Community Foundation Ireland

Legacies for Good

September 2023

For change. For better. For all.

Community Foundation Ireland

Introduction

Community Foundation Ireland's Organisational Strategy commits to grow and promote Irish philanthropy. As a philanthropic hub we have long recognized legacy giving as an area to achieve that goal.

In 2018 the Foundation commissioned research which showed that as a country, we significantly lag behind others, most notably the US and UK, when it comes to legacy giving. Now, as the government prepares a new National Strategy on Philanthropy, we have revisited that research. It shows that in 2023 the potential offered to support communities by leveraging legacy giving is even greater.

Compiled by economist Jim O'Leary, the author of the original study, the new findings capture a period of significant change, particularly in levels of personal and inter-generational wealth. Aggregate household net wealth surpassed €1 trillion at the end of 2022, representing an increase of almost 50% since the end of 2017. Inter-generational wealth transfer is now estimated at €9 billion.

This growth in wealth has also seen a doubling of charitable bequests, albeit from a low base. In his research Jim O'Leary shows that estimated legacy income for the not-for-profit sector is now more than €140 million. At 1.5% of inter-generational transfer of wealth this remains well behind the corresponding figure of 3.6% in the UK. Achieving those levels in the Irish context could see amounts donated through legacies surpass €300 million.

On the back of these findings Community Foundation Ireland is now calling for Government to implement two recommendations:

- Incorporate an awareness campaign about legacy giving and its impact into the new National Policy on Philanthropy

- A change to Capital Acquisitions Tax (CAT) to encourage charitable donations out of inherited wealth, namely, to allow such donations as a €-for-€ deduction from the amount of the overall inheritance liable to CAT

We believe this report is a significant contribution to both the formulation of the new National Policy and to inform the actions which must follow. Community Foundation Ireland will continue to engage policymakers both on this report and our submission to the public consultation on the policy, Growing Irish Philanthropy.

Denise Charlton,
Chief Executive,
Community Foundation
Ireland

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EXECUTIVE SUMMARY

In the context of the forthcoming National Policy on Philanthropy, this report revisits research undertaken by Community Foundation Ireland 5 years ago[1]. In 2018 Community Foundation Ireland published a report (Legacies for Good) the theme of which was the enormous potential for philanthropy in Ireland arising from prospective transfers of wealth in the coming decades. The current level and likely future growth of household wealth, and the associated inter-generational wealth transfers, create enormous potential for bequests as a source of funding for charitable and philanthropic organisations.

Key findings from the new research:

• Household wealth has increased considerably in the past 5 years. According to the Central Bank[2], aggregate household net wealth comfortably topped €1 trillion at the end of 2022, representing an increase of almost 50% on its end-2017 level. This means that the amount of wealth available for inter-generational transfer is now much higher than the 2018 research suggested and creates enormous potential for bequests as a source of funding for charitable and philanthropic organisations.

• In terms of the amount of wealth available for inter-generational transfer on an annual basis, our 2018 analysis produced a figure of about €5.7bn, some 1% of the contemporaneous estimate of total transferable household wealth. Applying the same proportion to the corresponding current measure of household wealth suggests that the inter-generational transfer is now running at an annual rate of around €9bn, a €3.3 billion increase.

• It appears that there has been strong growth in charitable bequests in recent years, with something more than a doubling taking place between 2015-16 and 2021 or an annual average increase of 15-16%. If that sort of growth has been maintained since 2021 it may be that the aggregate annual legacy income of the not-for-profit sector is now over €140 million. That would be the equivalent of 1.5% of our estimate of the annual inter-generational transfer of wealth, an appreciable increase from the 0.9% arrived at in our 2018 report, but still well behind the leading countries in this regard: the corresponding proportion in the UK for example was 3.6% in 2022.

• The report finds that with only 30% of the adult population making a will, there is a case for a renewed information campaign to highlight the importance of people drawing up wills and the opportunity that making a will affords to ‘give back’, to donate to a charitable cause, including the fact that such donations are tax-free in the hands of the charity concerned.

1 *Undertaken by the Economist Jim O’Leary*

2 *Quarterly Financial Accounts, published by the Central Bank*

• In terms of the concentration of wealth, latest estimates from Credit Suisse (2021), suggest that the richest 1%, comprising just under 37,000 individuals, own some 27% of all private wealth and enjoy average net worth of over €6 million, while the richest 10% (366,000 individuals) enjoy average net worth of about €1.4 million. This confirms the picture of a country in which there are several hundred thousand millionaires and several tens of thousands of multi-millionaires, and provides another illustration of the potential for philanthropy and for legacies as a source of philanthropic giving.

