Philanthropy UK

A quarterly e-letter for all those interested in the Development of Philanthropy

CURRENT NEWS FROM THE WORLD OF PHILANTHROPY ■ SUPPLEMENT ■ SUMMER 2006

Special Summer Supplement

Inside:

CONTENTS

The purpose of the Newsletter is to disseminate information about new developments in philanthropy. To submit an article for consideration, please contact the Editor at editor@philanthropyuk.org. Please review our Guidelines for Contributors, available on our website.

The secretariat for the Newsletter is being provided by ACF where the subscriber list is maintained. To subscribe free of charge, please fill out the subscription form on our website.

Philanthropy UK
c/o ACF
Central House
14 Upper Woburn Place
London WC1H 0AE
United Kingdom
+44 (0)207 255 4499

www.philanthropyuk.org

Philanthropy UK aims to help develop new philanthropy by promoting and disseminating knowledge and best practice to all those involved in giving. An initiative of the Association of Charitable Foundations, *Philanthropy* UK publishes the *Philanthropy UK Newsletter*, the journal of British philanthropy, and *A Guide to Giving*, the essential handbook for philanthropists. www.philanthropyuk.org

SPOTLIGHT: YOUTH PHILANTHROPY

In this special supplement we introduce a new feature, an in-depth look at a topical theme or issue in charitable giving. Future Spotlight features will cover themes such as diaspora philanthropy and women and philanthropy, and this month we highlight youth philanthropy. Young people are central to changing attitudes about giving: today's youth are tomorrow's philanthropists.

We begin our feature with an overview of patterns in and beliefs about charitable giving by young people, drawing from the latest research by Giving Nation, which organisation is the subject of our Feature Profile. We also highlight the work of some 'youthful foundations' as well as v, the new charity set up by the Russell Commission which launched last month. Lastly, we suggest some resources for families seeking to involve their children in philanthropy – "bringing the younger generation closer to the family legacy".

Are they bovvered?: Young people and philanthropy in the UK

By Beth Breeze

The idea of youth philanthropy contains a fundamental paradox. Practically no young people have the resources to be philanthropic, yet the next generation must be targeted in order to educate and create the philanthropists of the future. Youth philanthropy is therefore a long-term project, requiring patience and a willingness to accept deferred gratification and results.

Thankfully, interest in addressing this paradox is currently high – both in the sector and in Government, which has made young people a priority in its strategy for building a 'culture of giving'. Efforts continue to be led by the pre-eminent youth philanthropy organisation, Giving Nation, and have recently been boosted by the arrival of the new chief executive at the Institute for Philanthropy. Dr Sal LaSpada's interest in promoting giving amongst young people was evidenced when he commissioned a review of youth philanthropy work in the UK, soon after taking up his post. Dr LaSpada says, "We need to reach out and communicate with young people during their formative years to ensure philanthropy thrives, so that good works are supported in future decades". The Institute is also developing relationships with senior staff at Giving Nation to ensure complementarity between any future projects.

Giving patterns

So, what is known about young people and philanthropy in the UK? Overall, youth giving patterns and beliefs, both positive and negative, mirror that of adults, underscoring the important and influential role that parents and other adult family members play in young people's lives.

First, just like the adult population, a majority of young people claim to make donations to charity, with 78% claiming to have given to charity the last time they were asked, according to the Gfk NOP annual survey, last commissioned in 2005 by Giving Nation (see Raising a Giving Nation article below).

The size of young people's gifts also compares well to the adult population.

The Charities Aid Foundation (CAF)'s research into young people's engagement with charity, *Growing into Giving* (2000), found that the average monthly gifts by 16-24 year olds was £6.94, which was over half the average adult monthly gift in the same year of £11.82, as found in the NCVO/NOP survey.

The causes preferred by young people are similar to those supported by adult donors. Cancer charities are the most popular cause for old and young whilst children's welfare, international development and animal charities feature prominently in both 'top 10s' (see table below).

Ranking	Young People *Source: GfK NOP 2005*	Adults *Source: CAF Charity Trends 2005*
1	Cancer charities	Cancer Research UK
2	Children's charities	National Trust
3	Animal charities	Oxfam
4	Cancer Research	British Heart Foundation
5	RSPCA	RNLI
6	NSPCC	Salvation Army
7	Children in Need	NSPCC
8	Make Poverty History	Comic Relief
9	Tsunami Appeal	Macmillan Cancer Relief
10	--	RSPCA

Mothers are consistently found to be the most influential role models for giving, cited by 70% of survey respondents, followed by fathers, other family members and school friends (all c.50%). Siblings and non-school friends influence around a third (c.30%), not much less than celebrities, who attracted around a third (35%) of young people to support specific causes in 2005 (all data from Giving Nation/Gfk NOP 2005).

