

## How the wealthy give: comparisons between Australia and comparable countries (USA, Britain and Canada)

Australia has little tradition of significant philanthropic giving. Compared with the United States, private donated wealth has played a minor part in the building of Australia's major civic, welfare, and cultural institutions. Australia still has no real counterparts to the Carnegies, Rockefellers, Fords, or their more recent manifestations: Bill Gates, George Soros or the Packard family. Australia's wealthy families have neither their mythic quality, their power, their reputation for beneficence, nor, perhaps, their notoriety. Nor are the small number of philanthropic foundations established by some of Australia's philanthropic families perceived as fundamental to the fabric of Australian society, and even to its international identity, as is the case, for example, with the USA's Ford Foundation, which since its creation in 1936 has made more than US\$10 billion in grants.<sup>1</sup>

### 1 Introduction

Most people like to be thought of as generous. In all cultures stories of kindness and altruism are a source of pride. Most Australians would probably assert that we are a generous society.

In the field of philanthropy, comparisons with the USA are inevitable, but although the USA and Australia are similar in many important ways, their attitudes towards and practices of philanthropy and social investment are very different. While the USA undoubtedly has a well-deserved reputation for generosity, especially by the rich, and there is pretty clear evidence that the wealthy in the US are more generous than their counterparts in other countries, comparisons need to be carefully qualified. In the first place, information on philanthropic giving is often based on data (e.g., responses to surveys) that cannot be verified. Second, the data itself often does not allow a comparison of like with like. And above all, it must be recognised that history, culture, religion, tax regimes and community expectations are as different as they are influential.

There is no data on giving in Australia that is based on the net wealth of the givers (and not much in other countries either). Instead we must rely on national taxation returns which tell us what deductions tax payers have claimed following donations to tax-deductible causes and institutions. This information is available in respect of declared income levels and so it is possible to compare giving by people in different countries with annual incomes over, say, \$1 million.

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<sup>1</sup> Liffman Michael, *A Tradition of Giving: Seventy-five years of Myer Family Philanthropy*, MUP 2004, p.1.

It should be acknowledged that there are a couple of problems with this methodology. First, it does not include all charitable giving. According to a recent financial services estimate, only one-third of all donations/gifts by individual Australians in 2000-01 was actually claimed in tax returns.<sup>2</sup> (There does not seem to be comparable information for other countries).

Second, it might be claimed that very high income and high net wealth do not always coincide. (For example, it might include young high earners who had not yet had time to accumulate great wealth, or it might exclude wealthy people who have arranged their affairs so as to minimise their taxable income). But to most people, a person with an income of \$1 million a year is certainly regarded as wealthy. More to the point, he or she is almost certainly able to donate significant amounts without suffering any serious reduction in his or her standard of living.

The importance of the first point is highlighted by comparing an aggregated, national level of giving as a percentage of Gross National Product (GNP). This comparison needs to take into account giving by individuals (both claimed and unclaimed), by large and small businesses and by foundations. Using this measure in a comparison of philanthropy in the US and UK, “the United States gives at a rate of more than twice that of Great Britain. Giving in the US was 2.1% of GNP in 2000.... Figures for UK giving usually estimate it at anywhere between 0.63% and 0.77%.”<sup>3</sup>

Using the Goldman Sachs JBWere estimate of a total of \$3.3bn gifted in Australia in 2001-2002 when the GDP (in Australia the more widely used and broadly equivalent measure to GNP) was \$641bn, then Australia as a whole contributed approximately 0.5% of GDP, or roughly one quarter of what is given in the US.

***Total gifts/donations given as a proportion of Gross National Product***

<b>Country</b>	<b>% of GNP/GDP gifted</b>
Australia	0.5%
UK	0.63% to 0.77%
USA	2.1%

Source: Wright, K 2001 and Goldman Sachs JBWere 2004

<sup>2</sup> Goldman Sacs JBWere; *Philanthropic Services Forum 2004*, Melbourne (private paper).

<sup>3</sup> Wright, Karen: *Generosity versus Altruism: Philanthropy and charity in the US and the UK*, Civil Society Working Papers 17, LSE, London, 2001 p.8

[http://www.lse.ac.uk/collections/CCS/pdf/Cswp17\\_web.pdf](http://www.lse.ac.uk/collections/CCS/pdf/Cswp17_web.pdf)

## 2 What is known

### GIVING IN AUSTRALIA

The aggregate giving by wealthy Australians in particular has been encouraged in recent years by targeted Government initiatives:

- Property valued by the Commissioner of Taxation at more than \$5,000 is now tax-deductible when gifted to an eligible body (a Deductible Gift Recipient)
- A simpler structure for giving was introduced, Prescribed Private Funds (PPFs)

#### *Growth in Prescribed Private Funds (PPFs) in Australia*

Year	Total PPFs	New Donations (millions)	Distributions (millions)	Balance of funds (millions)
2000/01	22	\$78.6		\$78.6
2001/02	81	\$58.3	\$6.7	\$135.1
2002/03	131	\$48.0	\$17.7	\$168.9m
2003/04	223	Not available	Not available	Not available

Source: Centre of Philanthropy and Nonprofit Studies, QUT, *An Examination of Tax-Deductible Donations*

This table invites some extrapolation. In 2002/03 131 PPFs were established. Their combined corpus was \$48 million, an average of \$366,412.

