

Giving Thought discussion paper no. 1

Give Me a Break:

Why the UK should not aspire to a “US-style”
culture of charitable giving

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1) Introduction

The United States is the most generous country in the world. CAF's World Giving Index 2013¹ shows that the US leads the way in participation in giving, but it also comes out on top in terms of overall monetary amounts given and in terms of relative measures such as giving as a proportion of GDP.

The UK also has a long tradition of charitable giving, and is consistently one of the most generous nations in the world. Yet, in the eyes of those who see our nation as natural competitors to the US, we are still failing. "London vies with New York to be the world's global financial centre", they cry, "yet the UK gives less than half of the amount to charity as a proportion of GDP that the US does. Why is this? And how can we build a 'US-style culture of philanthropy' here in the UK?"

The fact is that there is not much to choose between the US and the UK in terms of the methods of charitable giving available or the tax incentives on offer. True, the US has a slightly wider range of methods and the US charitable tax deduction is simpler. However, the UK system of tax incentives is arguably more generous in real terms. What is certain, though, is that the UK system is more complicated and less well understood than its US counterpart.

Aside from the nuts and bolts of how people give, there are social, political and historical factors that play an important part in shaping the philanthropic culture of the US. These include attitudes to wealth and perceptions of personal wealth, which are more positive in the States than in the UK. There is also the fact that the US does not have an organised welfare state in the way that the UK does (with a level of government social expenditure lower than the OECD average), and also has a historic commitment to the idea of limited government. The combination of these factors opens up a fertile space for philanthropically-funded programs.

Obviously many of these factors are not replicable in the UK (at least not without radical societal changes), but it is useful to consider them to determine the limitations of policy making when trying to build a culture of giving.

¹ CAF, [World Giving Index 2013](#)

As well as understanding the barriers to the introduction of a US-style culture of philanthropy here in the UK, we should also stop to consider whether this is something we would really want to achieve even if we could. There are features of the much-vaunted US philanthropic system that on closer inspection might not be all that appealing. For instance, the US tax deduction is inherently biased towards those on higher incomes (due to the requirement that those claiming it file an itemised tax return). Similarly, donations in the US go disproportionately to religious causes and higher education (45% in total). There is also a high risk of dishonesty/fraud in the system due to the lack of evidence requirements when claiming a deduction.

It seems neither feasible nor desirable to try and replicate exactly the US system and culture of giving here in the UK. We can, by all means, use the top line figures as a benchmark for where we would like levels of giving in the UK to be, but our ambition should be to achieve this goal through developing a uniquely British giving culture rather than trying to ape that of the US.

2) Key facts and figures

The top line figure for voluntary donations to charities by individuals in 2011/12 in the US was \$217.79 billion,² while in the UK it was £9.3 billion³ (equivalent to \$14.8 billion). Of course, since the population of the US is roughly five times that of the UK,⁴ this disparity does not tell you that much. A more useful comparative figure is individual giving as a percentage of GDP, which is 0.4 per cent in the UK and 1.45 per cent in the US.⁵

The profile of the causes that donations are made to is also an important point of difference between the US and UK. The most notable difference is the prevalence of religious giving in the US. Estimates of what proportion of total giving goes to religious institutions vary – Giving USA 2012 calculated it at 32 per cent, while a study based on the 2005 U.S. Bureau of Labor Statistics Consumer Expenditure Survey placed the figure

² Giving Foundation, [Giving USA 2012](#)

³ CAF, [UK Giving 2012](#)

⁴ <http://data.worldbank.org/indicator/SP.POP.TOTL>

⁵ Based on CAF's [UK Giving 2012](#), the Giving Foundation's [Giving USA 2012](#) and [World Bank GDP data](#)

much higher, at 72 per cent.⁶ A recent report supported the latter figure, finding that 73 per cent of household charitable giving is to organisations with religious ties.⁷

Whatever the exact figure, it is certainly true that religious giving accounts for the largest single portion of charitable donations in the US. This is seen even more starkly at lower income levels: a 2005 study found that two thirds of all donations made by individuals with incomes under \$100K were to religious causes (and this is subtracting the portion that is ultimately used to provide aid to the needy outside of the congregation).⁸ By contrast, in the UK religious causes receive only 17 per cent of all donations by value.⁹