• The Report also makes the case for using the tax system to incentivise charitable donations at the point of wealth transfer which was first proposed in the 2018 report. Specifically, in the case of charitable donations a €-for-€ deduction would be allowed from the amount of the overall inheritance liable to Capital Acquisitions Tax. In order to focus the incentive on relatively large donations, the basic proposal might be supplemented with a requirement that qualifying donations must be of a certain size. For example, it could be stipulated that charitable donations amount to at least 10% of the value of the inheritance in order to be tax deductible.

• The 2018 report noted the absence of official data on charitable bequests. In this connection, we welcome the recent report on charitable bequests by the Charities Regulator and the detailed analysis set out therein and note that the data contained in this report were gathered[2] as a result of the recently introduced requirement that charities publish data on their income from bequests in their annual reports. We also note that there is some outstanding work to be done in this regard, in particular to ensure that the sizeable minority of charities that have been dilatory in the matter of publishing accounts rectify the situation.

Legacies for Good – a significant opportunity to grow philanthropy in Ireland

In the context of the forthcoming National Policy on Philanthropy, this report revisits research undertaken by Community Foundation Ireland 5 years ago.In 2018 Community Foundation Ireland published a report (Legacies for Good) the theme of which was the enormous potential for philanthropy in Ireland arising from prospective transfers of wealth in the coming decades.

The report is set out in 3 sections. Section 1 considers how the wealth landscape has changed since 2018. In the light of new official data, Section 2 revisits what we know about Charitable Bequests. Finally, Section 3 revisits the policy recommendations of the first report.

Section 1: Wealth

How has the wealth landscape changed since 2018?

The 2018 research[3] indicated that at that time, aggregate net household wealth amounted to about €700bn, or an estimated €570bn when the value of private pensions is excluded[4]. Given the distribution of this wealth, and projected death rates by age cohort, it was estimated that about 21% of the total would become available for inter-generational transfer (principally through inheritance) in the 2017-2036 period. Allowing for the likely growth of wealth over time - and even using conservative assumptions in this regard – it was projected that the cumulative total available for transfer over this 20-year period could range from €150bn to €185bn measured in terms of 2017 purchasing power.

As another, and perhaps more graphic, way of illustrating the potential for wealth transfer, our 2018 report also examined the available data on the distribution of wealth, which implied that in the Ireland of five years ago there were several hundred thousand millionaires and several tens of thousands of multi-millionaires.

So what has happened since 2018?

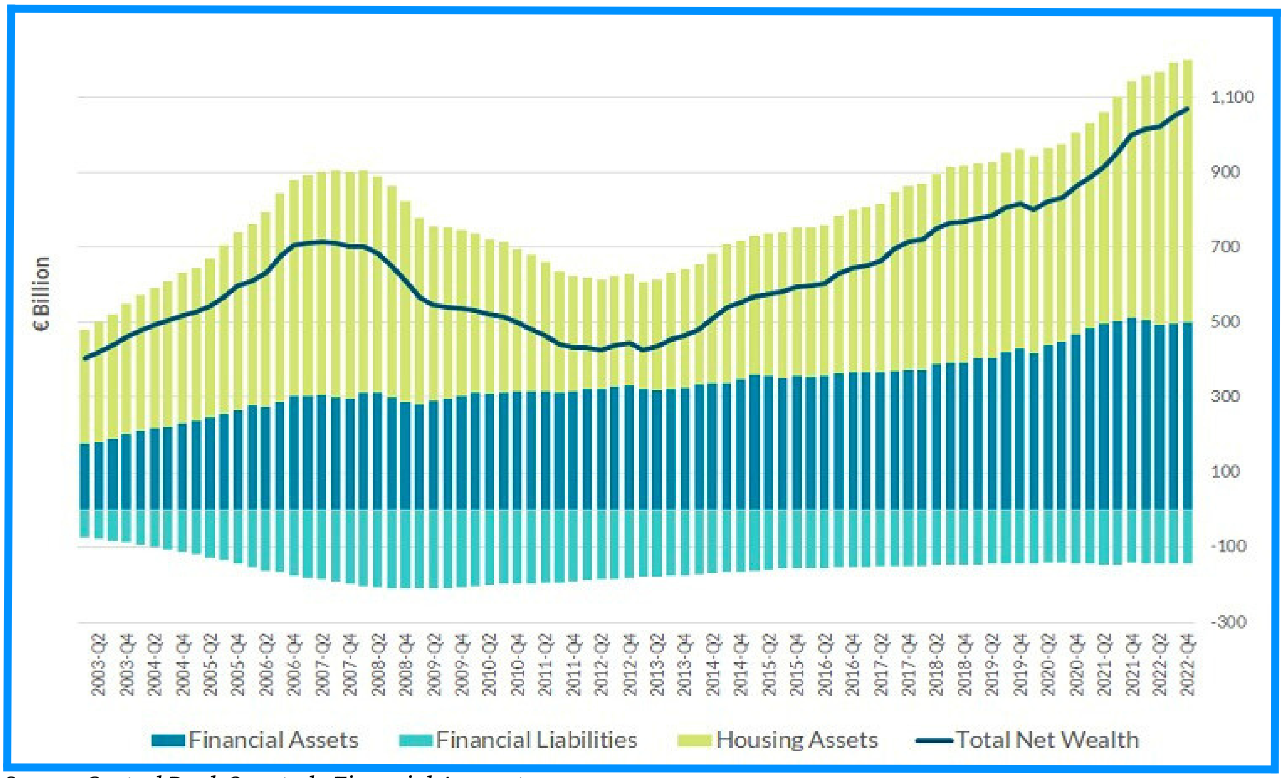
In the first place, household wealth has increased considerably further. According to the most recent Quarterly Financial Accounts, published by the Central Bank, aggregate household net wealth comfortably topped €1 trillion at the end of 2022, representing an increase of almost 50% on its end-2017 level (Graph 1 Household Net Wealth). This increase was driven in the main by very strong growth in house values[5]. Whatever the drivers, what it means is that the amount of wealth available for inter-generational transfer is now much higher than our estimates of five years ago suggested.

