

ARTS & BUSINESS

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1 Introduction

- 1.1 Arts & Business' launched The Maecenas Initiative in 2004 with the aim to increase individual philanthropic support of the arts in the U.K. The project has three primary objectives:
- To encourage potential donors through stimulating discourse on arts philanthropy;
 - To improve the climate for individual giving by identifying successful models used in other countries to encourage individual giving to the arts; and
 - To develop education and training tools for professionals in small to mid-sized arts organisations that wish to increase their individual giving.
- 1.2 In spring 2004, A&B commissioned AEA Consulting to conduct research in support of the second of these goals. The first phase of that research, completed in fall 2005, comprised an overview of arts philanthropy in North America, including tax and legal frameworks; demographic, cultural and attitudinal factors; and fundraising practices that either hinder or foster individual giving. It also contained a practical glossary of charitable giving mechanisms in use in the U.S. but not in the U.K. The glossary defines each mechanism, outlines the benefits and caveats to both the donor and the recipient organisation, and indicates its relative popularity and applicability to both donors and charities.
- 1.3 The second phase turns its attention to the application of those charitable giving mechanisms to the U.K. It suggests which of them might hold the most application for increasing individual giving to the arts in the U.K. given the country's tax and legal framework and attitudes toward philanthropy, and the reforms that would need to be made to the tax framework to enable their introduction.
- 1.4 This report was prepared by Elizabeth Casale, Uli Sailer and Katharine Housden of AEA Consulting. It is based upon extensive desk research and a review of the relevant literature; interviews with U.K. arts fundraisers and with tax and legal experts specializing in estate planning and charitable giving in the U.S. and U.K.; and a web-based survey of arts fundraisers out of Arts & Business' database whose organisations have received donations from individuals in the past year.
- 1.5 AEA Consulting extends its gratitude to the staff of Arts & Business, our interviewees, and to the busy arts fundraisers who took time out of their hectic days to respond to our survey.



2 Philanthropy in the U.K. – Culture, Attitudes and Practices

- 2.1 The U.K. does not have a particularly highly developed culture of individual charitable giving, especially compared to the United States. The reasons for this are multiple and debated, but certainly one commonly cited reason is that following the establishment of the welfare state after World War II, the government provided the bulk of funding for social services, education and the arts. It is also rooted in part in the general way in which the concept of philanthropy itself is understood, which differs distinctly from the U.S. view.
- 2.2 Many commentators have noted that the British tend to view philanthropy as altruism, while in the U.S. individuals view it more pragmatically, as altruism mixed with self-interest. Much research bears this out. The British Social Attitudes Survey, for example, found that in 1998 33% of the adult population reported that they had done unpaid voluntary work at least once in the previous year. While generally they felt that volunteering is a good thing, they also expressed a belief that society relies too much on volunteers. Karen Wright, a researcher at London School of Economics' Centre for Civil Society, has written that for many in Britain, philanthropy "still carries disparaging connotations of Victorian 'do-gooderism' and is often seen as elitist, patronising, morally judgmental and ineffective...an idea whose time came, was proved unworkable, and went – to be replaced by a universal, fair, and more efficient welfare state."¹ Indeed, in societies where government traditionally has funded social services, individual philanthropy is still a relatively new phenomenon and some may view its growth as a reflection of the failure of the state. In the U.S., by contrast, citizens on both the left and the right hold less trust in the federal government and more in local communities and individuals to provide for the public good.
- 2.3 Another key distinction between the U.S. and the U.K. lies in the way charity is practiced. Whereas in the U.S. "charity begins at home," in the U.K. the opposite tends to be true. Americans tend to give primarily to local organisations and those with which they have a deep affiliation and with which they are personally involved (churches, universities and hospitals are top recipients, for example), whereas in the U.K. donors support causes more than particular charities (medical research, youth, animals), and indeed national and international causes are more popular than local ones. Giving tends to be associated less with personal involvement and affinity with a particular or local charitable organisation².
- 2.4 Giving in the U.S. also tends to be deliberate or planned – whether it be structuring a multi-year pledge to one's alma mater, talking to one's employer about the annual United Way payroll giving pledge, determining the weekly church tithe or planning

¹ Karen Wright "Generosity versus altruism: Philanthropy and charity in the US and U.K.," Civil Society Working Paper 17 Center for Civil Society, London School of Economics, January 2002, p.7.