The best-known and most widely-acknowledged source of information on wealthy Australians is *Business Review Weekly's* annual "Rich 200" list. In 2004 this was headed by Kerry Packer (\$6.5 billion) and finished with Roger and Leslie Gillespie (\$100 million) founders of the Bakers Delight chain (whose partnership with the Breast Cancer Network has been very widely praised).<sup>4</sup>

If each of the individuals named in the BRW "Top 200" had established a PPF with, say, 5% of their estimated net worth, the total corpus of the combined PPFs would be just over \$3.9 billion, the average PPF corpus would be approximately \$19.5 million and, with an annual earning rate of 6%, this aggregate corpus would generate gifts of about \$235m per annum.

Better still, If Australia's wealthiest citizens contributed 14.45% of their wealth (the average amount gifted by the top 30 in the USA – see below), the total corpus for our "Top 200" would exceed \$11 billion. This would generate approximately \$679m per annum (given a 6% earning rate), with an average corpus of more than \$56 million.

<sup>4</sup> This illustrates another complicating factor in tracking donations. In privately-owned companies, like Bakers Delight, the difference between private and corporate giving is sometimes blurred.

While this mathematical extrapolation is over-simplified and takes no account of any existing corpus, it does highlight the potential of what could be reasonably be described as a moderate level of giving by Australia's wealthiest.

According to Goldman Sachs JBWere, the introduction of PPFs accounts for the fact that from 2001/2001 and 2001/2002 the average proportion of taxable income donated by taxpayers with incomes in excess of \$1m rose from approximately 1.3% to approximately 3%.

### **Some Key Australian Numbers**

In 2001/2002 donations were made and claimed as tax-deductions by individuals as follows:

- 34.76% of Australian individual taxpayers made and claimed tax-deductible donations (approximately 1 in 3)
- a total of \$838.15m was claimed. This was an increase of 16.2% over the previous year (it is thought that this increase is largely attributable to the introduction of PPFs)
- the average donation claimed was \$241.35
- the average proportion of taxable income donated, by those who made claims, was 0.25%

*2000/01 donations made & claimed by individual Australian taxpayers*

	All taxpayers	Income >\$1m
Average donation	\$241	\$53,446
% of taxable income donated	0.25%	1.9%
% of taxpayers who claim deductible donations	33%	63%

Source: Centre of Philanthropy and Nonprofit Studies, QUT, *Current Issues Information Sheet 2004/12*

### **GIVING IN THE USA**

In her recently-published book, Theresa Lloyd makes three important observations about philanthropy in the USA:

- It operates in an environment which is antipathetic to the idea that the state has a very prominent role to play in the provision of welfare and higher education services, cultural facilities and community assets

*How the Wealthy Give.*

- It is an integral and defining element of the elite culture. It is crucially linked to the nature and functioning of upper class culture in American society
- It is supported by targeted taxation benefits including that “a donor may allocate capital to be given to a charity at some future date, continue to enjoy the income from the capital and get tax relief at the time of the commitment. This addresses the feelings of security and encourages people to plan”<sup>5</sup>

Also this year *Forbes* magazine published “Who Gives”, detailing the philanthropic giving of the 20 wealthiest members of its “Rich 400” list. For this purpose, all recorded gifts over time were added back to the individual’s estimated current wealth in order to calculate his or her “philanthropy-adjusted” net worth.

For example, in the case of Bill Gates, *Forbes*’ richest American, donations of \$28.2 billion were added to his estimated current net worth of \$48 billion, giving a “philanthropy-adjusted” net worth of \$76.2 billion and allowing *Forbes* to conclude that Gates has given away 37% of his wealth. By the same formula, George Soros is estimated to have given away 43% of his estimated wealth, while Gordon Moore (Chairman of the Intel Corporation) heads the list at 64%. Moore has given “a mere” \$8.8 billion leaving him with a residual net worth of \$3.8bn. Towards the other end of the table, Warren Buffett (donations of approximately \$321 million) is estimated to have given just 1% of his wealth.<sup>6</sup>

The *Forbes* list is reproduced at Appendix 1.

