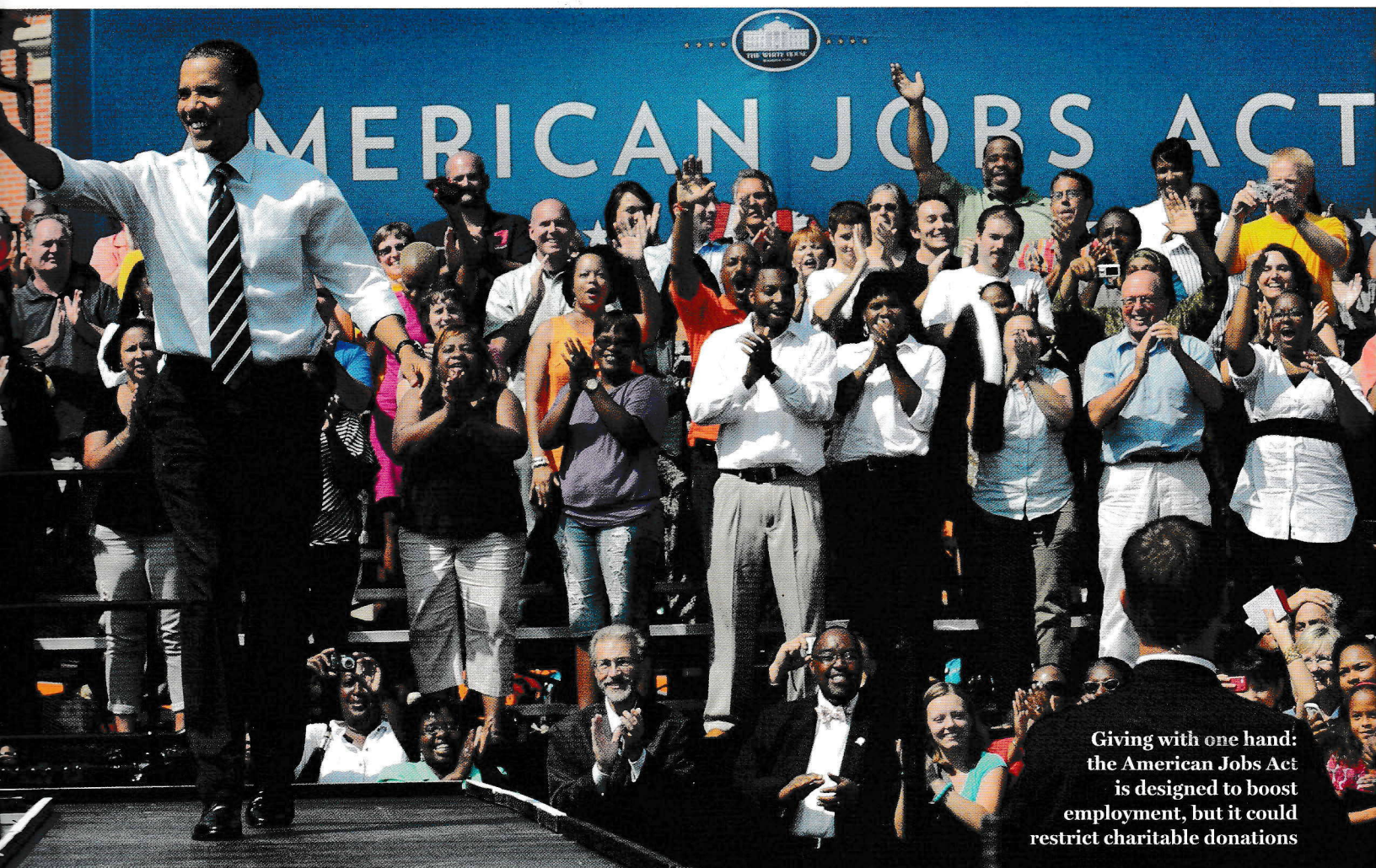


PHILANTHROPY CHARITABLE GIVING

Give a tax a break



**Giving with one hand:
the American Jobs Act
is designed to boost
employment, but it could
restrict charitable donations**

Jesse Rosen, president and chief executive of the League of American Orchestras, worries about the impact that threatened changes to tax breaks for charitable giving in the US will have on his members' fundraising. Twenty per cent of the income of symphony orchestras comes from private individual donations.

In fact, individual gifts have become a necessity as ticket sales and federal and state funding have slumped. "They're an increasingly important

BY
KATHRYN TULLY

revenue stream for symphony orchestras at a moment when there's tremendous strain in the economy, so anything that weakens the incentive to give is a potential threat," Rosen says.

President Barack Obama's proposed American Jobs Act would cut the income tax deduction that the wealthiest Americans earning more than \$200,000 can claim against charitable donations from 35 per cent (the top rate of federal income tax) to 28 per cent.