The role of higher education establishments is also a notable difference between the giving landscapes of the two countries. In the US, 13 per cent of donations go to such establishments,¹⁰ whilst in the UK educational establishments as a whole (including schools as well as universities) account for only four per cent of donations.¹¹ What is common to both countries is that higher education is particularly appealing to wealthier donors. For those in the highest income bracket in the US, higher education becomes the primary focus of donations, accounting for roughly 25 per cent.¹² And in both the UK and US, studies looking at the very largest donations have found that higher education establishments tend to be the most popular recipients. The 2013 *Million Pound Donors* report found that 42 per cent of known £1 million-plus donations went to higher education in the UK (totalling £570 million), while in the US 40 per cent of million dollar-plus donations went to higher education (totalling \$5.62 billion).¹³

3) Available methods of giving and the tax treatment of gifts

Having noted some of the differences in the landscape of giving in the US and UK, we should consider what might account for them. Probably the most obvious and

⁶ Lincoln, Morrisey, Munday, "[Religious Giving: A Literature Review](#)", University of Notre Dame, 2008

⁷ See [Connected to Give: Faith Communities](#). The 73 per cent figure is comprised of 41 per cent to congregations and 31 per cent to "Religiously Identified Organisations".

⁸ Fack G and Landais C (eds), "[Charitable Giving and tax policy: a historical and comparative perspective](#)", Paris School of Economics 2012

⁹ CAF, [UK Giving 2012](#)

¹⁰ Giving Foundation, [Giving USA 2012](#)

¹¹ CAF, [UK Giving 2012](#)

¹² Congress of the United States, Congressional Budget Office, "[Options for Changing the Tax Treatment of Charitable Giving](#)", 2011- see graph on page 6

¹³ See Coutts "[Million Pound Donors 2013](#)"

frequently commented-upon difference is the way that donations are taxed, so it is a natural starting point.

There is a clear choice when deciding on how to structure charitable tax breaks: allow individuals to claim donations as a deduction against taxable income, offer a refund of tax paid on donations, or offer a tax credit against the donor's tax liability. The key difference between the UK and US is that the US has only one system which applies to all donations and is based entirely on deductions, whilst we in the UK have a number of different tax incentive schemes, some of which are refund-based (i.e. Gift Aid) and some of which are deduction-based (i.e. Payroll Giving, Gifts of Shares)

As we will see, the UK actually has a more generous system of incentives overall, but the system is more complex and fragmented, and therefore confusing for donors.

3.1) In the US

The Charitable Deduction: This is the centrepiece of the US system. It enables donors who fill in an itemized tax return to deduct the value of their gifts to charity from their taxable income each year. The value of the deduction is capped at 50 per cent of Adjusted Gross Income (AGI) for gifts to any registered 501 (c)(3) organisation,¹⁴ although any unused allowance can be carried forward for up to five years. There are different caps for gifts to personal foundations (30 per cent if the foundation is operating and 20 per cent if is not).

The two major differences between the charitable deduction and the most common UK relief, Gift Aid, is that under the US system all the tax relief goes to the individual, and also non-cash gifts are eligible (e.g. clothes, goods, shares etc.) This makes it much simpler from the donor's point of view because a straightforward, single system applies to all their donations.

Charitable giving vehicles: As well as the basic deduction, there are also a number of specialist vehicles for giving in the US that play a key role in the landscape of philanthropy:

¹⁴ Essentially the US equivalent of a registered charity, although it is purely a tax specification and is administered by the Internal Revenue Service: <http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Exemption-Requirements-Section-501%28c%29%283%29-Organizations>

- **Charitable Remainder Trust (CRT):** often referred to as “living legacies” in the UK, this is a structure which allows people to make a legacy-style gift during their lifetime, rather than on death.¹⁵ It works by enabling donors to put a lump sum (either cash or the value of an asset, such as a house) into a trust vehicle, and specify a charity (or charities) that they want to be the beneficiary. The donor will then receive an annual income from the trust for a set period of time (usually 20 years or until death, whichever is sooner), after which the remaining value of the trust will be passed to the charity. The benefit of this is that it enables people to make large gifts while they are still alive, safe in the knowledge that they still have a guaranteed financial income.
- **Charitable Lead Trust (CLT):** This is a less common variation on the CRT. It flips the model on its head, so the donor puts assets or capital into a trust, which generates income that goes to a nominated charity, and the donor then gets the remainder back after the term has expired.¹⁶
- **Donor Advised Fund (DAF):** This is another popular philanthropy product in the US.¹⁷ DAFs are essentially a way for a donor to set up a mini- foundation that sits within the umbrella of a larger charitable fund and takes advantage of its tax status. The donor then makes gifts from their DAF by “recommending” grants to the host organisation, because it is technically they that have the final say over where grants go. Mainstream financial services firms such as Fidelity offer DAF services, and the US’s many Community Foundations also play a major role in this market.