*Forbes* also notes that there are 3 individuals who have fallen off the Forbes 400 rich list this year, because of the scale of their donations.

By contrast (and also as a sobering comparison between Australian and US philanthropy), here is a list of Australian foundations that are known to give more than \$1 million a year. Note that only about five of these represent gifts by living donors.

#### **Annual giving by Australian Foundations as at February 2003**

	<i>\$AUSMil.</i>
The Pratt Foundation	10.2
The Myer Foundation	9
The Ian Potter Foundation	7.7
Colonial Foundation	5.5
Sylvia and Charles Viertel Charitable Foundation	4.5
Jack Brockhoff Foundation	3.8
The William Buckland Foundation	3.4

<sup>5</sup> Lloyd, Teresa: *Why Rich People Give*, Unwin Brothers, London 2004

<sup>6</sup> Forbes.com *Charity And The Forbes 400*, 2004  
[http://www.forbes.com/personalfinance/philanthropy/2004/09/23/cz\\_dw\\_0923philan\\_rl04.html](http://www.forbes.com/personalfinance/philanthropy/2004/09/23/cz_dw_0923philan_rl04.html)

Helen Macpherson Smith Trust	3.2
Vincent Fairfax Family Foundation	3*
Garnet Passe & Rodney Williams	
Memorial Foundation	2.7
The Foundation for Young Australians	2.5
The R.E. Ross Trust	2 +
CEPA Trust	2 +
AMP Foundation	1.9
Edmund and Caroline Resch Memorial Fund	1.8
Collier Charitable Fund	1.8
The Baxter Charitable Foundations	1.8
Ramaciotti Foundations	1.6
The Gandel Charitable Trust	1.5 +
John T. Reid Charitable Trusts	1.5
Thyne Reid Charitable Trusts	1.5
Greater Melbourne Foundation (previously known as the Lord Mayor's Charitable Fund)	1.5
The Triton Foundation	1.4
William Angliss Charitable Trust	1.3*
The Alfred Felton Bequest	1.3
Foundation for Rural and Regional Renewal	1

\* estimated figures.

Source: Philanthropy Australia.<sup>7</sup>

Big donations in the USA are also tracked by the Centre on Philanthropy at Indiana University via its Million Dollar List, published quarterly. In the second quarter of 2004 the Centre tracked 351 gifts greater than \$1 million. These are either announced publicly or brought to the attention of the Centre and are estimated to be between one-fourth and one-half of the gifts actually consummated in the quarter.<sup>8</sup> It is worth noting that more than half the value of these 351 gifts was directed towards education.

The American propensity to give large sums to the higher education sector was also illustrated in the *Weekend Australian Financial Review* of October 2-3, 2004 reporting contemporary gifts by individuals to Brown University (\$100m), Michigan University (\$100m), Tufts University (\$50m) and Stanford Law School (\$43.5m).

<sup>7</sup> <http://www.philanthropy.org.au/factsheets/7-05-01-ausfound.htm>

<sup>8</sup> Center on Philanthropy, Indiana University: *Executive Summary Million Dollar List 2<sup>nd</sup> Quarter 2004*  
[http://www.philanthropy.iupui.edu/Million\\$Executive%20Summary--Q2%202004.pdf](http://www.philanthropy.iupui.edu/Million$Executive%20Summary--Q2%202004.pdf)

## Some Key US Numbers

### *USA Base giving data 2000*

% of Households	% of all charitable \$s
0.2%	13%
1%	23%
5%	45%

Source: *Better than Gold*<sup>9</sup>

### *USA Base giving data 2001 (USD)*

<i>Taxable Income range</i>	<i>Average Donation (000s)</i>	<i>Percentage of Income</i>
\$1.0m to \$1.5m	\$47.2	3.91%
\$1.5m to \$2.0m	\$58.0	3.38%
\$2.0m to \$5.0m	\$105.4	3.55%
\$5.0m to \$10.0m	\$274.8	4.04%
More than \$10.0m	\$1,834	7.17%

Source: Newtithing Group; *Spring 2004 The Generosity of Rich and Poor*<sup>10</sup>

## GIVING IN THE UK

In addition to its “Rich List 2004”, *The Sunday Times* has also published a Giving Index which ranked the top 30 donors from the 400 wealthiest individuals in the UK. The ranking is in order of the proportion of the individual’s total wealth gifted in the previous 12 months. According to *The Sunday Times* the top 30 donors gave a total of £297 million or an average of 2.3% of their wealth.<sup>11</sup> However the aggregate is skewed by the very large gift of £105 million by Scottish retail entrepreneur Tom Hunter. This gift represented of approximately 20% of Hunter’s pre-gift wealth. (If this single donation was removed from the list, the average contribution of the top 29 UK givers would be reduced to 1.2%.<sup>12</sup>).