² Wright, p. 11; see also DfES Task Force Report: "Increasing Voluntary Giving to Higher Education," May 2004, p. 20; National Council for Voluntary Organisations, "Charitable Giving in 2003." Inside Research: Research Findings from the National Council for Voluntary Organisations 21: (October 2004).



- with the family year-end gifts to reduce the tax bill. In the U.K., by contrast, giving is primarily spontaneous, even reactive, and ‘spare change’ gifts to the famous collecting tins dominate.³
- 2.5 Due in part to these factors, it is not surprising that the practice of fundraising and, in particular, individual solicitation strategies are underdeveloped in the U.K., although this is changing. While asking for money is not something that comes naturally to most people, there is a sense that in Britain many consider it downright distasteful or boorish. Many may also be uncomfortable with high-profile donor recognition and the idea of donors competing for attention for their generosity. Some may even register antagonism toward what is perceived as a distinctly American style of philanthropy. Whereas in Britain giving may be viewed as a private affair peripheral to one’s social identity – the “virtue which dare not speak its name” – American philanthropy is often regarded as vainglorious, “a proud element of elite culture.”⁴
- 2.6 Whether or not this is true, many in the U.K. nevertheless believe that bringing charity out of the private sphere and into the public realm will be critical to engendering a culture of giving. During the course of our research, for example, more than one interviewee mentioned the influence of peers and the actions of the upper class as subtle but strong motivators to philanthropy. In particular, the power of the Honours system was seen as critical, and more than one interviewee suggested that it should be reformed and reserved for those who have demonstrated truly magnanimous deeds, including philanthropy. (The example of both Mick Jagger and Paul McCartney being knighted was offered more than once as an example of the need for reform; the latter has given tens of millions of pounds to charity and the former, little.)
- 2.7 Peter Thierfeldt, Director of Development of the National Galleries of Scotland, suggested that demonstrating to donors how their gifts actually make a difference is also important. “Donors need to see a link between their gift and the projects that actually get realised in the country.”⁵
- 2.8 The role and level of sophistication of fundraisers, volunteers, and organisational fundraising departments are also key drivers of charitable giving. Much research has been undertaken, in the higher education sector in particular, exploring the differences between the U.S. and U.K. in terms of the levels of investment in “institutional advancement” and the priority accorded fundraising in many nonprofit organisations. A recent task force report on increasing voluntary giving to higher education stresses the importance of this aspect, and recommends that government provide grants to support development capacity-building.⁶

³ Street collections remain the most popular way of giving (18.8%), followed by door to door collection (15.5%) and buying raffle or lottery tickets (12.2%), according to NCVO.

⁴ Beth Breeze, “The Return of Philanthropy,” *Prospect* (January 2005).

⁵ Interview with Peter Thierfeldt, 13 June 2005.

⁶ DfES Task Force Report, p. 51.