Furthermore, young people share the prevalent mood of cynicism about charitable giving and the effective use of donations. Whilst almost four in five young people have donated to charity, most (72%) underestimate the generosity of their peers, believing that only a half or less donate, including 33% who believe "hardly anyone" gives.

Two thirds (66%) of young people agree with the statement, "Generally, most charities use donations wisely", but less than a quarter (18%) accurately predict that charities spend 80p+ out of each £1 donated on the cause (actual figure across top 500 charities is 82p, source: CAF Charity Trends 2005). A worrying third (31%) think that less than 50p reaches the cause.

Finally, though the insignificant personal resources of young people mean that they stay off most fundraisers' radars, 'pester power' enhances their influence on household giving. More than half of young people living at home have an input into family economic decision-making according to research by Abbey National in 2000, and 24% of adults said they discussed their charitable donations with their children, according to CAF's publication *A Lot of Give* (2002).

In conclusion, the research points in a broadly positive direction in terms of philanthropic action even if shaded by zeitgeist skepticism. Young people are aware of the contribution that philanthropy makes and, with the right support and exposure to high-quality educational and communication materials being produced by organisations profiled in this edition of the *Newsletter*, we can feel more optimistic about our ability to nurture the future Carnegies, Sainsburys and Hunters in the next generation.

Raising a Giving Nation:
Highlights from Giving Nation's latest research

By Beth Breeze

The very latest insights into youth philanthropy in the UK have recently been published by Giving Nation, which commissions annual research to track trends in young people's attitudes towards the giving of both money and time.

The key findings of the research are:

- Most young people do make charitable gifts but don't believe that their peers are equally charitably minded.
- However, those who believe that their friends are more generous are more likely to be giving their time and money to charity themselves.
- Young people with the most positive attitudes towards charitable behaviour tend to be girls and 'teen and tween influentials', who are those young people that are active, sociable, well informed, admired and trusted.
- Young people are particularly influenced by the charitable behaviour of their mothers and, to a lesser extent, by their friends and the endorsement of celebrities. Fathers appear to have little influence over charitability.
- School fundraising activities are well supported and popular. Furthermore, when charitable giving is promoted in their schools, young people become more enthusiastic about giving.
- Young people are unsure about their future giving behaviour, indicating both the need and the possibility of influencing this generation to become committed givers as they grow older.
- Young people in schools using Giving Nation materials are significantly more likely to see themselves as long-term givers of both time and money.

A full copy of this publication is available online at: www.g-nation.co.uk/teachers/research.

Feature Profile

Giving Nation: Building a generous society

By Susan Mackenzie

Two goats, one cow, four flocks of chickens, one bee hive and a pig. Not your typical shopping trip for a British teenager. In fact, this 'farmyard' was purchased from the charity Send a Cow for a village in Africa by students at Davison CE High School for Girls in West Sussex, from the donations they raised for G-Week 2005.

Giving Week (or G-Week), a week-long celebration of giving and volunteering hosted by secondary schools across England, is the highlight of the Giving Nation programme. An independent, national initiative, Giving Nation "celebrates the power of young people, encouraging them to reshape their world through giving to others".

Charitable giving and citizenship

Now part of the Citizenship Foundation – which adopted the programme when the Giving Campaign ended in 2004 – Giving Nation supports the teaching of the citizenship curriculum through free resources for both lesson plans and whole-school activities. In its first year – when the citizenship curriculum was first required in 2002 – Giving Nation resources reached over half of all secondary schools in the UK.

The Giving Nation Resources Pack provides teachers with comprehensive and accessible materials to support classwork on charities and the community. For instance, its teachers' notes booklet offers guidance for each lesson plan, explaining how each meets curriculum requirements, as well as suggestions for how to develop a school-wide giving policy. There are also resource and activity cards on various topics, with recent case studies, such as "'What do we mean by 'charity'?"; "How do charities use the money we give them?", highlighting the 2004

Asian tsunami appeal; and "How do you decide which charities to support?", featuring the 2005 Make Poverty History campaign.

Additional materials to support activities outside the classroom include fundraising ideas, a volunteer placement resource, templates for press releases and sponsorship letters, a checklist for organisers, and an interactive website where students can share information about their school and activities. G-Week has its own dedicated resource pack, including ideas for events and competitions, a spreadsheet for keeping track of funds raised, and a template to produce a G-Week magazine that students can personalise for their own school.