NB This data is proportion of wealth, the data reference above is in relation to annual taxable income.

<sup>9</sup> Schervish, Paul: *Better than Gold: The Moral Biography of Charitable Giving* 2003  
<http://www.bc.edu/research/swri/meta-elements/pdf/btg.pdf>

<sup>10</sup> Newtithing Group, *Spring 2004 The Generosity of Rich and Poor*  
[http://www.newtithing.org/content/researchreports\\_1.html](http://www.newtithing.org/content/researchreports_1.html)

<sup>11</sup> TIMES ON LINE *The Sunday Time giving index* 2004 <http://www.timesonline.co.uk/article/0,,2108-1067099,00.html> and *The Sunday Time Rich List* 2004 <http://www.timesonline.co.uk/article/0,,2108-1064995,00.html>

<sup>12</sup> Lloyd, *Op Cit.* p.278.

It is interesting to note that only one of the nine British individuals named in *The Sunday Times* "Europe's richest 50" in 2004 is in the top 30 of the UK giving index. (Hans Rausing is ranked equal 12<sup>th</sup> on Europe's richest 50 and ranked 30 on the giving index - he gave over £29m against an estimated total wealth of £4,950m.)

It is also important to note that this list involves publicly-known donations against *estimated* total wealth, and as such there are questions over the accuracy of both the data and the deductions drawn from it.

Another indication of giving by wealthy individuals in the UK is addressed in a recent article following a survey by the Giving Campaign in which it is noted that "The latest figures on giving in the UK show we still lag behind America, a situation that will not change while **the richest 20% give 0.7% of their household expenditure** to charity and the poorest 20% give up to 3%" (emphasis added)<sup>13</sup>

## GIVING IN CANADA

In Canada a *National Survey of Giving, Volunteering and Participating (NGSVP)* was run in 1997 and again in 2000. The 2000 data is the most recently available. While the top income bracket in this survey is \$100,000 p.a. and above, the information it provides is richer and deeper than in most countries. *Important Donation Trends* identified by the NGSVP included:

- the top 25% of donors accounted for 82% of the value of all donations in 2000, up from 80% in 1997
- reported planned giving increased from 20% in 1997 to 25% in 2000
- planned giving donors accounted for 39% of the value of all donations, up from 32%<sup>14</sup>

In terms of motivational influences, NGSVP notes that in relation to religion

- 90% of those who attended weekly services made a donation; against 77% of those who did not
- the average donation of the former group was more than 3 times as large
- the 11% who described themselves as very religious accounted for 29% of all donations to charity

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<sup>13</sup> McCall, Alastair *TIMES ON LINE* 18 April 2004 *The art of giving* 2004  
<http://www.timesonline.co.uk/article/0,,2108-1067285,00.html>

<sup>14</sup> Canadian Centre for Philanthropy: *Understanding Canadian Donors: Using the National Survey of Giving, Volunteering and Participating to Build Your Fundraising Program* Norah McClintock, Toronto 2004 [http://www.givingandvolunteering.ca/pdf/reports/Understanding\\_Donors.pdf](http://www.givingandvolunteering.ca/pdf/reports/Understanding_Donors.pdf)

In relation to tax:

- Just 13% said they were motivated by the desire for a tax credit. However tax considerations were important for donors at the high end of giving
- 52% of the top 25% of donors said they would increase donations if given a better tax credit
- the increase in 1996 of tax credits for charitable donations from 20% to 50% of their taxable income coincided with a 14% increase in donations

And in relation to other motivations

- 94% said they gave out of compassion
- 91% said they gave to support a cause they personally believed in

As the table below shows, as household income increased, so did both the likelihood of making a donation and the average value of the donation. Households with incomes of \$100k or more made up 12% of the population, 13% of donors, accounted for 24% of top donors and 27% of total donations.

### Canadians Donating

	Donation Rate	Av Donat'	% population	% donors	% top donors	% value of don's	% Tax Cr. claim
<b>Household income</b>							
< \$20,000	63%	\$142	13%	11%	6%	6%	22%
\$20,000-\$39,999	75%	\$190	26%	25%	18%	18%	35%
\$40,000-\$59,999	79%	\$214	23%	23%	20%	19%	45%
\$60,000-\$99,999	85%	\$275	25%	27%	32%	29%	54%
<b>\$100,000 or more</b>	<b>86%</b>	<b>\$529</b>	<b>12%</b>	<b>13%</b>	<b>24%</b>	<b>27%</b>	<b>67%</b>

Source: *The Philanthropic Sprit in Canada*<sup>15</sup>

According to a separate survey of the giving habits of affluent Canadians in 2003 by the financial services firm Taddingstone, over 94% of Canadian millionaires make donations each year and they donate an average of 3.2% of pre-tax annual income<sup>16</sup>

<sup>15</sup> Canadian Centre for Philanthropy: *The Philanthropic Sprit in Canada* Norah McClintock, Toronto 2004 .

