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Good Times and Philanthropy: Giving by Australia's Affluent

by Kym Madden and Wendy Scaife

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To bring to the community the benefits of teaching, research, technology and service relevant to the philanthropic and nonprofit communities.

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Executive Summary

This report draws upon the latest research to examine giving trends by affluent individuals in Australia and how these compare with overseas counterparts. It is driven by several factors. Giving by individuals matters enormously to the nonprofit sector, far exceeding business donations. Whether the richest of the population gives commensurate with their wealth is a question worth asking. The assets held by the wealthier end of Australia's population have burgeoned in recent decades as have the number considered affluent. In 2006, Merrill Lynch/Capgemini drew attention to Australia's trend to affluence, describing its high net worth segment as one of the fastest growing in the world and dismissing suggestions that average wealth held by affluent individuals was well below overseas counterparts. The next four decades are also expected to pour continued wealth into this segment as the oldest generation passes and accumulated assets shift to grown children. This intergenerational transfer of wealth is widely projected to surpass that of any previous era.

With increased personal wealth comes the opportunity for accelerated charitable giving and evidence exists that giving *does* increase with wealth. Research, in Australia and overseas, shows that a greater proportion of the affluent cohort gives than those on lower incomes and, on average, they give higher absolute amounts. Indeed, having more money is commonly cited as the number one requirement for individuals to give at a higher level. However, in Australia a sizeable proportion of those in the wealthy cohort give little, if anything, to charitable causes and some who do give do so at a lower level than the rest of the community. That is, some of those with high capacity to give do not give to community causes.

How does Australia compare? The good news is that Australia's affluent *are* giving more than they were a decade ago and a higher percentage of this group are giving. However, this change needs to be set against the dramatically increased wealth of this group: while the nation as a whole has become more prosperous, it is the affluent segment that has benefited the most. The available data indicates that the rising level of giving by the affluent segment overall has *not* kept pace with wealth trends – indeed, the gap is widening – and that the percentage of the affluent who give to charitable causes has risen only modestly over the past 10 years despite a substantially higher level of personal wealth. While the average household income in Australia grew by 34% in real terms from 1994-95 to 2005-06, it has been the wealthier household that has experienced the greatest gains with a 36% increase compared to around 31% for those on low and middle incomes (ABS, 2006a). This difference is strongest of late: in the two years to 2005-06, household incomes in the high income segment jumped, on average, by 13% compared to 8% for those in the low and middle income segments.

Overall, evidence suggests that Australia's affluent are, on average, giving at a *lower* level than their counterparts in comparable countries such as the UK, Canada and the US, despite comparable wealth levels. Of course, outstanding examples of generosity *are* being seen in growing numbers of wealthy Australians; at issue is their relatively small number.

This report finds:

1. **Approximately 6 in 10 of the wealthiest Australians (approximately 5% of Australia's total population) claim deductions for their charitable giving.** Given the propensity of this group to benefit from professional tax advisers and utilise the tax system, some 40% are likely to be engaged in minimal - if any - giving.
2. **Affluent Australians give more than the average Australian but generally not much more.** Gifts, measured by the value of tax-deductible donations expressed as a percentage of taxable income, are only marginally higher for the vast majority of the affluent (with taxable incomes of between \$100,000 and \$500,000) than for Australians overall, at approximately 0.45% and 0.33%, respectively.¹
3. **The level of personal wealth held by wealthier Australians has accelerated at a much faster rate than their charitable giving.** Over the ten years to 2005, mean household income for Australia's affluent population has increased by 36%. However, its charitable contribution, as measured by the percentage of taxable income claimed as charitable giving increased from just over 0.36% to just over 0.45%, still well under 1% for the vast majority of wealthier Australians.
4. **Despite some superlative yet isolated examples, there is little evidence that Australia's ultra-rich and ultra-ultra-rich are giving at the same rate as overseas counterparts.** Despite increasing gift levels in the past decade to 2005 from 0.7% to 1.98% of their taxable incomes, the wealthiest of Australia's affluent (\$1 million-plus in taxable income) do not appear to be engaging in philanthropy, as a group, to the extent indicated by global trends. The World Wealth Report (Merrill Lynch/Capgemini, 2007) estimates that the top 17% of ultra rich donors globally (with assets equivalent to \$US30m plus) are now giving away approximately 10% of their assets annually; It also points to the global high net worth (HNW) population's growing propensity to allocate between 3% and 11.8% of their portfolios to philanthropic causes annually. While no detailed figures exist in Australia, tax statistics indicate that making substantial donations still constitute an exception rather than a norm for the wealthy.
5. **Tax changes support a philanthropic culture.** More tax-related strategies are called for, given the establishment of some 600 Prescribed Private Funds (PPFs) by individuals and companies since being introduced in 2001. In other countries, the 'incentivising' impact of various measures, including death duties cannot be denied.
6. **The affluent is the affluent is the affluent...not so!** Wealthier Australians now represent a diverse group, with large variations in financial capacity. Segmentation of the affluent population by income/asset level is essential to understand areas of low giving (and high giving).
7. Based on evidence about giving behaviour by affluent Australians, efforts to encourage their engagement are warranted. To this end, and drawing upon the wider philanthropy literature, **12 standout opportunities exist:**
 1. Increase visibility of philanthropy amongst the affluent (including via the media);
 2. Increase awareness of different types of involvement to suit varying levels of wealth and personal circumstances;
 3. Create greater peer support for giving e.g. loose supportive networks and groups providing opportunities for discussion and potential group funding (e.g., giving circles);
 4. Offer more guidelines for giving, promote affluent giving norms and build the practice of 'planned' versus spontaneous giving;