The act is currently stalled in Congress, but as deficit reduction talks

continue, potential cuts to charitable gift deductions remain on the table. In a country that relied on \$290bn of individual, foundation and corporate gifts in 2010 to fund everything from hospitals to arts organisations, many non-profits view the deduction as a crucial fundraising tool.

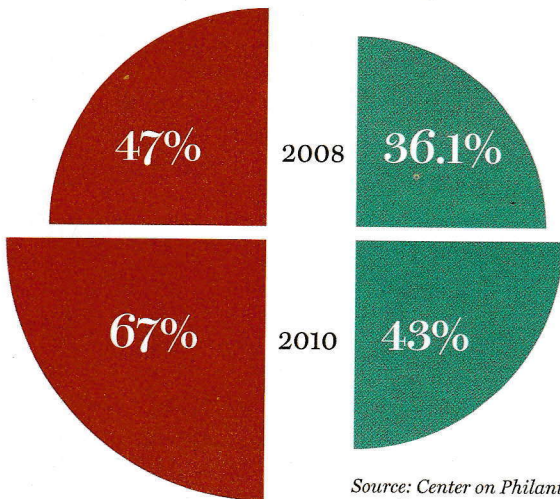
But how much do tax breaks encourage giving? A study by the Tax Policy Center, a research group based in Washington DC, estimated that the proposed changes could cost charities \$1.7bn-\$3.2bn a year, though it is

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”

ATTITUDE TOWARDS TAX POLICY

People who somewhat or dramatically would decrease charitable contributions if they received zero income tax deductions for their donations

Amount wealthy households would leave to charity in their estate plan if the estate tax were repealed



Source: Center on Philanthropy at Indiana University

difficult to find a direct correlation between the value of tax breaks and donor behaviour. Country-by-country comparisons of philanthropy as a share of gross domestic product are scarce and can be misleading because philanthropy in the US replaces government services in many countries. However, a 2007 study by Johns Hopkins University's Comparative Nonprofit Sector Project found that US citizens gave the most, at 1.85 of GDP per cent, followed by Israel, Canada and Argentina (see chart, right).

The likely impact of tax changes on donor behaviour is also difficult to unravel. In the UK, the Gift Aid scheme is already generous, but other tax breaks will soon improve. From next April, estates will pay 36 per cent in inheritance tax, rather than 40 per cent, if 10 per cent of that estate goes to charity – on top of the 100 per cent inheritance tax write-off for the gift itself.

The UK government believes charities will receive £350m (\$557m) more over four years, but Philip Spedding, senior manager of international and individual giving at Arts & Business, an advisory group, says this is hard to quantify. “Do new initiatives bring in new cash or simply redistribute current money?” he says. “Saying to people, ‘would you give more if you paid less tax?’ and trying to get a truthful answer has bedevilled any attempt to produce a clear rationale for different tax strategies.” Though many affluent donors worldwide claim tax breaks, others do not, which further complicates the issue.

Wherever they reside, wealthy individuals give primarily because they believe in the cause. “I think that most people have an idea of how much of their total wealth they would like to commit to charity, and consider tax breaks a bonus,” says Ken Chapman, head of UK wealth structuring at Merrill Lynch Wealth Management. “They don’t decide to give to pay less tax.”

However, affluent donors may be growing increasingly sensitive to tax changes. In a 2010 study of wealthy philanthropy, conducted by the Center on Philanthropy at Indiana University for Bank of America Merrill Lynch, 67 per cent of wealthy US households said they would somewhat or dramatically decrease their giving if they received no income tax deductions, compared with 47 per cent in 2008 (see chart, above).

Rosen believes a cap on charitable deductions may mean existing donors give less. The timing of future donations could also be affected, according to Donna CuiFFo, partner at Clarfeld Financial Advisors. “How any changes

are phased in could affect how donors plan future gifts,” she says.

Marginal tax changes, or the publicity they receive, could adjust a donor’s thinking, according to Spedding, who cites the planned UK inheritance tax changes. “I’ve been telling arts organisations that most donors will not have enough to pay inheritance tax, but this change underscores why giving through wills is a good thing, so can be used to start those conversations,” he says.

Rosen worries that a drop in donations will have a disproportionately large impact on orchestras. Unlike institutional gifts, individual contributions are usually unrestricted, giving orchestras the flexibility to plan programmes and increase engagement. “This tax break is not about rewarding wealth, but serving the public good,” he says. “That’s what non-profits are all about.”

PRIVATE PHILANTHROPY
TOP 10 COUNTRIES

Giving as a % of GDP

United States	1.85
Israel	1.34
Canada	1.17
Argentina	1.09
Spain	0.87
Ireland	0.85
United Kingdom	0.84
Uganda	0.65
Hungary	0.63
Tanzania	0.61

* Including gifts to religious worship organisations, where available

Source: Johns Hopkins University Comparative Nonprofit Sector Project

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