<sup>16</sup> Taddingstone Consulting Group *The 2003 Mass Millionaire Report* Toronto 2003  
<http://www.taddingstone.com/survey.php>

**Canada: Base giving data 2000**

% of Donors	% of all charitable \$s
5%	47%
25%	82%

Source: *Understanding Canadian Donors*

**Millionaire giving 2003**

% who make donations	94%
Average % of pre-tax income	3.2%

Source: Taddingstone 2003 *Mass Millionaire Report*

### 3 The giving climate

#### INTERGENERATIONAL WEALTH TRANSFER

For some years this phenomenon has been a light on the hill for fundraisers, financial advisers and many in the non-profit world. Estimates of the size of the current transfer have varied but very little work has been done on the attitudes that these inheritors have to giving, except an impression that they are likely to be more entrepreneurial and creative in their philanthropy than their parents.

In Australia virtually nothing is known about either the overall size of the intergenerational transfer or the amount that might be donated. A report published in June 2003 identified a number of reasons why Australian baby boomers ought not be optimistic about receiving large inheritances,<sup>17</sup> but this is not especially convincing.

#### CAPACITY AND PROPENSITY IN AUSTRALIA AND THE USA

The research undertaken by Schervish and Havens in the US led Schervish to the conclusion in *Better than Gold*<sup>18</sup> that people are generous across the economic spectrum in the US and especially at the wealthy end. The varied data looked at above in relation to Australia, Canada, USA and the UK confirms:

- that even where the proportion of wealth gifted is equivalent, the absolute dollars given by the rich will be greater
- as affluence increases, so too (on average) does the proportion of wealth gifted

In the context of the intergenerational wealth transfer associated with the baby boomers, this data is particularly significant for the potential increase in the effective dollar value of gifting from the wealthy. The challenge of course is to provide an environment that is at the very least conducive to and supportive of converting this potential into actual philanthropic contributions. On this point Paul Schervish of Boston College is optimistic. In 2001 he proposed an upper estimate of \$US136 trillion to be passed between 1998-2052.<sup>19</sup> Of this, he predicted, about \$US25 trillion would be donated to charitable causes, mostly through bequests.

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<sup>17</sup> AMP.NATSEM Income and Wealth Report Issue 5. June 2003.

<sup>18</sup> Schervish, Paul: *Better than Gold: The Moral Biography of Charitable Giving* 2003  
<http://www.bc.edu/research/swri/meta-elements/pdf/btg.pdf>

<sup>19</sup> John G Havens and Paul G Schervish, *Millionaires and the Millennium: New Estimates for a Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy*, Social Welfare Research Institute, Boston College, USA ([www.bc.edu/bc\\_org/avp/gsas/swri/m&m.html](http://www.bc.edu/bc_org/avp/gsas/swri/m&m.html))

Of course the philanthropic tradition in the US has a far stronger and more broadly established tradition than Australia's. As Michael Liffman has noted, the small number of family foundations in Australia "are not perceived as fundamental to the fabric of society" in the same way they are in the US.<sup>20</sup> That said, at least some of the underlying tenets of Schervish's analysis in *The Inheritance of Wealth* would intuitively seem to apply in the Australian context:

- the notion derived from John Maynard Keynes that freedom from economic pressure will/does have potential consequence for greater charitable intent and gifting; and
- the notion that the more people rate themselves as financially secure, the less they need to be concerned about the current and future financial needs of their family, the greater the freedom they have to act philanthropically and the greater the percentage of income they tend to contribute.<sup>21</sup>

Fortunately however we do not need to rely on philosophical contentions to test applicability in Australia. The market provides good indication.

Looking first at the financials, there has been a significant growth in Private Banking services to affluent Australian customers over the past decade. The reasons for this include the growth in what the market describes as High Net Worth Individuals (HNWIs) in Australia, both as a consequence of economic growth and the baby boomer demographic bulge that is as stark in this country as it is in the US. A quick review of some recent related press coverage in Australia helps to highlight philanthropic potential via the growth of wealth in Australia.