Rachel Mansell, Team Leader at Giving Nation and previously a teacher who used the programme's materials, explains, "We aim to provide teachers with everything they need to deliver the charities component of the curriculum, while at the same time engaging students inside and outside of the classroom."

However, despite the quality of the materials, which are consistently rated highly by teachers and students, actual class usage has been slower than expected. Although 70% of schools in England have the Giving Nation Resources Pack, only about 25% (1,000 schools) are actively using the materials. "It takes time for acceptance and then embracing of the curriculum," notes Andy Thornton, Director of the Participation and Social Action Team at the Citizenship Foundation and originator of Giving Nation. Mansell added, "Teachers are our greatest allies, but time is an issue for them, and charities are only 5% of the citizenship curriculum. So it is up to us to deliver the right product to the right teachers." For example, Giving Nation is working with local education authorities to develop best practice networks, aiming to help "embed the charities curriculum in the school's culture", says Mansell.

Inspiring tomorrow's leaders

"Our aim is to create 'something for everyone' rather than 'a lot for a few', so that every child in the country is affected by our activities", says Thornton, "That means it has to fit within the mandatory curriculum. We want to empower young people, to help them realise that what they do can make a real difference. Our materials take them through a process where they are informed, they critique and then reflect on the action they'd prefer." For instance, students are asked 'What kind of world to you want to live in?' 'How can we make that happen?' 'Do you want to be a part of it?' 'How can you get involved?' Thornton observes, "These are universal citizenship questions, where 'charity' is one of the answers, and participation is available to all ages."

Yet Thornton is clear that their primary aim is not to increase charitable giving by young people, although that of course is a desired outcome. Rather, Giving Nation seeks to "demonstrate the sense and satisfaction in being part of a generous society that is informed by a vision of fairness, inclusivity and shared responsibility" (Raising a Giving Nation, 2006).

Case study: Carlton Digby School, Nottinghamshire

Located three miles outside of Nottingham, Carlton Digby School serves about 60 students aged 3-19, all of whom have severe learning difficulties, and some also have physical or behavioural difficulties. Whilst Giving Nation targets 11-16 year olds in secondary school, Carlton Digby School involved all 60 of its students in Giving Week. For example, students at the school raised over £600 for children and families in Darfur, Sudan. Each department contributed: the Primary Department held a fancy dress day and organised a quiz sheet; the Secondary Department made and sold smoothies and greeting cards; and the Sixth Form made and sold wooden planters, as well as jacket potatoes at lunch time.

The school also raised money for the Tsunami Appeal, by each student taking home a bottle of water (donated by the local Coop) with an accompanying letter explaining the campaign. Donations were made in exchange for the water, underscoring how easy it is to take clean drinking water for granted. Next year, students aim to engage more people in the community in its work.

Reflecting on their experiences, the students concluded: "Working together to raise money for others less fortunate than ourselves has a positive effect on the atmosphere and general ethos of the school. All our pupils have difficulties but are lucky enough to live in a country where they receive regular care and support. It is good for us to consider, in practical and multi-sensory ways, how we can use what we have to help others. During the year we have met lots of new people and raised the profile of our school in the local community."

The programme's work seems to be having an impact. Says one young Giving Nation activist: "What keeps us going is the fact that our actions have given those people who have been affected by gun crime hope… I feel because I've helped to contribute towards a really good cause, it's made me realise how valuable the good things in life really are."

For more information about Giving Nation, visit www.g-nation.co.uk.

Youthful foundations:
Grant-making by and for young people

By Laura McCaffrey

A number of charitable foundations are increasing the involvement of young people in their work, enabling them to become grant-makers, trustees and recipients of training and funding.

Camelot Foundation

For example, the Camelot Foundation has set up a partnership with young people called the 4front Awards. The aim is to search out and develop young people's dreams. Each year the 4front Awards recognise young people who:

- are willing to stand out from the crowd
- have a dream that will make a difference to other young people
- have the determination to make things happen

To apply for an award of around £3,000, young people are invited to send in a five minute video about their dream. Previous award winners have set up projects to tackle the influence of gang culture, guns and drugs in inner cities. Others have made an animated film about the negative attitudes that young people with learning difficulties face in their everyday lives.

Appropriately, award winners are chosen by a decision-making panel made up of young people themselves, and a team of young people also runs the awards scheme. Over a period of six months, from April to October, they take part in a series of workshops that develop their skills and leadership qualities.

They choose to join one of three action groups which meet to carry forward different aspects of the programme. The "Decision Makers" decide on judging criteria, how many winners there should be and who will win the awards, while the "Events Management" group has responsibility for designing the ceremony, which is held at a high-profile London venue. In 2004 and 2005 it was held at the Ministry of Sound.

