

Living Legacies

Transforming Charitable giving

Living Legacies the power to generate an additional £400 million for charities in cash each year

The UK needs to create opportunities that encourage all who can afford it to give more. One mechanism that promises to be transformative in its potential to stimulate giving would be the introduction of Living Legacies into the UK, which could leverage an additional £400 million in assets and income each year for charity.

Donors should be enabled to make substantial tax-effective gifts of assets and cash to charity during their lifetime. They and their families should have the opportunity to give at levels that can transform a charity's operations and to enjoy the impact of their giving during their lifetimes.

In addition, Living Legacies enable those who own capital assets but depend upon the income they generate to make a valuable and substantial commitment to charity.

The key advantage of this mechanism is its potential to overcome one of the most frequently cited barriers to giving: financial security. Research suggests that an individual's concern for financial security in later life can and does discourage many from giving more in their lifetime. If, however, an individual had the option to make a substantial tax-effective gift in their lifetime, and this individual were to receive a fixed income from this gift for a period or for the remainder of their life, we believe that donors would be likely to give significantly more to charity. We only need look to the US where Living Legacies have been in place for six decades and where charities benefit annually from over \$7 billion (\$4.5 billion in assets and \$2.5 billion) annually.

Living Legacies can offer individuals and families the pleasure of making a substantial gift in their lifetime and connecting with the organisation they have chosen to support. On death, a Living Legacy is treated like any other gift made to charity in a will and its value is not counted as part of the donor's estate for inheritance tax purposes.

Living Legacies

Living Legacies are widely used in the US: a donor makes a gift of cash or an asset to a trustee who agrees to pay a fixed percentage (say 5%) of the value to the donor for a period (life) at the end of which the gift passes to charity. In this way, Living Legacies offer:

- for the donor, the psychological rewards of certainty over future income and the gratification of making substantial, transformative gifts to a good cause;
- a more long lasting, fruitful and engaging relationship between the donor and the charity; and
- for the charity a guaranteed gift of significant value and a secure basis for future planning.

A living legacy works alongside lifetime cash giving and legacies to benefit charities. The US experience is that it stimulates new giving rather than replacing traditional giving

Proposed Model

A successful model for Living Legacies must be simple, secure and easy to access without professional help for the donor. It must be inexpensive to administer, contain a clear benefit for the charity and the government will require it to be easily regulated and not subject to abuse. In order to do so, we propose requiring that Living Legacies should be administered by established donor advised funds or DAFs.

To meet these objectives the following model is proposed:

- the donor gives a sum of cash, marketable securities or land to a trustee using a standard trust who must be a DAF which is accepted by the UK Charity Commission to administer Living Legacies;

- the donor and the trustee agree the annuity rate within an approved range, the term and the charity beneficiary;
- the DAF's auditors include a separate report on Living Legacies in standard form within the DAF's annual report filed with the UK Charity Commission;
- each year (or more frequently) the DAF pays the donor the agreed annuity amount, on which the donor pays income tax;
- at the end of the term or on the donor's death the designated charity received the Living Legacy from the DAF;
- the donor may specify if the fund is for the charity's general purposes or specific purposes (that is, unrestricted or restricted capital); and
- in the first instance, cash only will be used but it is envisaged that all assets that are at any stage eligible for Income Tax reliefs on gifts for charity such as quoted shares and land will become eligible for Living Legacies.

Tax implications of this model

- The gift into the trust would be treated as a gift to charity for the purposes of capital gains tax and Inheritance tax.
- The present value of the charity's future receipt (based on standard actuarial calculation) is used to calculate the donor's income tax relief on making the gift. In essence, that value is deductible, against the donor's income before calculating his or her tax liability, just as the value of quoted shares would be if they were given outright to the charity.
- Deductibility can be applied backwards for one year, and can be applied forwards.
- The donor is liable for income tax on income he or she receives from the trust.
- The charity receives the fund on the donor's death or at the termination of the trust (free of tax).

Anticipated impact on levels of UK giving

POTENTIAL INCOME FROM LIVING LEGACIES IN 2018	
Total target group in UK (UK higher rate and additional rate tax payers)	3.3 million
Average trust value (a quarter of US average trust value)	£145,000
Total number of Living Legacies by 2020 (0.1 % anticipated take up)	3,340
Total trust value by 2020	£484 million
Total asset value from new donors by 2020 (80% of donations from new donors as opposed to those who would have already given in their will)	£387 million
Total increase to charity by 2018 (in both income and assets)	£398 million

Recommendation

Living Legacies offer a simple and effective way to expand a charity's donor base and would have a transformative impact on the philanthropy landscape in the UK.

Government should respond to calls to review the introduction of tax-effective Living Legacies to encourage more donors to make substantial gifts to charity in their own lifetime.