"According to funds management industry researcher Datamonitor, the number of .. HNWIs in Australia is already at a record high (up to 200,000 from 140,000 only 5 years ago) and is rising at one of the fastest rates in the world" (Datamonitor defines a HNWI as someone with liquid assets of more than \$US300,000).<sup>22</sup>

"Australia's high net worth population is also expected to increase further over the coming years. Growing at an expected average annual rate of 9.1% to 2008."<sup>23</sup>

According to the Merrill Lynch *Capgemini World Wealth Report 2004*,<sup>24</sup> the number of HNWIs in Australia (defined in this survey as having \$US1 million in assets

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<sup>20</sup> Liffman, Michael: *The Historical and Contemporary Context of Philanthropy in Australia*, Melbourne 2003 (private folio for exclusive use of Swinburne University)

<sup>21</sup> Schervish, Paul: *The Inheritance of Wealth and the Commonwealth*

<sup>22</sup> *The Australian Newspaper: Rich get richer – and more common*, 22 July 2004

<sup>23</sup> Datamonitor flier: *Wealth Management in Australia 2004* 26 July 2004

<http://www.datamonitor.com/~e547d22c9bf94c1d892c0088ddad10d3~/industries/research/?pid=DMFS1710&type=Report>

<sup>24</sup> Capgemini Merrill Lynch *World Wealth Report 2004* 'HNWIs Show New Behaviors'  
[http://www.us.capgemini.com/ind\\_serv/industry/finance/WWR04\\_HNWI.asp](http://www.us.capgemini.com/ind_serv/industry/finance/WWR04_HNWI.asp)

excluding the family home) rose from 105,000 to 117,000 between 2003 and 2004. Australia for the first time ranked in the top10 countries for the growth in the number of its HNWI's.<sup>25</sup>

In the press release accompanying this report Merrill Lynch highlighted that HNWI's primary financial objectives have moved from the preservation of capital toward accumulation and distribution of wealth. They note that for many, the process of wealth management has become multigenerational, creating strong demand for tax, estate and philanthropic planning services. This is detailed in the chapter of the Report entitled "HNWIs Show New Behaviors" where Capgemini reports that HNWIs are adopting more sophisticated approaches and looking to a more comprehensive and integrated range of services from their financial advisers. With more than 70% of the world's HNWIs older than 55, the wealthy are looking for more efficient ways to transfer wealth from one generation to another.

The report draws on the research of Schervish and Havens on the expectations of HNWIs in relation to the distribution of their estates, and contrasts that with how HNWIs would prefer their estates be distributed:

***HNWI wealth transfer expectations and preferences***

	<b><i>Expectations</i></b>	<b><i>Preferences</i></b>
<b><i>Heirs</i></b>	47%	65%
<b><i>Charities</i></b>	16%	26%
<b><i>Taxes</i></b>	37%	9%

Derived from Schervish, Paul and Havens, John *The Mind of the Millionaire – Findings from a National Survey on Wealth and Responsibility* 2001

The major significance attributed in the *World Wealth Report 2004* to the above is that the desire to close the gap between expected and desirable dispersal of the estates of HNWIs, is driving the propensity to seek professional assistance "with trust and estate planning, and philanthropic giving ... with tax considerations remaining a central theme."<sup>26</sup>

The Australian financial services market has developed service offerings in response to the growth in the number and dollar value of wealthy Australians. The August 2004 issue of *Personal Investor* magazine notes that the major banks in particular have been repositioning their private banking businesses to access this growing and high margin customer segment. It notes that since 2002, when ANZ integrated its transition banking with wealth-management and estate planning services, private banking has become that bank's fastest-growing business. ANZ has an advantage in terms of integrated services, given the strength and reputation of its own Trustee business.

<sup>25</sup> *The Australian Newspaper: Millionaires club expanding* 17 June 2004  
[http://finance.news.com.au/common/story\\_page/0,4057,9865510%255E14305,00.html](http://finance.news.com.au/common/story_page/0,4057,9865510%255E14305,00.html)

<sup>26</sup> Ibid p.20

However given the growing demand for estate planning services, other competitors are finding ways to meet that demand.

The Head of Westpac Private Bank says that in response to the increased demand for estate planning services they have people who can give guidance and “call in the experts” if and when required. Similarly, St George Private-Banking has formed a number of alliances, including a partnership with Phillips Fox Lawyers on the establishment of philanthropic trusts.<sup>27</sup>

In summary, there are many trends in the Australian context that are broadly akin to those in the US, including:

- the growth in the number of wealthy individuals
- the growth in the value of that wealth
- the scale of the wealth transfer that is to occur over the impending decades
- the tendency for wealthy individuals to seek professional support in managing their wealth (including its distribution)
- the response of the market in providing that support.

As in the US, these factors combined provide significant potential in Australia for an increase in philanthropic distributions.