3 Research undertaken by the Economist Jim O'Leary on behalf of Community Foundation Ireland

4 We excluded the value of private pensions from our calculation of transferable wealth in accordance with the simplifying assumption that pension fund wealth (but not other forms of wealth) would be consumed in retirement.

5 In absolute terms net household wealth increased by €356bn between Q4 2017, of which the increase in the value of housing assets accounted for €222bn or almost two-thirds.

Graph 1: Household Net Wealth 2003-2022 [4]



Source: Central Bank Quarterly Financial Accounts

The growth of household wealth in recent years also means that Irish households have consolidated their position as amongst the richest in the world. Estimates published by Credit Suisse put average wealth per adult in Ireland at $251,300 at end-2021, some distance behind Belgium, Denmark, Sweden and the UK, but broadly comparable to levels in Austria, Germany, Italy and Spain, as the accompanying table shows.

Table 1: Average Wealth per Adult, 2021 ($000)

Austria	250.1
Belgium	381.1
Denmark	426.5
France	322.1
Germany	257.0
Greece	108.3
Ireland	**251.3**
Italy	231.3
Netherlands	400.8
Portugal	154.4
Spain	222.9
Sweden	382.0
UK	309.4
US	579.1

Source: Credit Suisse Global Wealth Databook 2022

Using up-to-date statistics on the distribution of wealth by age cohort, but retaining the same death rate projections as in our 2018 calculations, we estimate that some 22% of household wealth (excluding private pension funds) will become available for transfer over the next twenty years. That would yield a cumulative figure for the period of just over €200bn. This is before allowing for likely future increases in wealth, which could dramatically magnify this number. For example, assuming an annual average increase of 4% (modest by the standards of recent years), boosts the cumulative total to over €300bn.

Table 2: Distribution of Wealth by Age, 2020

Age	Mean Net Wealth (€000s)	Share of Total (%)
Under 35	98.8	3.4
35-44	203.6	12.8
45-54	393.4	28.3
55-64	528.5	27.7
65-74	475.8	19.5
75-84	409.6	10.6
Over 85	373.4	2.6
ALL		

Source: CSO Household Finance and Consumption Survey

In terms of the amount of wealth available for inter-generational transfer on an annual basis, our 2018 analysis produced a figure of about €5.7bn, some 1% of the contemporaneous estimate of total transferable household wealth. Applying the same proportion to the corresponding current measure of household wealth suggests that the inter-generational transfer is now running at an annual rate of around €9bn[6].

Turning to the concentration of wealth, the latest estimates from Credit Suisse, which relate to the position at end-2021, are summarised in the table below. They suggest that the richest 1%, comprising just under 37,000 individuals, own some 27% of all private wealth and enjoy average net worth of over €6 million, while the richest 10% (366,000 individuals) enjoy average net worth of about €1.4 million. This confirms the picture of a country in which there are several hundred thousand millionaires and several tens of thousands of multi-millionaires, and provides another illustration of the potential for philanthropy and for legacies as a source of philanthropic giving.