The Event Managers choose the style and theme for the event, decide how to use the budget, plan the practical arrangements, work with the scriptwriter and do everything necessary to ensure it is a memorable night.

Meanwhile, the "Media Group" is involved in making a film about the awards scheme which is shown at the ceremony. They learn film-making skills, how to present for the camera, interviewing skills, and are involved in the editorial team. In addition, all young participants learn media skills so that they can be interviewed by the press.

For more information, visit www.4frontawards.org or call 020 7828 6085.

YouthBank

"Run by young people for young people", YouthBank is a UK-wide grant-making body which provides small grants to projects led by young people.

Young people decide how local YouthBanks are run and also direct the national programme by sitting on the board of trustees. This helps to build their skills while contributing to their community.

YouthBanks are supported by local organisations that help with training, administration and provide support to the young people involved. For example, the Greater Bristol Foundation, the Community Foundation for Northern Ireland and Merseyside Community Foundation support YouthBanks.

YouthBank was set up in 1999 by five organisations – the British Youth Council, Changemakers, the Community Foundation Network, The National Youth Agency and The Prince's Trust. These organisations are now YouthBank UK's 'Consortium Partners'.

Thanks to funding from the Tudor Trust, YouthBank has set up a website to promote the idea around the world. YouthBanks in Northern Ireland have already helped to set up eight more initiatives in the Balkans, and there already are YouthBanks in India and Australia.

For more information, visit www.youthbank.org.uk.

vgood news for volunteering

By Susan Mackenzie

v, the new charity set up by the Russell Commission, launched on 8th May, marking the transition from Government to an independent charity. With input from a youth advisory board – known as v20 – v aims to create one million young volunteers aged 16-25 years old by 2010. Four of the charity's trustees are also from this age group.

Chief Executive Terry Ryall said, "We want to make volunteering a 'normal' part of young people's lives, providing them with tangible assets for their future as well as for society at large."

The charity will work in partnership with the public, private and voluntary sectors to "develop and share best practice in youth volunteering". Its seven founding partners – The Hunter Foundation, MTV, KPMG, Sky, itv, Tesco and T-Mobile – are joined by an additional 19 corporate supporters. v will distribute up to £7.7m in funding to organisations that create youth volunteering opportunities.

Government has made available £50m over three years to match fund the initiative. The establishment of v was the major recommendation of the Russell Commission, which was set up in May 2004 by Chancellor Gordon Brown and then Home Secretary David Blunkett. The Commission's objective was to develop a national framework for "youth action and engagement".

The realisation of Ian Russell's recommendation – and the considerable support it has received from Government – bodes well for youth philanthropy. With Government's renewed efforts to build a 'culture of giving', especially among young people, perhaps we can hope for a similar commitment to charitable giving. As Government recognizes in *A Generous Society: Next steps on charitable giving in England*, "an obvious way to deliver a change in attitudes tomorrow is to work with young people today".

For more information about v, visit www.wearev.com.

Transferring wealth, sharing a legacy: Resources for family philanthropy

By Susan Mackenzie

We are in the midst of a significant global, inter-generational transfer of wealth. From 1998 until 2052, 'baby boomers' and the Second World War generation will pass on their estates to their heirs and to charity. In the US alone, this wealth transfer is conservatively estimated to be worth over £20 trillion, with more than £3 trillion being bequeathed to charity (J Havens and P Schervish, *Millionaires and the Millennium*, 1999). Moreover, the wealthier the individual, the more generous he or she is likely to be: in the United States estates of £10 million or more typically leave an average 49% of their value to charity and only 21% to heirs (*The Economist*, July 29 2004). These patterns are likely to be similar in the UK.

Philanthropy can be an enriching and rewarding way to bring the family together around shared values. Says philanthropist Michael Oglesby: "philanthropy helps cement the family, bringing the younger generation closer to…the family legacy".

Wealthy families seeking advice on developing their philanthropy, setting up a charitable trust or giving tax-efficiently should contact their legal or financial advisors. Several wealth managers in the UK – such as Coutts & Co (www.coutts.com/philanthropy) and UBS (www.ubs.com, see also separate article in the June 2006 issue) – have established philanthropy services programmes.

Additionally, a number of charities provided specialised philanthropy services for donors. For more information, please contact these organisations directly:

- **Charities Aid Foundation (CAF)**
  www.cafonline.org; 01732 520000
  CAF offers a number of products and services for donors, including the CAF Charity Account and the CAF Charitable Trust, as well as consultancy services for individual and family philanthropy.

