

Promoting Philanthropy: Private Giving for the Public Good

A Campaign Group Briefing: Lifetime Gifts

July 2008

1. Promoting a culture of philanthropy

The arts and heritage sector is firmly committed to promoting a culture of philanthropy. Since 1992 there has been a 25% rise in personal incomes in the UK, and personal wealth has more than doubled, and yet there has been a 25% fall in charitable giving as a percentage of GDP. By comparison, private giving in the United States, is twice that of the UK¹.

We feel strongly that, to support a change in the giving culture, all signals for promoting philanthropy should point in the same direction. Such an approach would include an unabashed celebration of philanthropy, public recognition of the contribution made by philanthropists, and fiscal incentives to encourage a culture of giving.

UK museums were founded through the contributions of individual philanthropists, driven by the conviction that citizens' quality of life would be enhanced by access to important objects, imaginatively interpreted within a core educational purpose. Building on this legacy, we are committed to promoting civic engagement and renewal through encouraging individuals to strengthen the great public collections for the benefit of all.

This commitment is shared by Government. The encouragement of the principle of giving something back is exactly aligned with the Government's commitment to developing our individual sense of citizenship and place in society. The encouragement of a culture of individual giving in the UK is a critical component of the citizenship agenda, and to establishing mechanisms/support structures which encourage "good" citizenship from childhood.

There are a number of specific strands of activity/policy which would fulfil that agenda:

a. Incentives to encourage gifts to British collections

- Extension of the existing scheme of tax relief on gifts of cash, stocks and shares and land to include also chattels (works of art, objects etc). (*Details of how this might be achieved are set out below.*)

b. Reforms to Gift Aid

- Simplification of the existing tax relief/incentives schemes to encourage donors at all levels, in particular through reducing the administrative process making it more donor and charity friendly.
- Simplification of scheme and/or campaign to encourage take-up of higher rate taxpayers' benefit.
- Lifting of restrictions in 'benefits' to patrons and donors through the reclassification of entertainment costs as marketing/promotional expenditure.
- Lifting of restrictions on Gift Aid claims on admissions.

¹ Policy Exchange (2007) *Give and Let Give*

c. Lifetime Legacies

- The addition of Lifetime Legacies to the portfolio of tax effective mechanisms, which would allow charities, academic and cultural institutions to secure far greater commitment from donors.

d. Recognition

- Use of the existing Honours system to acknowledge and, crucially, celebrate donors in a very public way, ensuring that benefaction to the nation is the subject of public gratitude

e. Capacity building in the sector

- The sector, with support from government, must work to spread best practice to encourage giving in the sector.

2. Incentives to encourage lifetime gifts to public collections

At present objects can be gifted to museums and archives in lieu of inheritance tax when somebody dies and gifts of cash and shares benefit from tax relief in the form of Gift Aid. Offering tax relief on gifts of objects to public collections would be a logical extension of current tax policy.

The need for reform is pressing as the UK's museums and galleries are struggling to maintain world-class collections. Funding for acquisitions has not kept pace with the massive increase in the prices of pre-eminent cultural objects² and take-up of Acceptance in Lieu (AIL) – which allows owners to offer pre-eminent works to the nation, off-setting inheritance tax liabilities – is falling rapidly. The introduction of new measures to encourage giving would also be timely given the current climate of concern about the loss to the UK of some foreign domiciles who are current or potential high level donors to our museums.

Donations of objects are an important way of building relations with donors, particularly a new generation of potential philanthropists with impressive collections of contemporary objects and a keen interest in art and design. Once engaged, these new donors may then go on to bigger or subsequent donations, for example capital projects for the galleries that house the donated objects. This is the typical model of relations with donors in the US. It would also provide regional and smaller museums with the opportunity to build collections in the absence of a large acquisition budget, by building relationships with local philanthropists and collectors.