6 Note the correspondence between this figure and the estimate from the Probate Office.

Table 3: Distribution of Net Wealth, 2021

		Top 10%	Top 5%	Top 1%
Share of Total	(%)	64	50.8	27.2
Average	(€m)	1.419	2.25	6.027
Persons	(000s)	365.9	183	36.6

Source: Credit Suisse Global Wealth Databook 2022

Even though it doesn't relate directly to the main purpose of this report, it is worth noting how the concentration of wealth in Ireland compares with elsewhere in the OECD. Table 4 sets out some relevant data and shows that the distribution of wealth in Ireland is significantly more unequal than in some countries (France and the UK amongst them), markedly less unequal than in others (the US and, surprisingly, Sweden), but is broadly comparable to the European average (which includes a great many countries not listed in the table).

Table 4: Distribution of Net Wealth, 2021

(% of total)	**Top 10%**	**Top 5%**	**Top 1%**
Denmark	56.6	43.3	23.8
France	55.2	42.1	22.3
Germany	64.8	52.8	31.7
Ireland	**64.0**	**50.8**	**27.2**
Italy	53.5	41.7	23.3
Netherlands	54.0	40.2	20.7
Spain	54.7	42.9	23.1
Sweden	75.6	62.0	39.6
UK	54.5	41.0	21.1
US	75.9	63.2	35.1
Europe	67.5	53.4	30.0

Source: Credit Suisse Global Wealth Databook 2022

Section 2: Charitable bequests

Our 2018 report noted the absence of official data on charitable bequests despite the apparent simplicity of the task of harvesting such data from the probate process. The more or less rough estimates that were available instead at that time suggested that charitable bequests were running at about €50m per annum in aggregate, the equivalent of 0.9% of our then estimate of the annual inter-generational transfer of wealth or 5-7% of the annual fundraised income of the not-for-profit sector.

Such meaningful international comparisons as could be made at the time indicated that Ireland was lagging well behind other jurisdictions in terms of charitable bequests, whether scaled with reference to GDP or, more meaningfully, with respect to the aggregate value of estates at death. For example, total charitable bequests in the UK were running at 3.2% of the aggregate value of estates at death, roughly three-and-a-half times the equivalent proportion for Ireland. Likewise, bequests accounted for a much lower fraction of total charitable giving in Ireland than in either the UK or the US.

There has been some change in the intervening period. A recent report from the Charities Regulator[7] stated that those charities who had published annual reports for 2021 (by end-February 2023) had received a total of €94.7 million in charitable bequests that year. Since this figure was generated by just 78% of all charities[8], it is certainly an underestimate but the margin by which it understates the true position is hard to say. If the remaining 22% of charities benefitted proportionately from bequests, total bequest income accruing to the charitable sector as a whole would have been of the order of €120 million in 2021. However, it is reasonable to assume that the charities that hadn't published annual reports at the time of the Regulator's analysis were relatively small entities with relatively small flows of income (including bequests). That being the case, total bequest income for the sector that year might have been €105-110 million.

In any event, it appears that there has been strong growth in charitable bequests in recent years, with something more than a doubling taking place between 2015-16 and 2021. or an annual average increase of 15-16%. If that sort of growth has been maintained since 2021 it may be that the aggregate annual legacy income of the not-for-profit sector is now over €140 million. That would be the equivalent of 1.5% of our estimate of the annual inter-generational transfer of wealth, an appreciable increase from the 0.9% arrived at in our 2018 report, but still well behind the leading countries in this regard: the corresponding proportion in the UK for example was 3.6% in 2022.

The other metric of particular interest – the share of total philanthropic or charitable giving accounted for by bequests – almost certainly remains considerably lower in Ireland than in either the US or the UK.

7 Charitable Bequests (2023), Charities Regulator

8 22% of charities had not published annual reports for 2021 at the time the Charities Regulator conducted its analysis.

Section 3: Policy Implications

Giving in Ireland tends to be small-scale and spontaneous and the practice of planned giving remains underdeveloped. This is mirrored in the fact that Ireland is a laggard in relation to legacy giving, especially relative to the international leaders in this space.

Does this matter? Why is the composition of the income that the charitable and philanthropic sector generates through fund-raising important? Why is it problematical that there is a paucity of large-scale donations? Why, more especially, is it desirable that legacies become a more important source of funding? The answers to these questions have not changed since we addressed them in our 2018 report:

- A degree of balance in the composition of a charity's income is essential in terms of diversifying risk and financial planning.