- **Community Foundation Network (CFN)**
  www.communityfoundations.org.uk; 020 7713 9326
  CFN is the national association of community foundations – charitable trusts which manage donors' funds - "linking local donors with local needs". Resources, including contact information for all 60 UK community foundations, are available on the CFN website.

- **Institute for Philanthropy**
  www.instituteforphilanthropy.org.uk; 020 7240 0262
  The Institute's networking and education services for donors include The Philanthropy Workshop, a leadership development and networking programme for individual donors who wish to "bring their philanthropy to a more strategic level".

- **New Philanthropy Capital (NPC)**
  www.philanthropycapital.org; 020 7785 6300
  NPC advises donors and funders on how to give more effectively. Based on its independent research and experience, the charity helps donors develop a tailored giving strategy, select which charities to support, and assess the impact of their giving.

FOCUS ISSUE: GIFT AID

Despite a plethora of guidance on and publicity of Gift Aid, new research by the Institute of Fundraising shows that many charities are failing to fully take advantage of this benefit. In the opening article, Lindsay Boswell discusses the findings of the Institute's research and outlines some immediate steps charity trustees and fundraisers can take to raise awareness of Gift Aid – both inside and outside of their organisations. This overview is supplemented by thought-provoking contributions from leading consultants: David Dixon and Theresa Lloyd debate the opportunities and challenges of the Gift Aid scheme for both charities and donors, while Nigel Siederer helps donors determine whether a charitable foundation or Gift Aid is the best mechanism for their giving.

New research reveals untapped value of Gift Aid

By Lindsay Boswell

When it comes to making the most out of supporters' donations, charities are still missing out on estimated millions of pounds that could be theirs, simply because they are not maximising the use of all the tax-effective giving methods available to them.

Tax-effective giving is a simple message that can make a big difference to a charity's fundraising capacity. What's more, it is best practice. By promoting tax-effective giving to donors, charities are offering them a high level of donor care, and are paving the way to attract a different type of donor. Importantly, trustees have role to play in making sure this happens.

However, new research commissioned by the Institute of Fundraising reveals that, when it comes to tax-effective fundraising, charities are under-performing in relation to their full potential.

The research, *Promoting Tax-Effective Giving*, was carried out for the Institute by CAF Research. It shows that Gift Aid is used by just one-third of donors, and accounts for one-third of the value of all individual giving. Payroll Giving is used by just 2-3% of those on Pay As You Earn (PAYE). Around half a million employees participate in the scheme, even though around 5-7 million now have access to it. Legacies are worth about £1.6 billion to the sector, and around £1.1 billion of this goes to the top 500 charities.

Also highlighted by the research is the fact that charities seem reluctant to tackle the subject of tax-effective giving with donors, because they perceive it as a sensitive topic, especially with older donors. Charities lack confidence in following up donors, and have a limited idea of how much more they could do. This has led to a view that they have done 'as much as they can'.

According to the research, while 70% of the charities that did little or no tax-effective fundraising appeared to have carried out some cost-benefit analysis on the opportunity cost, 30% did not know how much they might be losing.

Realising Gift Aid's potential

The key message for charity staff and trustees to take from this research is that maximising tax-effective giving could mean millions of extra pounds for your charity, so more needs to be done to raise awareness amongst donors and potential supporters. Moreover, trustees have a key role to play in fundraising, such as agreeing the parameters for success and investment - so this is your chance to take the bull by the horns and develop in this area.

The first step is to take advantage of the Institute's support services for charities that would like extra guidance and training to maximise their income through the tax reliefs. Funded by the Home Office, these services include low cost tax-effective giving training workshops for charities, production of practical guidance resources in the form of a book and CD Rom, access to the free tax-effective giving hotline on 0845 458 4586, and the Institute's website: www.institute-of-fundraising.org.uk.

Having gained an understanding of tax-effective giving, charities then need to inform their donors about it. This can be done by placing articles in their donors' newsletter and on their website. These articles must be clear about how the tax reliefs of each method works, how they will benefit the donor, and how the additional income will benefit the charity.

It is also vital for a charity to ensure that all their staff are aware of tax-effective giving. This can done though articles in the staff newsletter and on the intranet. When educating staff about tax-effective giving, charities must be clear about the extra income it will generate and how this benefits the cause you are all working towards.

As the research shows, there is massive potential to build up public awareness of tax-effective giving. Every charity, however large or small, has a key role to play in doing this, and in benefiting from the increased income that will result.

Lindsay Boswell is Chief Executive of the Institute of Fundraising. For more information on the tax-effective giving workshops, email taxback@institute-of-fundraising.org.uk or call 0845 337 3801. The training workshops, which take place across England from May 2006 to March 2007, are an ideal opportunity for fundraisers (especially from small charities and those new to fundraising) that are looking to maximise their income through Gift Aid, Share Giving, Payroll Giving and Legacies.

