 1601 and recognises four classes of charity: relief of the afflicted, advancement of religion, advancement of education and ‘other purposes beneficial to the community’. Over the years the courts have developed these concepts in ways that have not always been consistent and often involve fine distinctions. The main areas of public activity which are not charitable are those which confer private benefits, are sporting, recreational or social,<sup>59</sup> political or governmental.

Two sorts of tax concessions are especially relevant to charities; tax concession and tax deductibility. The former entitles an organisation to an exemption from income tax and to some other benefits. The latter, which is more relevant for this report, makes an organisation a deductible gift recipient (DGR), entitling it to receive tax-deductible donations. This is particularly important for a charity that hopes for support from individuals or from charitable foundations, many of which may make grants only to DGRs. Those who qualify for DGR status include: public benefit institutions (quite narrowly defined), school building funds, universities, environmental organisations, overseas aid bodies and, more recently, Prescribed Private Funds. Some miscellaneous organisations receive DGR status through specific and individual amendments to the legislation. This usually takes some time and requires persistent lobbying, or influence or both.

### Tax Laws in the USA

Both federal and state government levy taxes on individuals. Approved nonprofits are exempt from federal tax, and some (but not all) states also allow exemptions. Deductions in respect of gifts to charities may be claimed against income, gift and estate taxes. The Introduction of Internal Revenue Service (IRS) *Publication 526* provides two key definitions:<sup>60</sup>

- A charitable contribution ‘is a donation, or gift to, or for the use of, a qualified organization. It is voluntary and is made without getting, or expecting to get, anything of equal value’
- Qualified organizations ‘include nonprofit groups that are religious, charitable, educational, scientific, or literary in purpose, or that work to prevent cruelty to children or animals.’

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<sup>58</sup> This information comes mainly from *Introduction to Charity Law*, by Alice Macdougall, Freehills Melbourne, October 2004.

<sup>59</sup> This may change before long. This Centre is now engaged on a project for the Victorian Department for Sport and Recreation which is seeking tax-deductible status for community sport and recreation bodies.

<sup>60</sup> IRS Publication 526, Revised December 2003 <http://www.irs.gov/charities/contributors/index.html>

All qualified organizations are listed in IRS *Publication 78*.<sup>61</sup>

### **Deductions**

Charitable contributions of money or property made to, or for the use of, qualified organizations are deductible from an individual's taxable income. A contribution is 'for the use of' if it is held in a legally enforceable trust. When property is contributed, a taxpayer can generally deduct the 'fair market value' of the property at the time of contribution. Property also includes such things as used clothing and household goods. Special rules apply where property has increased or decreased in value relative to purchase price.

Unlike in Australia, a deduction can be made when a taxpayer receives a benefit through a contribution to a qualified organization. The deduction may not exceed value of the benefit received.

Taxpayers can also deduct expenses incurred in giving services to a qualified organization (provided they are not reimbursed, directly connected and not personal expenses). The value of the filer's time and services can not be deducted.

### Limits of Deductions

Federal law limits the deductions that can be made in any one year. The limits are expressed as percentages of gross income, but do not arise if total contributions are 20% or less of adjusted gross income. Husbands and wives may file a joint return and aggregate their gifts for percentage purposes. Where the limits are exceeded, excess amounts can generally be carried over and deductions claimed for up to the next five years, or until used up. The limits range from 50%-20%.

### **Gift Tax**

This is a tax on the transfer of assets by one individual to another while receiving nothing, or less than full value, in return. It is paid by the donor and applies whether or not the donor intends the transfer to be a gift. Gift tax does not apply to gifts to charities and to some other recipients (spouses, educational or medical expenses paid for someone else, and political organizations).

### **Estate Tax**

This is a tax on an individual's assets upon death. It is based on everything the individual owns; cash and securities, real estate, insurance, trusts, annuities, business interests, etc. Certain deductions are allowed (including mortgages and estate administration expenses) in arriving at the 'taxable estate'. Assets that pass to surviving spouses and qualified charities are excluded from the taxable estate and are exempt from estate tax.

### **Tax Effective Charitable Products**

A Charitable Gift Annuity (CGA) is a contract (not a trust) under which a charity, in return for a transfer of cash, marketable securities or other property, agrees to pay a fixed sum of money for a period measured only by one or two lives (not a term of

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<sup>61</sup> IRS Publication 78 <http://www.irs.gov/charities/article/0..id=96136.00.html>

years). The payments (annuity) are fixed and unchanged for the term of the contract and are not regarded as income. The contributed property (the gift) is given irrevocably and becomes a part of the charity's assets. The annuities are a general obligation of the charity and are backed by the charity's entire assets. Unlike a trust, annuity payments continue for the life/lives of the donor(s).<sup>62</sup>

A Charitable Remainder Trusts (CRT) is established for the life of the donor and/or the life of any beneficiaries and is irrevocable. If desired, the income period of the trust can be based on the life expectancy of the income beneficiaries or established for a specified period of time not to exceed twenty years. Upon termination of the payments, the remaining interest is transferred to a charitable organization. The donor receives a tax deduction applicable to the current year's income, based on the amount eventually to be given to the charitable organization.

### **Capital Gains Tax**

No capital gains tax is incurred and no capital gains tax losses are generated when an appreciated asset is given to a qualified charity.

## **Tax laws in the UK<sup>63</sup>**

### **Deductions**

Income tax relief for charitable donations is available under the payroll giving scheme, the gift aid scheme and for gifts of qualifying investments.

Payroll Giving Scheme: is available to any employee who is paid under the PAYE system and who makes charitable gifts through an employer-operated payroll giving scheme. The employer deducts the amount of the gift out of the employee's salary before deduction of tax. The payment is passed to a payroll giving agency, which forwards the money to the chosen charity. The employee receives immediate tax relief at his top rate of tax.

