The gift of giving

Story by Eleanor Cater, with additional reporting by Luke Dodemaide

From the 'warm glow' phenomenon to advantageous tax incentives, here's how everyone can benefit from philanthropy.

Quick take

In the next 20 years, baby boomers will be transferring wealth to their heirs. Charitable donations can be part of that planning.

People can make tax-deductible charitable donations and make bequests to the charities of their choice.

Accountants can help clients decide whether to make a donation or bequest by discussing philanthropy from a financial perspective and how it can help communities now and into the future.

MORE THAN 100 years ago, American philanthropist Andrew Carnegie sagely observed that "It's more difficult to give money away intelligently than to earn it in the first place". Not much has changed in the following century and high net-worth individuals face a modern paradox of wanting to make a difference but not knowing how.

Accountants and lawyers are the most trusted professional advisers to people with wealth. They hold a very special position of influence and are often intimately involved in helping clients preserve and grow their wealth, plan for end of life and develop estate plans. However, while a CA's education focuses on strategies to maintain and grow money, what is often not covered is how to discuss and manage one of people's innate desires – how to do good by giving money away well.

Josh Hickford FCA, CEO of the Taranaki Foundation, believes there is great potential for chartered accountants to grow client relationships through the topic of philanthropy.

"CAs are often financially focused and do not have the right tools or confidence to bring up this crucial conversation, even though it has been shown by research as a topic which sits close to the hearts of many clients and one which they will welcome, if you open up that opportunity."

Understanding taxes and financial outcomes

People making charitable donations are often motivated by a combination of altruism and strategic financial planning.

"The benefits of philanthropic donations are well recognised and are increasingly being used by a few older well-off individuals," says Susan Franks CA, CA ANZ's Australian leader – tax, superannuation and financial advice.

"They may have had a big liquidity event or they may have sold a business or some shares," says Rachael Rofe, head of Australian Philanthropic Services. "They have a big tax bill and their accountant is in a great place to open up philanthropy as a way of saving or solving that tax problem. So, often the accountant's role is pivotal in entering them into the world of philanthropy."

Before any particular charity is discussed, it can help to focus on the personal benefits first. In Australia, philanthropic donations grant a full and immediate tax deduction for the amount contributed to a deductible gift recipient (DGR) charity. A taxpayer can claim a tax deduction in full in the year it is made, or the deduction can be spread over five years.

Of the 60,000 registered charities in Australia, an estimated 40% have obtained DGR status. This is a crucial distinction because, without DGR status, a payee may not realise all their objectives from this act of philanthropy, discouraging further giving.

"From a tax perspective, if a tax deduction is important, the very simple thing is make sure that you're giving it to a DGR," says Rofe. "Lots of organisations out there may be charitable but they may not have tax deductibility status. They need to have DGR to be eligible for tax deductions."

This distinction is granted by the ATO rather than the Australian Charities and Not-for-profits Commission (ACNC) but organisations with DGR are listed on the ACNC register. This is, in part, to increase transparency and encourage philanthropy in any form.

The answers on ancillary funds

One undeniable trend is the rising popularity of donations via private ancillary funds. Ancillary funds allow payees to achieve the tax deduction they desire immediately, while simultaneously pushing back the deadline on deciding what organisation they will donate to, averting having to make a last-minute decision by 1 July.

It is a requirement that ancillary funds are registered with the ACNC and comply with regulations set by the ATO.

"Donations to a private ancillary fund generate a tax deduction, but the benefit to the community of that donation may not be realised for some time," says Franks. "Thus, there is a requirement that private ancillary funds distribute 5% of their net assets each year."

The Productivity Commission has found that: "of the approximately 50% of private ancillary funds that distributed 5% to 6% of their net assets in 2020–2021, 66% of these private ancillary funds distributed between 5% to 6% every year between 2017–2018 and 2020–2021". This suggests that for a significant proportion of funds, the minimum distribution rate is a consistent binding constraint.