In the two opinion pieces below, David Dixon praises the simplicity of the Gift Aid scheme, while Theresa Lloyd argues that the process – and the message – could be clearer for higher-rate tax payers.

Gift Aid: Money for Nothing!

By David Dixon

The Gift Aid scheme was a welcome improvement to the complicated system of legally binding covenants which it effectively replaced in 1990. Since then, it has been made even easier so that for most gifts a simple declaration over the phone or a tick box on a paper or website form suffices to allow the charity to collect 28% extra on the gift from basic rate tax (the precise figure is 22/78).

For higher-rate taxpayers Gift Aid is fiddlier, since the donors can themselves reclaim the difference between higher and basic rate tax, and this means that the benefit is split between the charity and the donor. There are also important basic administration issues which need to be adhered to (and there are penalties for getting it wrong). Nevertheless, it is important to realise that the UK's Gift Aid scheme provides a higher rate of tax relief on donations than in any other country, so it is a powerful tool in the fundraiser's armoury.

Looking specifically at basic rate taxpayers, Gift Aid is simplicity itself because:

- No forms need to be signed – declarations can be made over the phone or online.
- Once a declaration has been made, it covers *any* future donation to that charity (unless the donor's tax circumstances change).
- It can also be made retrospective for five years, often allowing charities to claim lump sums when they gain declarations.
- These advantages make Gift Aid a delight for committed giving programmes – the backbone of income generation for many charities.

Consider that an overwhelming majority of donors are:

- employed under PAYE and so never actually fill out a tax return
- basic-rate taxpayers

cont'd p13

Gift Aid: the major donor's perspective

By Theresa Lloyd

On the face of it Gift Aid seems an excellent idea. The charity can claim back the tax the donor would have paid, and a higher-rate tax payer can claim the difference between the basic rate and higher rate. Yet hundreds of millions of pounds lie unclaimed, and many charities don't understand it and don't ask their donors to sign Gift Aid declarations.

One of the findings of *Why Rich People Give*, published in July 2004, is that some major donors also dislike Gift Aid, because of the complexity of the process, the administrative costs for charities, ignorance on the part of beneficiaries and the fact that the donor does not get all the tax relief. In addition (although probably not for very large gifts) they may not be 'credited' with the gross amount received by the charity, even if the systems in the finance department do allocate the tax back to the specific gift and donor.

This system was designed by someone with no experience as a fundraiser or as a donor!

Promoting the process to basic rate tax payers is not too difficult, and charities that have not yet invested in the administration to deal with Gift Aid should recognise its advantages – particularly for committed giving programmes with ongoing future income streams from direct debits, the backbone of income generation for many charities.

However, although the bureaucracy is perhaps simpler than some are fearing, from the standpoint of smaller charities there are still unsatisfactory aspects. The administration, particularly relating to audit trails, is perceived by some to be complex. Charities would like the Government to recognise that the vast majority of tax-payers have indeed paid tax on the donation. Issues relating to donor benefits, heritage charities and the off-setting of trustee expenses could all be simplified. Furthermore when tax rates change all the promotional materials explaining the process with examples will have to be changed too.

cont'd p14

Dixon, cont'd from p12

Any move to allow the donor to reclaim all tax relief would be disastrous for charities because:

- Only a proportion of donors would give the tax relief back to the charity, so many millions of pounds in Gift Aid income would be lost to charities.
- Tax relief is *not* the primary incentive to donors (philanthropy is tax neutral) and there is conflicting evidence as to whether tax relief makes any difference to giving levels[1] so it is far from clear that tax-breaks directly to donors would lead to corresponding increase in donation levels to counter the fall in Gift Aid income.

From the charity perspective Gift Aid is simple to operate. There is nevertheless a regrettable reluctance to fully use the Gift Aid system, especially amongst smaller charities. Partly, this seems to reflect an understandable, but erroneous, reluctance to engage with Her Majesty's Revenue and Customs (HMRC), but the main problem seems to be a lack of commitment to capturing and administering donor Gift Aid declarations. The effort required is minimal, so such charities are ignoring virtually free money. Moreover, since these extra funds are not tied to specific projects, the money really is 'free' and thus especially valuable.

