



Legacies for Good Report

Executive Summary

Introduction

Ireland has a strong and deserved reputation for charitable giving. Donations by private individuals to charitable causes as a proportion of aggregates like GNP compare reasonably favourably with corresponding estimates for other countries. However, in Ireland, such generosity primarily takes the form of relatively small spontaneous donations, most conspicuously in response to emergency appeals, rather than the planned and/or relatively large-scale giving that permits organisations like The Community Foundation for Ireland to deploy funds on a long-term strategic basis.

A consequence of this pattern of giving is that the segment of the Irish not-for-profit sector that provides a vehicle for such large-scale philanthropic giving is comparatively underdeveloped. Indeed, given that three of the most prominent philanthropic foundations (the One Foundation, Atlantic Philanthropies and The Joseph Rowntree Charitable Trust) have closed and/or ceased funding in Ireland, this segment of the not-for-profit sector has contracted in recent years. At the same time, Irish people have never been wealthier and the potential for planned and committed philanthropic giving has never been greater.

It is against this background that The Community Foundation for Ireland has commissioned this report, the over-arching purpose of which is to raise awareness about the potential for strategic giving in Ireland and to provoke fresh thinking about how that potential might be harnessed. The main terms of reference for the report were (i) to estimate the likely inter-generational transfers of wealth and the potential for charitable bequests in Ireland in the next 20 years, and (ii) to identify a small number of policy instruments that might be introduced to encourage large scale and longer term charitable giving, including in particular, greater charitable legacies.

There are several reasons for the focus on inter-generational wealth transfers and the desirability of constructing estimates of same. Perhaps the most important is that the decision to transfer wealth to the next generation often prompts larger questions, including questions that spring from the instinct to 'give something back'. It is, in other words, a particularly appropriate stage for giving to a good cause.

Another reason is that the amounts at stake are relatively large: wealth is typically a multiple of income (in some cases, a very large multiple) and for that reason, amongst others, the amounts that may be donated to charitable causes out of wealth are potentially much larger than the amounts typically donated out of income. These considerations have prompted extensive research into the scale of inter-generational wealth transfers in other jurisdictions, most notably the US.

An additional motivation for constructing such estimates in the Irish case is the evidence that charitable giving associated with inter-generational wealth transfers, in particular charitable legacies or bequests, is relatively small in Ireland and is an underdeveloped source of funding for the not-for-profit sector. This in turn has resulted in a very small number of charitable foundations and Donor Advised Funds, entities which form such an important part of the philanthropic landscape in other jurisdictions.

The report shows the enormous potential that exists for charitable and philanthropic causes to benefit from legacy income in particular. This potential is not only a function of the huge wealth transfers that are in prospect, but also reflects the fact that Ireland currently underperforms other jurisdictions in terms of the scale of charitable bequests.

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- The financial position of Irish households has more than fully recovered from the great recession of the late noughties. The latest Central Bank estimate puts net household wealth at €727bn at end-2017. That's 1% above the mid-2007 pre-crisis peak, almost 70% above the mid-2012 trough, and indicates that Irish households in aggregate are now wealthier than they have ever been.
- The distribution of that wealth is highly concentrated. CSO data for 2013 suggest that the wealthiest 1% of households owned 15% of all household wealth at that time. More recent data, published by Credit Suisse, point to a much sharper degree of concentration. They estimate that the wealthiest 1% of adults owned 33% of all private wealth in 2017, with the top 5% owning about 50% of the total.
- These statistics are by no means exceptional in an international context, but they do suggest, perhaps surprisingly, that there are several tens of thousands of multi-millionaires and more than one hundred thousand millionaires in Ireland today. This in turn points to the existence of an enormous pool from which the charitable sector, philanthropy in particular, might draw large-scale, strategic donations.
- Given the distribution of household wealth by age cohort and projected death rates over the 2017-2036 period, it is estimated that just over 21% of that wealth will be available for inter-generational transfer at death over the next two decades. This is probably a lower bound estimate, since some wealth will transfer from older to younger generations before death.
- It is estimated that the total inter-generational wealth transfer at death is currently running at an annual rate of **€5.5-€6bn**. Factoring in the likely future growth of wealth and the time profile of deaths, it is projected that the total amount of wealth available for inter-generational transfer at death could rise to somewhere between **€9.6bn** and **€14bn** per annum by the end of the 2017-2036 period, depending on the assumed rate of growth in wealth.
- The total wealth transfer from 2017 to 2036 could range conservatively from **€122bn** to **€185bn**.
- Available estimates suggest that aggregate charitable bequests are currently running at about €50m a year in Ireland, thereby accounting for about 6% of all charitable giving or about 0.9% of the inter-generational transfer of wealth at death. In contrast, charitable bequests are estimated to account for 9% of all charitable giving in the UK and 12% in the US. Moreover, in the UK it is estimated that charitable bequests account for 3-4% of the aggregate value of estates at death.
- If charitable bequests in Ireland were to account for a similar percentage of the aggregate value of estates as in the UK, they would currently be generating something of the order of €220m per annum, a figure that could rise to the **€380m-€560m** range by 2036, again depending on the rate at which wealth grows in the intervening period.
- The question is what might be done to realise this enormous potential and, more particularly, what policy instruments might be deployed by government to increase the amount of charitable giving created by the inter-generational wealth transfer process?
- In many other jurisdictions, such giving, in the form of charitable bequests, is incentivised by providing inheritance tax relief to the decedent's estate. However, such an incentive cannot operate in the Irish system because the inheritance tax (Capital Acquisitions Tax) is levied on individual inheritances (in so far as they exceed certain thresholds), not on the value of the estate.
- There are ways in which the Irish system might be reformed in order to encourage charitable giving associated with wealth transfer at death. One, directed at the beneficiaries of wills, would be designed to encourage them to donate a portion on inheritance. A straightforward and easily understood way of doing so would be to allow such donations as a €-for-€ deduction from the amount of the overall inheritance liable to CAT.
- The government should avail of an early opportunity to restate its policy towards the charitable and philanthropic sector with any such statement based on a recognition that the sector plays an indispensable role in supporting social, community and cultural life in Ireland and that it does so in partnership with government at all levels. Such a statement should recommit the government to measures that support and enhance the sector's capacity to raise funds independently.
- Finally, it is noted that there are serious deficiencies in the quality and timeliness of available data on the sector, especially the data relating to giving. It is important, from the point of view of strategic planning by organisations in the sector, and the setting and evaluation of public policy towards the sector, that these deficiencies be addressed.

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