Challenges and criticisms of the US System

Over-valuation: One downside of the charitable deduction is that it is open to widespread over-claiming. When it comes to non-cash donations, it is left up to individuals to state the value the goods they have donated and there is no requirement to provide evidence to back this valuation up. Unsurprisingly, this has led to the average

¹⁵ For more information see e.g. <http://www.charitabletrust.com/pdf/crt-handbook.pdf>

¹⁶ For more information see e.g. <http://www.pgdc.com/pgdc/charitable-lead-trusts-primer>

¹⁷ DAFs are also available in the UK, although are less mainstream. CAF is one provider, offering DAF services through its [CAF Trust](#) product.

deduction for used goods being quite high: a study found that in 2004, the average value of deductions claimed for donations of household items was more than \$1,300 and for donations of used clothing it was more than \$1,400.¹⁸ Historically there have also been problems with over-valuation when it came to the donation of works of art or company shares too, although the rules on valuation in these cases have been tightened up in recent years.¹⁹

Bias towards wealthier donors: The design of the US charitable deduction means that it is only available to donors who complete an itemised tax return. However, not everyone in the US is an itemising taxpayer, and the likelihood of being an itemiser is closely linked to property ownership (because mortgage payment deductions are the main reason to itemise), so there is a resultant bias towards those on higher incomes. This is clear when you consider that 85 per cent of those with incomes under \$50K and 58 per cent of those with incomes between \$50K and \$100K do not submit itemised tax returns, while around 90 per cent of those with incomes above \$100K do.²⁰ In addition, in 2012, 81 per cent of all charitable donations were from individuals who file itemized returns, which highlights the strong link between giving, itemizing and – by implication – wealth.²¹

3.2) In the UK

The UK system of tax reliefs for charitable donations is made up of a number of different schemes:

- **Gift Aid:** Gift Aid is the UK's main form of tax relief on charitable donations. It allows charities to claim back the basic rate of tax paid on donations by individuals. Higher rate taxpayers can also claim the difference between their highest rate of tax and basic rate tax as personal relief through the self-assessment process.²²

¹⁸ Fack G and Landais C (eds), "[Charitable Giving and tax policy : a historical and comparative perspective](#)", Paris School of Economics 2012

¹⁹ Beyer, "[Gone but Not Forgotten: The End of Fractional Giving and the Search for Alternatives](#)", Columbia Journal of Law and the Arts, 2013

²⁰ *Ibid.*

²¹ <http://www.philanthropy.iupui.edu/news/article/giving-usa-2013>

²² See <http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm> for more detail on Gift Aid, including the higher rate reclaim.

Gift Aid requires donors to make a declaration that they have paid enough tax to cover any money reclaimed on their behalf, and requires charities to be able to provide proof of such a declaration if requested. As a result, the system is administratively cumbersome – a fact acknowledged by the government who have made attempts recently to streamline Gift Aid by bringing it online.²³

Although Gift Aid was originally designed to deal only with cash donations, it has subsequently expanded to cover other types of gifts such as donations of goods to charity shops²⁴ and entrance fees to museums and galleries.²⁵ This has involved some rather convoluted reinterpretations of the rules, which has made Gift Aid a much more complex system.

- **Payroll Giving:** Since 1986 a scheme has been in place that allows employees of participating companies to give directly from their pre-tax income via the payroll to nominated charities of their choice. This is a deduction-based system, and as such allows donors to get tax relief at their highest marginal rate. Donations are processed by approved Payroll Giving Agencies (PGAs)²⁶ which receive the nominated payroll funds from employers and distribute them to the relevant charities.