As an example, The Royal Academy of Arts (RA) has been a client of The Phone Room Ltd. for several years, and whenever a telephone fundraising campaign is undertaken, Gift Aid declarations are taken over the phone. The RA themselves collect declarations when donation and membership forms are filled out and write periodically to those who have not given a declaration. Then, roughly once a year, they give The Phone Room a file of people who have not made a declaration despite all paper communications and we ask for a declaration over the phone. Telephone calls are relatively expensive, but so great is the income, especially on memberships and committed gifts, that the benefit is dramatically higher than the cost. The RA takes over £1 million in Gift Aid *each year* and even a more modest fundraising operation should be taking thousands in Gift Aid each year.

The argument that tax relief for donors is a direct incentive to donation is not borne out by available research, although the positive signal a government sends out by publicising tax reliefs may be important. If this is the case, then the form of the relief is secondary and the fact that under the UK rules the majority of the tax relief goes to the charity can only be a good thing. In effect, Gift Aid in the UK is a government matched funding scheme, providing sizeable amounts of untied cash to charities, with a relatively small administrative workload, provided that they themselves undertake philanthropic fundraising from individuals and companies.

[1] Richard Steinberg, Emeritus Professor at Virginia Polytechnic and State University, surveyed original research across 24 countries examining the relationship between tax and giving. His conclusion was that there was great uncertainty, but that a clear linkage could not be established. Published in Voluntas magazine Volume 1 Issue 2 1990.

David Dixon is a consultant working for cultural and heritage organisations. He is particularly interested in the long-term relationship between the arts and their audiences. He is a founding Director of DixonRaines and of The Phone Room and is a board member of ABL Cultural Consulting. David and his colleagues work at national and regional level on marketing, fundraising, ticketing and membership projects. He is a regular speaker at conferences around Europe.

Lloyd, cont'd from p12

Giving the right message

For the 3m higher-rate tax payers the situation is quite different. About 60% of donations come from about 5% of donors. Many will be higher-rate tax payers. The tax relief of 40% is split between charity and donor. Under Gift Aid a donation of £100,000 would enable the charity to claim back £128,206. The donor could claim 18% of the gross value of the donation. This is £23,077. The net cost to the donor is therefore £76,923, or 76.9% of the donation he has made. It is 60% of the total received by the charity. In the end the financial result may be the same, but the message is not. Few trustees can explain this fluently to potential major donors. These arrangements are not conducive to maximising the amounts wealthy individuals could donate. The fact that many readers will have skipped to the next paragraph makes the point.

Those with experience on both sides of the Atlantic compared it unfavourably with the US, where taxpayers claim the full tax relief. The net cost of a major gift is very clear to the donor. This reinforces the psychic benefit of such giving and is likely to encourage a repeat of the experience. The tax relief does not of course determine the **allocation** of major support, which will come from a passionate commitment to the cause. However from US, UK and Australian research, there is no doubt that for major givers the tax benefit is a significant factor in the **level** of gift – the awareness of the net cost to the donor coupled with the gross amount received by the charity is a powerful incentive; it's a combination of it being a good deal and the idea of "telling Gordon Brown what to do with my money", as someone said.

Many suggest that individuals making large donations should be able to use self-assessment to claim full tax relief, rather than a combination of Gift Aid and self-assessment. There are various issues to be considered, including the need for transition arrangements to address the concern by charities that they would lose out in the short term, because regular gifts would remain at their existing round amounts and many donors would not quickly make the adjustments to pay the net amount plus basic rate tax to the charity.

However it is not unreasonable to review the Gift Aid mechanism after a few years' experience, as recommended by *Why Rich People Give* and the Task Force report on increasing voluntary giving to higher education[1].

A small team should be established with a specific brief to consider the potential for simplifying tax relief on major donations for higher-rate tax payers, and come up with a clear recommendation, including any transition arrangements.

It is all about making the giving experience as enjoyable and motivating as possible for the donor. Making a difference to a cause to which they are passionately committed is a primary motivator, but as research shows, a clear understanding that with a simple process your cause can receive £100,000 at a net cost to you of £60,000 is a powerful reinforcement.

[1] Increasing voluntary giving to higher education. Task Force report to Government May 2004. Available from the Department for Education and Skills, www.dfes.gov.uk/hegateway.

Theresa Lloyd is a leading consultant in strategic planning, fundraising and governance for the non-profit sector and also advises families on the development of their philanthropic strategy. She was Director of the Philanthropy UK project, a 3-year initiative set up in 2001, and wrote the first edition of A Guide to Giving. She is author of Why Rich People Give, published in July 2004 by the Association of Charitable Foundations. Cost £15 plus p&p from the Directory of Social Change www.dsc.org.uk. Theresa can be reached at www.theresalloyd.co.uk.

Why should a philanthropist set up a foundation?