- 2.9 The results of our own research corroborated this need. In a survey AEA Consulting conducted of arts fundraisers in the U.K. drawn from Arts & Business' database, 81% of respondents said that it was critical or extremely critical that board and staff get more involved in raising donations from individuals and to deepen affiliation with their supporters, and 73% found it critical or extremely critical that arts organisations accord fundraising a higher priority (See Appendix C, Fig. 11).
- 2.10 Considering the enormous differences in the history, income distribution, absolute levels of personal net worth, attitudes toward and practice of philanthropy in the U.K. compared to the U.S., it is also not surprising that overall levels of charitable giving are markedly different. In 2003, individuals in the U.K. gave approximately £7.1 billion to charities, and approximately two-thirds of adults gave a gift of some amount in a typical month. This is a slight decrease over 2002, when approximately 67.3% of the populace contributed £7.3 billion.⁷ The latest statistics from Giving USA on U.S. giving indicate that in 2004 charitable donations reached \$248.5 billion overall, an increase of 5% over 2003, and individuals contributed \$187.9 billion. Gifts by living individuals comprise approximately 75% of all giving; combined with bequests, that percentage rises to 84.6%. Giving USA also estimates that approximately 70-80% of individuals made a donation to charity in 2004.⁸
- 2.11 In terms of giving to the arts, in the U.K. total support in 2002/2003 was £376 million (up from £347 million the year before), or 5.3% of the total, of which £256 million was given by individuals and trusts.⁹ In the U.S., in 2004 arts giving increased to \$14 billion, or 5.6%, of total giving, up from \$13.1 billion or 5.4%, in 2003. These statistics reveal that the U.S. and U.K. are similar in terms of the percentage of overall charitable giving that goes to the arts. However, according to the National Council for Voluntary Organisations annual survey, the arts and heritage ranked last in terms of popularity of causes.¹⁰
- 2.12 There are also similarities in giving patterns: in both countries women outpace men in giving; giving is highly correlated to educational attainment; the older generally give more than the young; and, importantly, total giving is concentrated among a small group of donors. In the U.K. in 2003, for example, just 4.7% of the population accounted for 55.9% of the total amount donated. This is an important point to bear in mind when contemplating ways to stimulate increased individual giving to the arts.

⁷ "Charitable Giving in 2003," Inside Research: Research Findings from the National Council for Voluntary Organisations, Issue 21, October 2004.

⁸ Giving USA 2004, Giving USA Foundation/AAFRC Trust for Philanthropy, June 2005, http://www.aafrc.org/gusa/GUSA05_Press_Release.pdf.

⁹ Arts & Business: Results of the Private Investment in the Arts Survey 2002/03.

¹⁰ A useful analysis would explore whether there is a high correlation between street and door-to-door collections and medical research and youth charities employing this fundraising tactic. It could be that the ranking of top charitable causes reflects as much the efficacy of the fundraising tactic as it does the support for the cause.



3 Philanthropy in the U.K: The Tax and Legal Framework

- 3.1 While U.S. charitable giving statistics are the envy of many countries, it is no simple exercise to isolate its primary drivers, nor to replicate it in other parts of the world. What is possible, however, is to investigate aspects of the U.K. framework that differ from the U.S. and that, if reformed, may help lay the groundwork for increasing individual philanthropy to the arts.
- 3.2 As Britain is still essentially a welfare state, it is no surprise that the tax framework is not so conducive to individual philanthropy – why would it be? In the U.K. (a “redistribution” model), the government levies taxes in order to pay for public goods and services such as the National Health Service and free education to all those of compulsory school age. Taxes also pay for free admission to national museums and galleries as well as the library service. The Third Sectors of almost all Western European democracies function in roughly the same way.
- 3.3 The U.S. model is, by contrast, one in which the government maintains a comparably low level of public goods and services paired with comparably low taxes. Government provision of services is complemented (or, in the case of the arts, virtually replaced) by private entities whose funding is derived from a mix of public and private sources, including individual philanthropy. In the arts sector, private funding from individuals by far exceeds public funding, as tax incentives reward philanthropic donations to charitable organisations. Thus government plays an indirect role in and may encourage supporting the arts by granting tax relief to donors who support them directly.
- 3.4 Over the past decade or so, however, due in part to demographic shifts that are putting increased pressures on the public purse, the tax framework in the U.K. has been shifting to encourage more private philanthropy. As promoting individual philanthropy has moved higher up on the government agenda, a series of legislative reforms beneficial to the charitable sector have been enacted (see Appendix A).
- 3.5 In 1990, for example, Gift Aid was established as a way for donors who are U.K. taxpayers to increase the value of the gift the charity receives, and for higher-rate taxpayers to get tax relief on donations to charities. The arrangement now covers gifts of any size. In April 2000, a new incentive was enacted that enables individuals who give shares to charity to claim back full tax relief against the value of those shares. 2000 also witnessed the introduction of payroll giving, and in April 2002 gifts of real property (land or buildings) were also deemed eligible for full relief from income and capital gains taxes.
- 3.6 The Giving Campaign, a three-year effort to “encourage a stronger culture of giving” was launched by the government in 2001. Its goals included increasing the number of donors and the total amount donated by promoting tax-efficient giving to wealthy individuals, employers and employees, and young people. The campaign concluded in June 2004, and its full impact is still being assessed.