Although the principle behind Payroll Giving is simple, the fact that it involves a number of different parties (the employer, the employee, the PGA, the charity, and possibly others), means that it is more complicated for donors in practice than it might be. The Government has been looking for ways to simplify payroll giving for some time.²⁷

- **Legacy Gifts:** Individuals can choose to leave a proportion of their estate to charity in their will, and thereby reduce any inheritance tax (IHT) liability. Since 2012, there has been a further incentive on offer, whereby an individual can reduce the rate of IHT payable from 40% to 36% if they choose to leave at least 10 per cent of their estate to charity.²⁸

²³ <http://www.hmrc.gov.uk/charities/online/>

²⁴ http://www.hmrc.gov.uk/charities/gift_aid/rules/retail.htm

²⁵ http://www.hmrc.gov.uk/charities/gift_aid/rules/admissions.htm

²⁶ PGAs are all themselves charities, and CAF is the UK's largest PGA.

²⁷ See for instance [the 2013 government consultation on Payroll Giving](#)

²⁸ See <http://www.hmrc.gov.uk/inheritancetax/pass-money-property/charity-reduce.htm>

- **Gifts of Land, Property or Shares:** Since 2000 it has been possible to make gifts to charity of land, property or shares listed on an approved stock exchange and receive tax relief.²⁹ This relief is particularly generous because it is a double relief: as well as getting full capital gains tax (CGT) relief on the value of any assets given in this way, an individual can also claim income tax relief equal to the value of their gift. This relief comes in the form of a deduction against taxable income. There is no upper limit on the amount of a donor's income tax liability that they can reduce in this way.

Challenges and Criticisms of the UK system

Complexity: The UK system consists of a number of separate schemes governing different types of donations and offering different types of tax break, rather than a single scheme that applies to all gifts as is the case in the US. From a donor's point of view, this makes the UK system more confusing, and levels of awareness of the various methods of tax-effective giving remain relatively low. Research in 2009 found that while 68 per cent of people said they were aware of Gift Aid when given appropriate prompts, only a third signalled awareness unprompted.³⁰ And for the other forms of tax-effective giving, even the prompted figures were well below half of the public.³¹

4) The historical context for the taxation of charitable donations

4.1) In the US

The charitable deduction has existed in the US since 1917, when the War Revenue Act introduced deductions for “Contributions or gifts actually made within the year to corporations or associations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals”,³² up to a ceiling of 15 per cent of taxable income. This was at the same time as the top marginal tax rate was raised from 15 per cent to 67 per cent.

²⁹ See <http://www.hmrc.gov.uk/individuals/giving/assets.htm>

³⁰ CAF, “The Public Bond with Tax-Effective Giving in the UK”, 2009

³¹ *Ibid.*

³² <http://libcudl.colorado.edu/wwi/pdf/i7375447x.pdf>

The level of the deduction and the eligibility criteria changed in various ways over the next few decades, as uptake of the incentive gradually rose. However the next truly major amendment was in 1938, when the prevailing protectionist attitude led to the charitable deduction being limited to donations paid to or for the use of domestic organisations.³³ A further noteworthy change occurred in 1969, when concern about the growing use of personal foundations for tax avoidance led to a new stipulation that tax relief on gifts to such foundations would be limited (to 30 per cent for operating foundations and 20 per cent for non operating foundations). A rule demanding that a minimum of five per cent of a foundation's assets must be paid out each year was introduced at the same time, and remains in place to this day.³⁴

Recently there has been renewed focus on the charitable deduction, and some attempts to reform it. In 2011, President Obama's Jobs Bill contained a proposal to limit the rate of the deduction to 28 per cent, rather than the 35 per cent that top rate taxpayers currently get. This was met with fierce opposition from the US non-profit sector, and the proposal was eventually dropped. Whilst that battle was won, however, the war looks set to continue: a Senate Finance committee published a paper in 2013 detailing options for reforming the charitable deduction³⁵ and the issue continues to get column inches in the US non-profit media.

4.2) In the UK

The history of charitable relief from income tax in the UK is a long one, going back to the establishment of income tax in 1799.³⁶ Initially the only relief available was for charitable organisations themselves, which were exempt from paying income tax on their assets and investments, but from 1842 individuals were able to get income tax relief on their donations to charity by establishing a deed of covenant with a charitable organisation. For a long time, deeds of covenant were the only way to get tax relief on donations. This relief was originally capped, although the cap was incrementally raised and then finally removed in the Finance Act 1986. This is the same Act that introduced

³³ Internal Revenue Service, "[A History of the Tax-Exempt Sector: an SOI Perspective](#)", *Statistics of Income Bulletin Winter 2008*

³⁴ For more information see http://www.mcf.org/publictrust/faq_payout

³⁵ Senate Finance Committee, "[Tax Exempt Organizations and Charitable Giving](#)", 2013

³⁶ For a more detailed discussion of the history of the charitable tax relief in the UK, see Gousmett, "[A Short History of the Charitable Purposes Exemption from Income Tax of 1799](#)", University of Cambridge Centre for Tax Law, conference paper, 2010

Payroll Giving, thus opening up tax-effective donations to the mass market for the first time.

