CGAP
Centre for Charitable Giving and Philanthropy
www.cgap.org.uk

Comparing US and UK experience of the current environment for philanthropy

11 May 2012

Notes on a CGAP round-table with Professor Mark Rosenman

CGAP took the opportunity of Mark's recent UK visit to convene a round-table aimed at comparing experience of the current policy and economic climate for philanthropy in the UK and US. Invited participants are listed at the end of this paper. This note summarises main points which arose in the discussion.

The conversation began from the starting-point of UK debate (and assertions) about proposed limits to tax relief for wealthy donors, against the background of the critical lack of information held by 'all sides'; and the comparisons with the United States which this has raised.

In the US, President Obama has both previously and more recently proposed a cut in the percentage tax deduction for wealthy donors to charity, from 35% or 33% to 28% on gifts; this is in no way an abolition, just a recognition that there would be a yield to the public purse from a reduction of that sort. A 2011 study estimated the potential 'loss' to charities as around $2.43 billion and immediate lobbying began in opposition.

However, the wider question of 'what gets to be tax deductible' is inevitably raised, changing the dynamics of the debate. For example, deductions on mortgage interest payments for both a principal residence and a second (vacation) home are a 'cornerstone' – yet no such equivalent is available to those renting. A small and vocal group within the US nonprofit sector, broadly in the anti-poverty field, has been critical of the nonprofit sectors' leading infrastructure groups, for what they saw as a knee-jerk reaction to the loss of 'their' money with too little concern for such broader fiscal issues.

A subsequent view was presented by Independent Sector (the US equivalent of NCVO) that any efforts at deficit reduction had to ensure that they made poverty no worse, that deficit reduction must include new revenue, and that they must not contribute to the growing inequalities within the US.

However, the President reiterated his budget proposals to include lowering the charitable deduction. The debate raises much wider issues than just simply the percentage level of a tax advantage from giving; it provides further exposure, in its own right, to the nature of the nonprofit sector in the US. With the nonprofit sector currently running at about 5.5% of GDP, it is getting too large to be ignored – no wonder capital markets are getting interested. (Is the shift from charity to social investment a 'Way Station on the Road to the Market'?)

Reflecting on these developments and their UK counterparts, a shared emphasis on what we don't know becomes very clear; but also on the questions that 'are not being asked'. For example, the whole existence of a tax relief at all begs the questions of why we surrender decision-making about the relative balance of social funding to private sources? why do we accept a loss of income (from the cost of the charity tax deduction) that would otherwise be in the public revenue? It is likely that the deduction advantages giving to certain areas – arts, culture, universities – since these are what the rich use and support, and it is principally they who claim the individual tax benefits.

Could preferences be steered by governments through use of the tax system? In the US there are examples of some state-level identification of priority areas (eg poverty and community development), and of awarding tax credits for giving to these. Another national initiative, included in the early 1980s, was an experiment to incorporate a charity tax deduction for lower earners who do not itemise charitable contributions in their tax returns, paying a non-itemised standard tax deduction at source. Giving at this level rose.

These examples led to further discussion around the challenges that arise around the issue of the state identifying priorities such as, for example, whether they would they tend to reflect the state's own core responsibilities, and so relieve them. Steering away from arts or universities towards health or hunger? (There is a danger of splitting larger institutional nonprofits from smaller community-based ones, but people with political power tend to be concentrated on the boards of arts, universities etc.) Major concerns are about the state having such 'lead' decision-making over what to give to, and there is undoubtedly an expectation that any state 'direction' would favour services over advocacy or policy efforts. Is there any evidence in UK which compares the balance of giving across 'causes/fields', and those areas on which the state spends most? are they already congruent or divergent? Evidence suggests that, other than a shared focus on giving/spending for 'health', there are major contrasts in the directions of philanthropic giving and public spending.

This leads to the widest possible consideration of what is the justification for tax breaks in the first place, and whether this could/should be linked to a more explicit requirement for 'public benefit'? was there perhaps disappointment in some quarters in the eventual non-narrowing of the Public Benefit definition in the UK? Did the 'non challenge' to the public-schools-as-charities have anything to do with subsequent efforts to 'clamp down' on charity tax relief?

The charity sector itself in practice is far more on the back foot here, because of its tendency to focus on what some regard as 'their money ', rather than the whys and whethers of specific causes. (Do we all find this just too difficult?) Is there a degree of self-deceit about what kind of accountabilities are on offer in charity and its effectiveness? It's also important to recognise that within the sector, and within some intermediary or membership organisations especially, there is no clear consensus on such issues.