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<sup>27</sup> Personal Investor August 2004 *Breaking the Bank* pp60-64

## 4 Giving by the wealthy in Australia

### WHAT IS KNOWN

There has been no study of giving by wealthy Australians in terms of their net worth, and nor is there likely to be. In July 2004 the Commonwealth Department of Family and Consumer Affairs commissioned a very large research project on philanthropy, fundraising and the capacity of the not-for-profit sector. This will be carried out over the next 12 months by a consortium led by the Centre of Philanthropy and Nonprofit Studies at Queensland University of Technology. Dr Michael Liffman is a member of the project steering group.

While details of the study are not yet finalised, it is unlikely that it will seek information specifically on the level of giving by wealthy Australians. Indeed, the project's managers believe that this information cannot be reliably obtained.

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 weightable 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.

### IDEAS TO ENCOURAGE MORE GIVING BY THE WEALTHY

#### Targeted research / focus groups

It would be possible to write to each of the 400 individuals listed in the latest *BRW Rich List* inviting them to disclose information on their giving. While this approach was used quite successfully by Professor Michael Gilding of Swinburne University in gathering attitudinal data for his book *Secrets of the Super-Rich* (Harper Collins 2002), it would not be appropriate for these purposes. It is likely that respondents would be biased in favour of those who already give, and there would be no way of verifying the accuracy of their responses. (On the other hand, such an exercise might be a useful way to raise the issue of giving by the wealthy and help encourage greater generosity by them. Even a poor level of response might justify a statement along the lines of; "Even by their own admission, wealthy Australians ...")

## **TAX INCENTIVES (CARROTS)**

The growth in Prescribed Personal Funds (PPFs) suggests that wealthy people will respond to philanthropic opportunity when appropriate solutions are available. It may be of value to examine tax arrangements in comparable countries, especially those that are considered to have been successful in encouraging gifting by the wealthy.

An incentive which has sometimes been suggested is a tax deduction of more than 100%. During the 1970s and 1980s a deduction of 130% was available to investors in Australian-produced films. It was not a perfect scheme, was no doubt sometimes abused and has now been abandoned. But it undoubtedly helped to develop the Australian film industry.

## **TAX PENALTIES (STICKS)**

A more controversial way to encourage philanthropy is by punishing those who do not give, such as through inheritance taxes or death duties. These applied in Australia, not for any philanthropic purpose but simply as a revenue device, at the state level until 1972, when they were abolished, first in Queensland by the Bjelke-Petersen government, and soon after in other states.

In the USA death duties remain in place,<sup>28</sup> but can be offset by philanthropic donations. As people are, in effect, forced to choose between giving money to a good cause or to the government, this undoubtedly leads to very large gifts. 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 impossible. Maybe not: many people might be less worried if it was clear that the family home was exempt from both taxes and if it was also clear that they were aimed specifically at the wealthy (perhaps by having a threshold of, say, \$20 million). All the same, it is hard to see any of the existing major political parties supporting this.

## **INCREASING THE KNOWLEDGE OF PROFESSIONAL ADVISERS**

Over recent years there has been considerable growth in the Funds Management industry and in Private Banking in Australia, and there is market anticipation of further growth. Some providers of financial services to the wealthy in Australia have demonstrated an understanding of the service (and competitive) value of the inclusion of estate planning and philanthropic advisory services into their offerings (especially Goldman Sachs JBWere and the Melbourne-based law firm, Arnold Bloch Leibler). Despite these examples, there is strong evidence that many professional advisers – Financial planners, lawyers, accountants – do not have a good knowledge or

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<sup>28</sup> It is worth noting that President George W Bush proposed to abolish death duties, but following widespread and well-organised opposition from the non-profit sector – including some high profile wealthy philanthropists – the plans seem to have been shelved for the time being.

understanding of philanthropy and especially of the recent changes to its legal and tax aspects.<sup>29</sup>

### **LEADERS AND EXEMPLARS**

“We need to get this new generation drawn into philanthropy;” Bill Gates told an audience of 1,500 in Silicon Valley in April 2004. “I think we can draw people into being more generous.”<sup>30</sup>

Wealthy individuals and families in Australia are less obviously generous than their US counterparts. With a few exceptions many Australians who are known to be wealthy are not known to be generous. It may be time to introduce some new way of rewarding those who do give. The Prime Minister’s Community Business Partnership Awards Scheme is having some success in developing a culture of Corporate Social Responsibility in Australia. Perhaps a comparable campaign directed towards private philanthropy could be introduced.

Overseas there have been many schemes to encourage giving by wealthy individuals and families, but there has been no serious attempt to evaluate them and their potential applicability to Australia. The *Giving Campaign* (UK) and the Worldwide *United Way* would be good places to start.

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<sup>29</sup> Dr Kym Maddern, *2002 Study of the Financial Adviser’s Role in Philanthropy*; Working Paper No CPNS25, Queensland University of Technology; Brisbane 2004.