The Finance Act 1990 was a landmark event for charitable giving in the UK, as it saw the introduction of Gift Aid. This was intended to replace the system of covenants (which were merged into the Gift Aid system), and originally only applied to gifts of £600 or over. This threshold was gradually lowered to £250 by 1993, and then abolished altogether by the Finance Act 2000, which gave us the Gift Aid system we know today.³⁷ This Finance Act also introduced tax relief on Gifts of Land, Property or Shares

Like the US, the UK has had a fierce debate about the status of charitable tax relief in recent times. In particular, a proposal in the 2012 Budget to cap the level of relief on donations to £50K or 25% of annual income was met with fierce resistance by a broad coalition of charities, universities, museums, galleries and donors. This led to the proposal being dropped after only a few months.³⁸

5) The political and philosophical rationale for charitable tax breaks

5.1 In theory

The recent debate in both the UK and US over the status and design of tax breaks for charitable giving is testament to the fact that, although the history of such tax breaks in each country is well established, the underlying rationale for offering them is often far from clear. What is striking is that many people will confidently assert that the basis for offering charitable tax breaks is self-evident, but then go on to offer completely different accounts of what that basis is. This is not just a theoretical problem: it is important to understand how charitable tax breaks are justified if we are to ensure that they are optimally designed and implemented.

³⁷ See the Charity Tax Group's [Charity Tax Map 2nd Edition](#) (2012) for more detail on the history of charitable tax reliefs in the UK

³⁸ CAF was heavily involved in the main "Give it Back George" campaign against the proposed cap. See <http://giveitbackgeorge.org/> for further details.

According to the Stanford philosopher Rob Reich, who has published the most detailed analysis on this issue,³⁹ there are broadly three ways in which we can justify tax breaks for charitable donations:

- 1) **The Tax Base Rationale:** This argues that tax deductions for charitable giving are not really tax “breaks” at all, because you need to deduct any charitable gifts from an individual’s income in order to properly define what they should be taxed on. The reasoning is that people should only be taxed on personal consumption or wealth accumulation, and money given away to charity does not count as either.
- 2) **The Subsidy Rationale:** This argues that it is appropriate for the State to offer tax breaks for people to be charitable because by doing so it stimulates greater social value than the State could have produced on its own. The underlying reasoning here is that the State collects taxes in order to pay for public or social goods, and charities and civil society organisations work to produce these same goods. Hence it is fair and efficient to allow people to choose to contribute to social good directly through charitable gifts rather than through paying their taxes.
- 3) **The Pluralism Rationale:** This argues that rather than justifying the tax break because of any specific social good produced by a particular charitable gift, it should be justified more broadly on the basis that there is inherent value to society in having a thriving charitable sector – i.e. the public good is civil society itself. Hence any decent liberal democracy should support the ongoing health of civil society by offering tax breaks to those who want to contribute to it.

Reich argues (and I tend to agree) that if you analyse these, the pluralism rationale is the only one that holds any water. The tax base rationale fails because charitable giving is essentially a form of discretionary spending and so should be viewed as such by the tax system. The only way to draw a meaningful distinction between charitable giving and other forms of discretionary spending is by some reference to externalities, in terms of the “social good” or “public good” produced. We could then contrast this with forms of spending where the benefit goes only to the individual, and claim that this makes giving a special case. However, this ignores the fact that it remains a discretionary

³⁹ See, for instance, “Towards a Political Theory of Philanthropy” in Illingworth, Pogge and Wenar (eds), [Giving Well: The Ethics of Philanthropy](#), (Oxford University Press), 2011

choice on the part of the donor, and there is a clear benefit to donors from making gifts – whether this is concrete (i.e. having a hospital wing named after them) or more intangible (i.e. increased happiness and wellbeing).⁴⁰

We might also argue that government should treat charitable donations differently because the social good they produce is also of value to the State. However this basically brings us around to the subsidy rationale.