Ancillary funds are slow-drip charity by design, but their prominence suggests that Australian taxpayers are hesitant to commit to a more accelerated form of giving. Still, it is certainly a start. Accountants are there to initiate these discussions, and the value of the education offered cannot be understated.

"I think accountants have a very important role to play in alerting clients to philanthropy and structured giving, in particular as a solution to a tax problem, and then open up this whole joyous world of values-based conversations that families can enjoy for perpetuity, for some people," says Rofe.

Another set of rules for New Zealand

Compared with Australia, New Zealand's tax rules regarding charitable donations are more straightforward. Donors can claim back 33.33% for every dollar given to approved charities and organisations, up to their taxable income level during that tax year. This rebate only applies to gifts made while a donor is alive and not to charitable gifts made after death (bequests).

"You can only claim the donation tax credit in the year that you made the donation and if you don't have sufficient income in that year, then you're out of luck," says John Cuthbertson FCA, CA ANZ's NZ tax and financial services leader. "You can't spread it or carry it forward."

Payroll giving is also available in New Zealand, allowing employees to donate directly to charitable causes from their pre-tax income with the help of their employer. The 33.33% credit still applies, plus there are other benefits. It is an efficient charitable pathway that offers immediate tax credits, rather than waiting until the end of the financial year.

IR must recognise the charitable organisation, ensuring that at least 75% of its funds are used within New Zealand. Cuthbertson says that this form of giving hasn't really "taken off" but says, "it may not have been publicised enough to get traction".

Guidance on bequests

In the UK, the majority of the UK's 47 community foundations have close relationships with professional adviser networks and there is a very active conversation going on with a nationwide campaign – Remember A Charity – to grow bequests to charity. As a result, legacy giving has risen by 43% over 10 years. Almost a quarter (24%) of wills handled by UK legal advisers include a gift to charity, showing steady growth and long-term change over the past decade (up from 16% in 2014).

The philanthropy ecosystem in the UK is more advanced and provides a good roadmap and an opportunity to do things differently in New Zealand and Australia. The great wealth transfer of the baby boomers – an estimated A$3.5 trillion in Australia and NZ$1.11 trillion in New Zealand – has the potential to do good, beyond simply looking after people's heirs.

Community foundations – 18 of them in New Zealand and nearly 50 in Australia – can work in partnership with professional advisers, boosting their philanthropic expertise and helping clients discover their philanthropy or giving 'sweet spot'.

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Rachael Rofe, Australian Philanthropic Services

Conversation starters

Professional advisers often describe philanthropy conversations as some of the most satisfying conversations of their careers. This is the opportunity to deeply discuss the things that really matter to their clients and to help them discover themselves as change makers.

As a conversation starting point, think about asking these kinds of questions:

- Have you ever volunteered, or is there a cause you are really passionate about?
- What legacy do you want to leave the world?
- Do you want to involve your family in your giving plans?
- Have you ever thought of making change happen through leaving a charitable gift in your will?
- How do you want to be remembered?
- Do you want to explore further giving options and ways of giving effectively into your community?

These conversations, using high emotional intelligence, touch on some of the deepest matters of importance to clients. They also drive loyalty and intergenerational relationships between clients and professional advisers. One study even showed that up to 42% of the next generation are more likely to stay with the family's adviser if they have helped to shape the family's philanthropy.

A gift to everyone

In addition to making a difference to a group or community, philanthropy makes the givers happy too. In addition to a researched phenomenon described as a 'warm glow', *The Science of Generosity* white paper from the University of California, Berkeley found that people who volunteer and donate really do get great joy from giving, as well as an increased sense of vitality and self-esteem.

As a part of financial conversations and estate planning accountants can broach the philanthropy conversation. It may not appeal to every client, but research tells us that it will appeal to many who may just discover that they can be the change makers that their communities need. Many will thank you for helping them step onto that journey of discovery, of leaving a legacy and doing something altruistic, guiding them in how to give their money away well.