Gift Aid Scheme The gift aid scheme applies to all cash gifts to charity. Provided that the individual completes the requisite gift aid declaration he may claim higher rate tax relief on the grossed up amount of the gift and the recipient charity may claim from the Inland Revenue a payment equal to tax at the basic rate that the donor has paid on the grossed up amount of the gift.

The relief is available against capital gains tax and income tax liability.

Relief for gifts of qualifying investments Charitable donations of qualifying investments are eligible for tax relief. The market value of the donated investments (plus miscellaneous costs) is deducted from the donor's income for tax purposes. Qualifying investments are shares and securities listed on a recognised stock exchange, shares in authorised unit trusts, shares in open-ended investment schemes and in offshore funds. Only outright gifts to charity are deductible.

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<sup>62</sup>American Council on Gift Annuities <http://www.acga-web.org/whatisga.html>

<sup>63</sup> Source [www.instituteforphilanthropy.org.uk](http://www.instituteforphilanthropy.org.uk)

### **Capital gains tax**

Transfer of appreciated assets to a charity are treated as having been made by the donor at no gain/no loss to him. This means that the donor will incur no capital gains tax liability on the transfer.

### **Inheritance tax**

Lifetime and testamentary gifts to a charity are exempt from inheritance tax.

## **Tax laws in Canada**

### **Deductions**

A gift to an approved charity entitles the taxpayer to a deduction. Before 1996 tax credits could only be claimed up to 20% of income, but in 1996 this was increased to 75% of net income. This led to an immediate increase of 12.9% in claimed deductions and a further increase of 11.9% in 1997.<sup>64</sup> This does not necessarily indicate more giving, but may simply reflect greater awareness and use of the tax advantages.

Unused credits can be carried forward for up to 5 years.

### **GCT**

Canada does not have death duties, but Capital Gains Tax (CGT) is payable on all assets in a deceased estate. The deceased is deemed to have sold all assets immediately prior to death. By incorporating gifts into the his will and taking advantage of various gift tax credits, a taxpayer can minimize tax and ensure that his estate is distributed as he wishes. Tax credit for gifts can be claimed for 100% of the deceased's last year of income, so in theory CGT on an estate can be avoided altogether.

Similarly a gift of an asset during one's lifetime is subject to CGT. Before 1999 75% of the CG was taxable, but in that year this amount was halved for certain gifts of capital property, such as shares.<sup>65</sup> In 2000, CGT was reduced to 50% and so only 25% of CG of gifted shares is now included in taxable income. A donor can add to his tax credit 25% of CGT on a gift of capital property, plus 75% of the amount of any recapture of capital cost allowance, effectively eliminating CGT on such gifts.<sup>66</sup>

### **Gifts of property**

Gifts can include property, cash, annuities, life insurance policies, shares, residual interest and proceeds of pension plans. Here is an example of gifting a life insurance policy. Bob and Jane will have an estate of \$410,000. They would like to leave \$60,000 to their local hospital and the remainder to their children. Tax liability will be

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<sup>64</sup> Stewart, Wayne. Canadian Council for International Co-operation. 1999. *A profile of planned giving and Endowments within the Canadian International NGO Community*.

[www.ccic.ca/e/docs/002\\_od\\_profile\\_of\\_planned\\_giving\\_and\\_endowments.pdf](http://www.ccic.ca/e/docs/002_od_profile_of_planned_giving_and_endowments.pdf)

<sup>65</sup> Canada Revenue Agency. December 1, 1999. *Tax Advantages of Donating to Charity*.

[www.cra-arc.gc.ca/tax/charities/policy/ces/ces-009-e](http://www.cra-arc.gc.ca/tax/charities/policy/ces/ces-009-e)

<sup>66</sup> Parks, James M. The Canadian Donor's Guide. April 2004. *Charitable Donations – A Summary of Tax Considerations*. [www.donorsguide.ca/printtaxcon](http://www.donorsguide.ca/printtaxcon)

approximately \$220,000. However by using the \$60,000 to purchase a life insurance policy for \$350,000 with the hospital as the recipient, the gift to the hospital will offset the tax owed on their remaining assets on death. The maximum amount will be left to their family plus a much more significant gift is made to the hospital. The tax department gets nothing.<sup>67</sup>

## **Comparisons between USA, UK and Australia**

### **Deductibility for Donations**

All three taxation systems encourage charitable giving through tax deductibility for donations.

Australia: There is no limit to the amount which can be claimed

US: There are limits to the amount which can be claimed in any one year, however they are at a reasonably high level for individuals and where the limits are exceeded in one year they can be carried over for up to 5 years. Tax exemption is afforded to a broader range of approved donees relative to Australia.

UK: Gift Aid scheme increases the tax benefit to both donor and recipient. Payroll giving well-developed.

### **Estate Tax / Death Duties / Inheritance Tax:**

Australia: Not applicable.

US: Gifts at death of individuals with significant estates reduces the amount of tax payable.

UK: Gifts to charity are exempt from estate tax.

### **Tax-effective giving products**

Australia: Some deductions for gifts of property and shares

US: Charitable Gift Annuities (CGAs) and Charitable Remainder Trusts (CRTs) provide tax incentives for the asset rich to make charitable donations. The income stream provided helps address reservations such people may have about the security of their financial future.

UK: Schemes to facilitate gifts of shares and other property.

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<sup>67</sup> Jordan, John. Giftplan. March 20, 2003. *Demystifying Charitable Planned Giving*. [www.giftplan.ca/index.php/article/articleprint/42/-1/1/](http://www.giftplan.ca/index.php/article/articleprint/42/-1/1/)