The failing of the subsidy rationale is that it assumes the aims of philanthropy and those of the State are the same, and therefore that foregoing tax revenue in order to stimulate private donations to charity is an effective and efficient way for a government to achieve its aims. However, this is clearly not the case: we have seen from the figures on the profile of causes that receive philanthropic donations (section 2) that these do not match the profile of public spending priorities. Higher Education and the Arts, for example, are significant beneficiaries of major gift philanthropy, whereas they only make up a small proportion of public spending.

The pluralism rationale gets us away from this problem. We should not, it is argued, interpret charitable tax relief as a direct subsidy to stimulate private funding of public goods that the State would otherwise have to provide. Instead we should understand this relief as a generalised subsidy offered by the government to support a vibrant civil society. The assumption is that a healthy civil society is something a mature democracy should want to encourage, and that offering tax relief on donations is a cost-effective way of achieving this aim.

5.2) In practice

So which, if any, of these rationales have been adopted in practice? Well, despite the fact that the pluralism rationale appears to offer the firmest justification for charitable tax breaks, it is probably the least-cited rationale in political discourse on this topic. Instead we see versions of the tax base and subsidy rationale used at various times. For instance, in the UK, a Conservative party policy paper from 2008 used the tax base rationale in arguing that:

⁴⁰ The intangible benefits of making donations are often referred to as the “warm glow” theory of giving. See, for instance, Andreoni, [“Impure altruism and donations to public goods: a theory of warm glow giving”](#), *The Economic Journal*, 1990

“We regard it as essential to maintain link between rates of income tax and gift aid since this embodies the principle that charitable giving should be out of untaxed income... Gift Aid is the most important direct way in which the Government can help citizens help the voluntary sector through giving and philanthropy. It works on the principle that we shouldn’t tax people on what they give to charity. This is a good principle.”⁴¹

In the US, meanwhile, we find in a 1939 House of Representatives report a clear statement of the subsidy rationale:

“The exemption from taxation of money or property devoted to charitable and other purposes is based upon the theory that the Government is compensated for the loss of revenue by its relief from financial burden which would otherwise have to be met by appropriation from public funds, and by the benefits resulting from the promotion of the general welfare.”⁴²

This confusion over the justification for charitable tax breaks is one of the reasons that there are recurrent arguments about their reform or abolition. One of the key requirements in order to make a strong case for retaining tax breaks for charitable donations is to clarify the basis on which they can be justified, and demonstrate that the form in which they are offered is effective in delivering the desired aims.

6) The wider social and political context influencing charitable giving

6.1) The State’s role in addressing social issues

One of the most commonly-argued reasons for the US having higher levels of philanthropic giving than the UK is that it has “smaller” government and no welfare state. The argument, it goes, is that if fewer services are delivered by the State it leaves more room for philanthropic initiatives to pick up the slack, whereas if many basic needs

⁴¹ [A Stronger Society- Voluntary Action in the Twenty First Century](#), Conservative policy green paper, 2008

⁴² Cited in Gousmett M J, [“The Charitable Purposes Exemption from Income Tax: Pitt to Pemsel 1798 – 1891”](#), PhD Thesis, University of Canterbury, 2009.

are met by the State – as has been the case in the UK since the creation of the welfare state after WWII – this “crowds out” philanthropic endeavours.⁴³ Proponents of this point of view claim that this is why the British tradition of philanthropy established in the Victorian era has not re-emerged in recent years.⁴⁴

Obviously this is an issue on which people divide along strong ideological lines. Many of the arguments offered are really a reflection of whether that person believes smaller government is inherently preferable or not. This means that it can be difficult to disentangle fact from opinion. Particularly when you get commentators in the US claiming that their own government is *still* crowding out philanthropy, despite the fact that they have the highest ratio of charitable giving as a percentage of GDP anywhere in the world.⁴⁵

What is true is that US has a lower level of social spending than the UK. However, the difference is not that great: the UK commits 23.8 per cent of GDP to social spending while the US commits 20 per cent.⁴⁶ The average across the OECD is 21.9 per cent. Where there is a significant difference is in levels of private voluntary social spending: in the US this accounts for 10.2 per cent of GDP, whilst in the UK it is only 5.3 per cent of GDP.⁴⁷ And both of these are well above the OECD average of 2 per cent of GDP. Obviously these figures include things like spending on personal medical care, so they do not directly tell us anything about philanthropic giving. What they do confirm, though, is that the cultural expectation that private provision will meet social needs is more widespread in the US than elsewhere.