By Nigel Siederer

As more transparency was forced on foundations in the 1990s, some philanthropists complained that it was revealing previously secret information about their private giving. They preferred to do good by stealth, and were no doubt further irritated by later requirements that foundations should also disclose information about investment policy, internal structure, trustee appointment methods, and senior staff remuneration. The riposte from 'openness' campaigners was that philanthropists now had the alternative of Gift Aid – which gave tax relief on one-off gifts far more flexibly than the previous seven- and four-year covenants. It wasn't quite as simple as that (see table below for more detail on the differences between creating a foundation and using Gift Aid).

Gift Aid means knowing exactly which charity you want to give to, and having money available when the charity needs it and can use it sensibly. Having a foundation enables a donor to give tax-effectively when he or she can afford it, without having a particular charity in mind. Causes can be expressed in general terms (e.g., 'artistic endeavour') or as 'general charitable purposes'. Grants can be given when good applications are available. If no suitable project can be found, then the foundation can fund research or commission work proactively.

Another difference is that a foundation is usually expected to outlive the donor. This is because gifts to a foundation (whether lifetime gifts using Gift Aid or legacies using inheritance tax relief) normally create or increase capital endowment. Grants are made from investment income (after inflation-proofing), giving the foundation, often named after the donor, perpetual existence. The distinction turns on 'income vs capital' rather than on the tax concessions, as a gift or legacy to an operational charity can also be given tax-effectively to create named capital funds – but this is rarely done except to establish educational prizes or professorships, or within a community foundation. Conversely, a foundation, provided it has avoided the trap of 'permanent endowment', will have the legal power to give away all its capital, but few do so.

Lord Sainsbury of Preston Candover has successfully proposed an amendment to the Charities Bill that would give foundation settlors a previously unrecognised legal status. If the Bill goes through, foundation grants made during the lifetime of their settlor (or the settlor's spouse or civil partner) could be kept secret once more. This may not answer concerns that secrecy might on balance be damaging to the broader image of philanthropy. And some foundations, having seen benefits in greater openness, may not want to re-close the curtains. There will also still be a 'transparency' obligation where a foundation's settlor is dead (including one established by their last will), and on foundations established by companies or public appeals (including high-profile ones like Comic Relief and BBC Children in Need). But for living philanthropists, this may tip the balance against Gift Aid, allowing them to give secretly during their lifetimes and to provide for an eponymous foundation that will give in their memory after their death.

Apart from the secrecy issue, the foundation 'device' enables a longer-term approach to planned giving than does Gift Aid. Because giving is in two stages – 'to' and 'from' the foundation – it will feel less spontaneous. But even for the operational part of the charitable sector, instant gratification isn't everything. Foundations are welcomed as stable, non-government sources of funds.

Creating a foundation versus using Gift Aid	
Creating a foundation	**Gift Aid**
Requires long-term planning	Gift Aid can be used spontaneously
Giving is delegated to trustees who must be found and be willing to give unpaid time	**Giving is fully controlled by donor alone**
Investment income is tax relieved	Tax relief is only available when a grant is made; until then, investment income belongs to the donor
A foundation can receive gifts whenever convenient to the donor, and grants can be made whenever the foundation receives good applications provided these are affordable within its long-term income	**Timing of needs may not match the time when the donor has excess current income available**
A foundation can receive planned capital gifts (including gifts of shares – though selling the shares must be considered in order to diversify the foundation's capital)	Only a minority of large charities have the capacity to handle capital gifts at donor's convenience.
Gifts to a foundation cannot be rescinded or reclaimed if the donor's circumstances change	**The level of giving can match changes in the donor's fortunes**
Particular beneficiary organisations need not exist, as funds can be given tax-effectively to a foundation with general objects	Named beneficiary organisations must exist and be able to receive gifts and administer Gift Aid
Gifts can be made to non-charities and individuals for charitable purposes	**Gifts can only be made to charities with provable status**
A foundation has a bureaucracy of its own, to administer incoming funds and grants – including (with large foundations) a director who must have a rapport with the donor	Gift Aid forms must be completed for each donation
A foundation's grants are public knowledge (though the expected new Charities Act may change this for living settlors)	**Gift Aid donations are secret**
A foundation can last indefinitely	The potential for Gift Aid dies with the donor, though a foundation can be created as a bequest in their will – but if a foundation is to be created anyway, why not during the donor's lifetime?
The donor's name can be attached to the foundation in perpetuity	**The potential for publicity is unlikely to outlive the donation (unless the donor's name is given to a building or prize fund etc)**

Nigel Siederer runs the Good Foundations Consultancy (www.goodfoundationsconsultancy.org.uk). Elements of this article appeared previously in Funding for Change magazine.

⌘⌘