- Larger contributions help to provide greater certainty around funding. Legacies are typically many multiples of out-of-pocket donations or other forms of giving that are income-based.

- The underdevelopment of charitable bequests as an income source almost certainly means that total income from fund-raising is lower than it would otherwise be.

- There may be an efficiency argument in favour of large-scale giving in so far as the unit costs of raising funds may be lower. What evidence exists indicates that this is the case in relation to legacy giving. The latest Giving Ireland report, published by the 2into3 organisation, estimates that the cost per € raised through legacies is €0.12, compared with the average of €0.18 across all channels.

In addition to these arguments there is the matter of opportunity. The current level and likely future growth of household wealth, and the associated inter-generational wealth transfers, create enormous potential for bequests as a source of funding for charitable and philanthropic organisations.

What might be done to encourage more legacy giving? At the most basic level, there would appear to be a case for a renewed information campaign to highlight the importance of people drawing up wills. A 2021 poll carried out on behalf of Irish Life Financial Services suggested that only 30% of the adult population had made a will.

Such a campaign would also highlight the opportunity that making a will affords to 'give back', to donate to a charitable cause, including the fact that such donations are tax-free in the hands of the charity concerned.

Beyond that, there is a case for using the tax system to incentivise charitable donations at the point of wealth transfer. The question is how this might be done in a way that is most cost-effective, bearing in mind that in Ireland inheritance tax is levied on the beneficiaries of a will under the auspices of capital acquisitions tax (CAT)[9], rather than on the estate of the disponer as is the case in the US and the UK.

In our 2018 report we put forward for consideration what we regarded as a simple, straightforward and easily understood reform of the CAT regime that would encourage charitable donations out of inherited wealth, namely to allow such donations as a €-for-€ deduction from the amount of the overall inheritance liable to CAT. This would be equivalent to adding the amount of any charitable donation to the relevant CAT threshold. An illustration of how this measure would work is provided in the table below.

Table 5: CAT Liability

(€000s)	Existing	Proposed
Inheritance	1000.00	1000.00
Group A Threshold	335.00	335.00
Charitable Donation	100.00	100.00
Effective' Threshold	335.00	435.00
Taxable Amount	665.00	565.00
CAT Payable	219.45	186.45

Under the existing system the tax liability of someone who makes a donation to charity out of their inheritance is unaffected. So, a person inheriting €1 million from a parent (and thus subject to the Group A threshold) will pay €219,450 in CAT (33% of the amount by which their inheritance exceeds the €335,000 threshold), even if, as in the example above, they make a charitable donation of €100,000. If instead, as proposed, the donation were treated as fully tax deductible, the CAT payable would be reduced by €33,000 to €186,450.

In the current set-up, the individual bears the full burden of the charitable donation. Under the proposed change, the state takes on 33% of that burden, leaving the individual with 67%. In other words, the state provides a subsidy of 33 cents for every €1 donated to charity through this channel. This rate of subsidy is the same irrespective of the size of donation or the Group Threshold of the donor.

[9] Liability for capital acquisitions tax is determined by the margin whereby the gift or inheritance exceeds the applicable Group Threshold where the threshold applicable depends on the closeness of the relationship between disponer and beneficiary. Where the beneficiary is a son or daughter, the Group A threshold (€335,000) applies. Where the beneficiary is a sibling, grandchild, niece or nephew, the Group B threshold (€32,500) applies. In all other cases, the Group C (€16,250) threshold applies.

In order to focus the incentive on relatively large donations, the basic proposal might be supplemented with a requirement that qualifying donations must be of a certain size. For example, it could be stipulated that charitable donations amount to at least 10% of the value of the inheritance in order to be tax deductible.

Good policy practice requires that the effectiveness of any tax incentive be capable of assessment. Good policy practice, in other words, requires that the question of whether the incentive in question is working be regularly posed and answered. This in turn requires that the data needed to answer the question be available.

In the case of a tax incentive designed to encourage legacy giving, a basic requirement in this regard is the publication of robust data on charitable bequests, data that would permit rigorous analysis of the trend in aggregate bequests over time and of the pattern of bequests by size, recipient etc.

As pointed out above, there is a paucity of such data in Ireland. In fact there are no official data. On the face of it, this is a gap that could be easily remedied. Solicitors applying for a Grant of Probate of any will that contains a charitable bequest are required to lodge a simple one-page form with the Probate Office setting out the details of such bequests. These forms are then forwarded to the Charities Regulator (CRA). It would seem to be a fairly straightforward matter for the CRA to collate the information received in this way and to calculate and publish data in relation to the number and amount of charitable bequests, but this does not currently happen.

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