6.2) Levels of taxation

Closely linked to the size of the State is the question of levels of taxation: the larger the public sector, the higher taxes have to be in order to pay for it. Those who already argue that the State crowds out philanthropic initiatives are likely to argue that a higher level of taxation will have a further negative effect on charitable giving because it reduces individual disposable incomes. Again, this is often reduced to a black-or-white

⁴³ For further discussion of the “crowding-out” hypothesis” see, Andreoni and Payne, “[Is Crowding Out Due Entirely to Fundraising? Evidence from a Panel of Charities](#)”, National Bureau of Economic Research, 2010

⁴⁴ E.g. A *Daily Mail* article from 2007 entitled “[How Tax and the Welfare State killed off the philanthropist](#)”

⁴⁵ See, for example, <http://blog.danpallotta.com/post/37860704039/government-vs-charity>

⁴⁶ OECD StatExtracts, “[Social Expenditure- Aggregated Data](#)”, 2013

⁴⁷ OECD iLibrary, “[Private voluntary social spending: Public social expenditure as a percentage of GDP](#)”, 2012

ideological debate about whether philanthropic giving or redistribution via taxation is a better way to address the problems of society. Many would argue, however, that this is a false choice and that philanthropy and public spending can, and should, be complementary rather than contradictory.

Interestingly, the assumption that higher taxes mean less charitable giving might not even be true. Since the US charitable deduction simply allows donors to offset their giving against their tax bill, the value of the deduction is inversely proportional to the rate of income tax. As taxes rise, the “cost” of making a donation falls and the tax relief becomes “worth more”. Those who object to redistributive taxation then have even more of an incentive to use their charitable donations to direct funding to where they want it to go, rather than leaving it up to the government to spend tax revenue on their behalf. This is borne out by a graph showing effective marginal tax rates against reported voluntary donations for the top 0.1 per cent of US taxpayers, which shows that donations broadly go up as taxes do.⁴⁸

6.3) Attitudes to wealth

It is often argued that people in the US have a more positive attitude towards wealth than we have in the UK. Wealth is seen as something to aspire to, and those who have created their own wealth are seen as the embodiment of the American dream of success through hard work and entrepreneurialism. Philanthropy is an important part of this picture. Giving some of your money to those in need is seen as one of the responsibilities that come with wealth, and a crucial badge of social status to boot. This is epitomised by the legendary figures of US philanthropy such as J.D. Rockefeller and Andrew Carnegie: self-made industrialists who devoted their lives to good works on a vast scale. Carnegie famously made the definitive statement that “he who dies rich, dies disgraced”.⁴⁹

In the UK, we have a much more negative attitude towards overt displays of wealth, including philanthropy. This may be simply a reflection of our national distaste for talking about money. However, the attitude towards philanthropy may also have been shaped by the fact that for a long part of our history the majority of wealth in the UK was inherited

⁴⁸ See p.97 of Fack G and Landais C (eds), “Charitable Giving and tax policy : a historical and comparative perspective”, Paris School of Economics 2012, available at http://econ.lse.ac.uk/staff/clangais/cgi-bin/Articles/full_volume.pdf

⁴⁹ Carnegie, “[The Gospel of Wealth](#)”, 1889

rather than created. This creates a particular dynamic, because those who have inherited wealth often see themselves as stewards rather than owners, and feel as though they have a duty to pass the wealth on to the next generation. This makes it less likely that they would be comfortable giving a large percentage of their wealth away in the way that someone who had made all their money themselves might. Interestingly, a significant change may be afoot in the UK: the past twenty five years of the *Sunday Times Rich List*, which ranks the 1,000 wealthiest people in the country has shown a marked shift in the proportion of inherited and created wealth. When the list started in 1989, two thirds of the entrants were from inherited wealth, whereas in 2013 around 80 per cent had created their wealth.⁵⁰

Social status for the elite in the UK is also not linked to philanthropy in the way that it is in the US. While many wealthy people in the UK do an enormous amount for charity, there is not the same expectation on them to give publicly as there is in the US. We certainly do not have the same culture of “name plaque philanthropy”, where wealthy individuals give a large donation to an institution in return for having an edifice such as a hospital wing or library named after them. The presence of alternative systems of recognising social status, such as the honours system, also dilutes the importance of philanthropy. Whilst some people do get honours for their charitable works, there are many other ways to gain honours that do not involve philanthropy at all.