Turning to the whole matter of equity imbalances in society, which is raised by any questions of tax advantages for some and not others, does the ongoing conversation about foundation payout levels in the US reflect a deeper concern about making sure that the money moves on and moves out; or is this more of a debate about specifics and the limited impact of the payout rule in the light of arguments by, for example, Peter Frumkin, that whatever level is set becomes a ceiling.)

Overall equity –society imbalances in the US are continuing to be exacerbated. Recent figures (Forbes List) suggest that the wealth held by the top 400 richest people in the US is the equivalent of all the aggregate wealth held by the bottom 60% of the population.

Experience of different vehicles through which to channel donations also suggests that traditional nonprofits are losing out. As use of Donor Advised Funds grows (where donors' money can be invested as well as spent), their position in the charities' hierarchy becomes more clear. They are already in the top 10 charities, with United Way at 1, Salvation Army at 2, and DAF Fidelity at 3, with the Schwab DAF at 7 beating the American Cancer Society at 8. There is now a suggestion that these commercial DAFs should also be required to meet the same payout requirement as foundations. There are opportunities here to further maximise tax advantages through making a donation in a year of high income/tax obligation, while deductions for giving above the tax relief cap (limited to 50% of annual income in US) can then be spread over the next five years (query also what is known about the impact of lifetime legacies in this regard.)

Despite calls for raising the payout level (e.g. National Committee for Responsive Philanthropy, including argument to raise payout requirements and remove inclusion of administration and staffing expenses), it was suggested that this is not necessarily a 'solution '; any pressure brought to bear on foundation boards will be 'managed', possibly in the form of larger grants to fewer and safer grantees. ('public policy changes but boards don't'). What matters is not what goes out of the door, but where it is going and for what.

An entirely different imperative is at work in foundations where a spend-out/spend-up decision is being implemented. Here the processes of grantmaking become far less important than the planned and expected gains for the spending decisions. In some cases costs have been less than anticipated in relation to achievements, but the spend-out decision has produced changes in (board) mindset about where the money is going. This is especially so given increased awareness of the time value of money.

The overall accountability issue remains, and has been put clearly centre stage with the taxation/philanthropy interaction debate. As well as questions of organisational complexity, such as in the immense portfolios of some operating foundations in Europe, some felt that it was hard to avoid the argument that self-financing equates with self-accountability. Also that despite much talk about 'widening stakeholders', the ultimate stakeholders - the people whom the projects/programmes are designed to reach- are in practice rarely involved.

Taxation and philanthropy questions, being brought together, raise core issues about what it is, and why, governments and philanthropy do what they do; together or separately. Why is the core of philanthropic action, poverty, not eradicated? Recognising the Beatrice Webb arguments, and those of others, about poverty as a systemic feature of societies, one argument is that dealing with poverty (or dealing directly) is fundamentally unattractive for politicians? Is this so of philanthropy, too?

Participants in the round-table

Mark Rosenman, Caring to Change
Andrew Cooper, The Diana, Princess of Wales Memorial Fund
Charles Keidan, Pears Foundation
John McLoughlin, Global Philanthropic
Richard Bray, Cancer Research UK
Sue Daniels, European Association for Philanthropy and Giving
Rhodri Davies, Charities Aid Foundation
Cathy Pharoah, Tobias Jung and Jenny Harrow, CGAP

About the guest discussant

Professor Mark Rosenman is a member of CGAP's Advisory Group. He directs Caring to Change. For 25 years he has focussed on applied research projects aimed at strengthening the nonprofit and philanthropic sector, particularly in the areas of infrastructure and capacity to influence public policy and institutions. He was vice-president for social responsibility and distinguished public service professor at the Union Institute & University, where he is now a professor emeritus. He writes frequently for The Chronicle of Philanthropy, has blogged for the Stanford Social Innovation Review, and has been quoted in The New York Times, The Washington Post, The Times (London), Business Week, The Christian Science Monitor, Advertising Age, The Daily Mail, and numerous other publications. He lives and works in Washington, DC.

About CGAP

The ESRC Centre for Charitable Giving and Philanthropy (CGAP) is the first academic centre in the UK dedicated to research on charitable giving and philanthropy. Three main research strands focus on individual and business giving, social redistribution and charitable activity, and the institutions of giving. CGAP is a consortium comprising Cass Business School, University of Edinburgh Business School, University of Kent, University of Southampton, University of Strathclyde Business School and NCVO. CGAP's coordinating 'hub' is based at Cass Business School. CGAP is funded by the ESRC, the Office for Civil Society, the Scottish Government and Carnegie UK Trust.

For further information on CGAP, visit www.cgap.org.uk