¹ In Australia tax deductible gifts can only be received by Deductible Gift Recipients (DGRs) which may or may not be strictly charitable. The data presented in this report about Australian tax deductible gifts refers to these DGRs which for ease of reference are termed generally as charities.

5. The highest echelons of government, business, the professions and the community need to be personally inviting Australia's wealthy opinion leaders to join in visionary philanthropic projects;
6. Promote tax benefits attached to giving at higher levels, and alternatives;
7. Train and support professional advisers about providing philanthropic advice to match clients' circumstances to most suitable giving vehicles or options;
8. Improve awareness amongst Australia's affluent population of the benefits of involving their children in giving, the opportunities available, and who can assist them achieve their aims;
9. Improve awareness of the Australian nonprofit (NP) sector and the unique role of philanthropy in creating change in the community: the case for philanthropy needs to be stronger and clearer than it is currently;
10. Increase transparency, efficiency and evaluation by nonprofit organisations to help overcome expressed donor concerns. However, *unrealistic* expectations that a nonprofit organisation (NPO) can exist without administration costs also need to be addressed. The paradox exists that potential donors say they would give, or give at a higher level, if NPOs were more transparent, more efficient and showed the impact of their programs yet they do not want NPOs to spend money on such operational issues;
11. Improve understanding and responsiveness by the NP sector of the needs and interests of the affluent;
12. Improve volunteering opportunities for the affluent in nonprofit organisations (NPOs), drawing upon their knowledge, connections, experience and interests.

In sum, this report contributes to understanding giving behaviour by affluent Australians and to provide guidelines for fostering philanthropy for the good of the community as a whole. The challenge of encouraging Australians with means to give at a higher level is complex. Giving behaviour is deeply embedded in, and reflective of, our social, political and economic infrastructure as well as our national and individual psyche. Nevertheless, as a country, we are evolving and there is potential for leaders in business, the professions and the nonprofit sector to collaborate in ways that tilt the country towards a more philanthropic orientation. There are also specific levers available to those in policy areas that can facilitate and support such change.

Note. In comparing Australia's charitable giving figures with other countries, just how much we do not know emerges, the landmark Giving Australia research notwithstanding. For example, little data is available on giving by Australians with assets in excess of \$1 million despite the rapidly expanding number of citizens in this group and their extreme variations in personal worth. The picture is also somewhat muddled because the use of tax-efficient structures such as family trusts can 'hide' much personal wealth, making estimates of numbers of the wealthy and assets held conservative. Answers to basic questions - what kind of charitable giving do such individuals engage in and how has it changed over time? - must be drawn primarily from aggregated survey data and rare qualitative data. In contrast, far more is known about philanthropy by the affluent in the US and Europe, especially the UK. Overseas literature overwhelmingly supports the positive link between affluence and level of gift but the evidence about affluence and proportion of wealth given to the nonprofit sector is mixed. This *general* pattern is reflected in Australia, too.

Specific, direct comparisons of giving between Australia and other countries must be tempered because methods used for gathering data are not always clear from published findings and methods differ widely across countries; methods also may change within a country over time. To overcome these obstacles, existing studies were examined for the indicators they provide of what is actually happening and the extent to which findings tell a similar story. In doing so, we build upon the earlier work of the Asia-Pacific Centre for Philanthropy and Social Investment at Swinburne University in 2004 and 2005.

What is affluence? Definitions of affluence abound. For the purpose of this study, 'the affluent' have been defined as those with assets in excess of \$1.2 million apart from the family home, or with annual taxable personal incomes of \$100,000 or more. Note that in this report dollars are Australian unless otherwise specified. Section 1 discusses definitions more fully.

This CPNS Current Information Sheet was current as at March 2008. Events, policy and laws alter rapidly and you should take independent advice before acting on any matter raised in this publication.

Good Times and Philanthropy:
Giving by Australia's Affluent
sponsored by:

the **Petre**
foundation

The Australian Centre for Philanthropy
and Nonprofit Studies
Queensland University of Technology
GPO Box 2434
BRISBANE QLD 4001 Australia
Phone: +61 7 3138 1020
Fax: +61 7 3138 9131
Email: cpns@qut.edu.au
<http://cpns.bus.qut.edu.au>
CRICOS code: 00213J