6.4) Generosity or Altruism?

The example of “name plaque philanthropy” given above shows that donors in the US are more comfortable with the idea of getting something back in return for their giving than UK donors are. This has been noted by authors who draw a distinction between a US view of charitable giving as generosity (incorporating elements of reciprocity) and a UK view of charitable giving as altruism (and which therefore has to have no element of self-interest).⁵¹ This is almost certainly linked to the broader context of private spending on social needs and to the prevalence of giving to local organisations in the US, both of which contribute to a notion of enlightened self-interest in which the donor expects to benefit from their giving at the same time that others do. In the UK, however, since

⁵⁰ <http://www.bbc.co.uk/news/business-22188762>

⁵¹ See, for instance, Wright, “Generosity versus altruism: Philanthropy and charity in the US and UK”, Civil Society Working Paper 17, London School of Economics, 2002

much of the giving is at a national level, and is to causes where the donor is unlikely to be amongst the beneficiaries, the sense of enlightened self-interest is much lower.

7) The non-profit sector context

Another factor that we should consider when assessing the differences between the giving cultures of the US and the UK is the difference between the non-profit sectors in both countries.

Unsurprisingly, the US non-profit sector is far larger than the UK voluntary sector: there are over 1.4 million tax-exempt organisations in the US, of which roughly 945,000 are public charities and around 97,000 are private foundations.⁵² In the UK, by contrast, there are 162,000 active voluntary organisations.⁵³ US public charities reported total income of \$1.59 trillion in 2011, while UK voluntary sector organisations reported total income of £38.3 billion (equivalent to \$63 billion). The US nonprofit sector is also more professionalised than its UK counterpart, accounting for 9.2 per cent of all wages and salaries paid in the US in 2010, in contrast to the 2.6 per cent of the UK workforce that is employed in the voluntary sector.⁵⁴

The greater professionalisation of the American nonprofit sector is apparent when you look at fundraising, which is a significant industry in the US. This is especially true of certain sectors such as higher education, where there is a long tradition of raising large amounts of money through donations from alumni, and a particular focus on major donor fundraising. Gifts to higher education in the US in 2012 totalled £31 billion, of which \$13.53 billion (43.6 per cent) came from individuals.⁵⁵

8) Conclusion

In purely numerical terms, the US is the most generous nation on earth. It is head and shoulders above its nearest rivals, including the UK, in terms of the overall amount of money given to charitable causes and what percentage of GDP this represents. It is

⁵² National Centre for Charitable Statistics, "[Quick Facts about Nonprofits](#)", 2012

⁵³ NCVO, *UK Civil Society Almanac 2013*, "[How many voluntary organisations are active in the UK?](#)"

⁵⁴ National Centre for Charitable Statistics, "[Quick Facts about Nonprofits](#)", 2012

⁵⁵ Council for Aid to Education, "[Voluntary Support of Education Survey 2012](#)", 2012

therefore natural for those in the UK who have an interest in promoting giving to look at the US as a benchmark for where we should aspire to be. And this is no bad thing if it gives us an ambitious goal to aim for.

The mistake, however, is to conclude that the way in which to achieve this goal is to borrow as many features of the US philanthropic landscape as possible. As we have argued in this paper, this is neither practical nor necessarily desirable. There are factors which influence the US culture of charitable giving that are deeply ingrained in the political and social fabric of that nation, such as the prevalence of religious giving and the tradition of private spending on social welfare, which do not translate easily to the UK. There are also features of the way the US system works, such as its inherent bias towards wealthier donors and the resultant skewing of the distribution of charitable donation, that we would almost certainly not want to replicate in our own system.

Our ambition should be to build a culture charitable giving in the UK that plays to our strengths, such as our long tradition of charitable works and our admirable ability to respond to fundraising appeals, but which also incorporates appropriate elements of other countries' philanthropic cultures. In this way we could realise the ambition to increase the number of people giving and the amounts that they give. Given the US's philanthropic success, there are clearly elements of their charitable environment that we should look to reflect in the UK, such as their strong culture of giving at a local level and their greater range of methods for giving (such as charitable remainder trusts).

By learning lessons from the US and elsewhere, we can craft a uniquely British philanthropic culture that is the rival of anywhere in the world.

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