3. How the tax incentive would work in practice

Building on the AIL scheme and international models, a new tax incentive could include the following features:

a. Valuation

- Value of submitted objects should be judged by a panel of experts in a similar fashion to AIL.
- To prevent the system becoming over-burdened with applications, only pre-eminent objects should qualify for consideration.

² Acquisitions funding for major museums fell by 44% in real money terms between 1980/81 and 2004/5 while by comparison the price of Old Master paintings rose by 413%. HLF and NHMF were jointly spending an average of nearly £18 million a year on acquisitions during the decade 1994-2003, but spent under £5 million in 2004/5. (Figures taken from *Acquisitions: The Current Crisis*, An NMDC Briefing by Mark Jones, May 2006)

b. Eligibility of recipients

- The purpose of the policy is to enhance public collections for the public good, so recipients should be limited to those institutions registered under the Museums, Libraries and Archives (MLA) Accreditation Scheme and selected Schedule 3 bodies and archives.

c. Tax relief:

- It should be possible under the policy to offset against income and capital (as well as inheritance) taxes. Relief against corporation tax should also be considered.
- Consideration should be given to off-setting tax over a limited number of years, including the option to 'carry back' tax relief, to encourage high-value donations which are too expensive for museums to acquire directly.

d. Caps:

- To limit the maximum amount of revenue foregone, it would be possible to introduce an overall cap on tax to be offset under the scheme in any one year, as was the case for for AIL.

4. International tax relief schemes to encourage private cultural giving: an overview

	Australia	Ireland	Canada	France	USA
Scheme overview	Cultural Gifts Program (started 1978) provides tax incentives to encourage gifts of culturally significant items from private to public collections	Provides tax relief for the donation of pre-eminent heritage items to national collections (since 1995)	Movable Cultural Property Program (started 1977) provides tax incentives to encourage gifts of 'outstanding significance and national importance'	Provides tax incentives to encourage a) individuals to help museums purchase objects and b) companies to help acquire 'national treasures'	Gifts of art to non-profit cultural institutions have been tax deductible at Fair Market Value (FMV) since 1917
Tax liability deductible against	Income Tax. Gift not liable to CGT	Income Tax, Corporation Tax, CGT, Gift Tax and IHT	Income Tax. Gift not liable to CGT	Income and Corporate Tax	Income subject to income tax
Tax relief	100% of value of gift against taxable income – so 45% if higher rate taxpayer	100% of value of gift against taxable income – so 41% for higher rate taxpayers.	100% of value of gift against taxable income – 29% if higher rate taxpayer.	90% relief³ for corporations (subject to 50% of tax due in given year) and 66% relief for individuals (up to 20% of taxable income)	100% of FMV deducted from taxable income, resulting in deduction according to income bracket (top rate c. 35%)
Who is scheme open to?	Both individuals and companies – but used mainly by individuals	Both individuals and companies	Individuals	Companies and individuals	Both individuals and companies – but used mainly by individuals
Min/max value of items accepted	No legislative min or max – acceptance at discretion of Committee. (Gifts of less than A\$1,000 generally not accepted).	Minimum: €150,000 (approx. £118,000). Maximum: €6m (£4.7m) aggregate cap (no cap on individual donations)	No legislative minimum There is a general annual limit of charitable donations as a % of net income	No minimum or cap	No minimum or cap
Carry forward?	Yes – for up to five years	Yes – indefinitely	Yes – for up to five years	Yes – for up to five years for individuals	Yes – for up to five years ⁴
No. of approved recipients	Approximately 350 institutions	Five. Scheme aimed at enriching national collections	Approximately 300 institutions	All public collections	Over 15,000 museums as well as other non-profit organisations
Value of annual donations	AUS\$ 24.8m (£12m) in 2003/04	On average 6 objects, worth c€4m , donated each year	CAN\$ 124million (£63.5m) in 2002/03.		

³ If company retains title, relief is given at 40% provided the object is put on public display and is not sold for at least 10 years

⁴ Under current US law, a single gift can be divided into as many as 10 annual 'fractions' ('fractional gifts') and each is eligible for a five-year carryover.