<sup>30</sup> Corcoran, Elizabeth *Bill Grows Up* on Forbes.com April 2004  
[http://www.forbes.com/philanthropy/2004/10/04/cz\\_ec\\_1004gates.html](http://www.forbes.com/philanthropy/2004/10/04/cz_ec_1004gates.html)

## 5 Conclusion

While there are some exceptions, the wealthy in Australia are not contributing as generously as they could and arguably as they should. Australians with a taxable income of more than \$AUS1 million contribute less than 2% of their income, compared to Canadian millionaires who on average contribute 3.2% of their pre-tax income and US millionaires who on average give more than 3.5% (>7% for those with incomes in excess of \$US10m);

The Australian population as a whole also gives at a far lower rate than comparable countries, especially Americans:

### *Total gifts/donations given as a proportion of Gross National Product*

Country	% of GNP/GDP gifted
Australia	0.5%
UK	0.63% to 0.77%
USA	2.1%

In the USA, the wealthy lead the way. The average contribution by the 30 most wealthy individuals in America is 14.45% of their net worth.

In Australia, the number of wealthy people is already at a record high and is rising at one of the fastest rates in the world. The take-up rate of the recently introduced Prescribed Private Fund (PPF) is one indication of the potential that exists if all wealthy Australians give even a moderate proportion of their net wealth:

- the average PPF corpus in Australia is currently less than \$0.5m
- if Australia's 200 wealthiest each contributed 5% of their net wealth to a PPF:
  - the average corpus for this group would be just short of \$20m
  - at 6% p.a., the aggregate corpus would generate earnings of approximately \$235m
- if Australia's 200 wealthiest each contributed **14.45%** of their wealth, (the average gifting of the top 30 in the USA):
  - the aggregate corpus would be \$11.3billion
  - the average corpus would be over \$56m
  - at 6% p.a., the aggregate corpus would generate earnings of approximately \$679m per annum

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 October 2004.  
 For the Petre Foundation

## Appendix 1

### Charity And The Forbes 400, 2004

#### WHO GIVES?

Donated Wealth	Net Worth	Philanthropy-Adjusted	% Wealth Given Away
<b>Bill Gates</b>			
\$28,291,699,101	\$48,000,000,000	\$76,291,699,101	37%
<b>Warren Buffett</b>			
\$321,189,039	\$41,000,000,000	\$41,321,189,039	1%
<b>Paul Allen</b>			
\$798,183,920	\$20,000,000,000	\$20,798,183,920	4%
<b>Michael Dell</b>			
\$1,255,224,204	\$14,200,000,000	\$15,455,224,204	8%
<b>Larry Ellison</b>			
\$151,092,103	\$13,700,000,000	\$13,851,092,103	1%
<b>Steve Ballmer</b>			
\$23,449,783	\$12,600,000,000	\$12,623,449,783	0%
<b>John Kluge</b>			
\$503,869,800	\$11,000,000,000	\$11,503,869,800	4%
<b>Pierre Omidyar</b>			
\$357,715,858	\$10,400,000,000	\$10,757,715,858	3%
<b>Sumner Redstone</b>			
\$78,367,127	\$8,100,000,000	\$8,178,367,127	1%
<b>Phil Knight</b>			
\$64,771,782	\$7,400,000,000	\$7,464,771,782	1%
<b>George Soros</b>			
\$5,437,283,942	\$7,200,000,000	\$12,637,283,942	43%
<b>Eli Broad</b>			
\$1,613,074,469	\$6,000,000,000	\$7,613,074,469	21%
<b>Michael Bloomberg</b>			
\$132,045,031	\$4,900,000,000	\$5,032,045,031	3%
<b>David Geffen</b>			
\$182,921,433	\$4,400,000,000	\$4,582,921,433	f
<b>Gordon Moore</b>			
\$6,760,929,624	\$3,800,000,000	\$10,560,929,624	64%
<b>Steven Spielberg</b>			

*How the Wealthy Give.*

Prepared by the Asia-Pacific Centre for Philanthropy and Social Investment  
Swinburne University of Technology, Melbourne, [www.swinburnephilanthropy.web](http://www.swinburnephilanthropy.web) October 2004

\$96,970,456	\$2,600,000,000	\$2,696,970,456	4%
<b>Jon Huntsman</b>			
\$497,034,993	\$2,300,000,000	\$2,797,034,993	18%
<b>Bernard Marcus</b>			
\$263,095,612	\$2,000,000,000	\$2,263,095,612	12%
<b>Ted Turner</b>			
\$798,701,861	\$1,900,000,000	\$2,698,701,861	30%
<b>Alfred Mann</b>			
\$607,649,613	\$1,400,000,000	\$2,007,649,613	30%