- 3.7 All in all, the fact of these reforms has been encouraging for the charitable sector as a whole, and, for the arts and cultural sector in particular, the Goodison Review and its recommendations are significant. However, the results to date of the reforms on the arts and cultural sector have been less than spectacular. In 2002-2003, for example, arts organisations reported receiving £730,000 in shares and just £30,000 via payroll giving.¹¹ In addition, research indicates that the average percentage of donors that charities have been able to convert to tax-effective giving is 45%.¹² Our survey revealed broadly similar findings: 37% of respondents said that Gift Aid is used on 10% or less of annual donations (see Appendix B, Fig. 3), and many charities overall have reported difficulty in getting donors to take advantage of new tax breaks.
- 3.8 It is unclear, then, whether the relatively low usage rate of Gift Aid is due to lack of education on the part of donors, a failure of charities to promote tax-efficient giving, flaws in the system itself or some combination thereof. Joe Saxton, head of voluntary sector services at the Future Foundation, has asserted that too few charities have invested in fundraising nor done enough to convert their supporters to tax-efficient giving.¹³
- 3.9 It could also be that the reforms are not particularly ‘user-friendly’, that most of them do not benefit the donor directly but instead the charity, or simply that simply have not gone far enough. Theresa Lloyd, previously executive director of Philanthropy U.K. whose book entitled “Why Rich People Give” explores the habits and motivations of high-net-worth individuals in Britain, discovered through the course of her research that, while the majority of wealthy donors in the U.K. think that the new tax incentives do encourage giving in principle, the U.K. still compares unfavourably with the U.S.
- 3.10 The U.K. is still lacking certain key legislation that would make possible some of the most common charitable gift mechanisms used successfully in the United States, and some of which are particularly relevant for arts organisations. These are outlined in the next section.
- 3.11 While many people – including the majority of those surveyed for this report – feel that the most important driver of philanthropy is not, in fact, a country’s tax framework but its culture,¹⁴ tax considerations are clearly critical. While not usually the impulse for a donation, they facilitate giving once the donor has decided to make a gift and often result in larger donations than donors thought possible. Paul Roy, an estate planning attorney with Withers Worldwide LLP, a law firm specialising in estate planning for high net worth individuals in both the U.S. and U.K. says that tax strategies kick in after the impulse to give, but they are critical, because after a donor decides to make a gift, especially a major or legacy gift, he or she wants “to

¹¹ Arts & Business: Results of Private Investment Survey 2002/2003.

¹² NFP Synergy, “You Can Take a Gift Aid Horse to Water...,” February, 2004.

¹³ “Charity Campaign Won’t Succeed,” The Guardian, Nov. 17, 2003.

¹⁴ See Appendix B, Figs. 9, 10 and 11.



- make the gift in the most efficient way possible, and to get the government to contribute as well” wherever possible.¹⁵
- 3.12 Below is an overview of some of the key features of the U.K. tax and legal framework that affect charitable giving and may hinder individual philanthropy to the arts there.

The Impact of Tax Incentives – Who Benefits and How?

- 3.13 A primary difference in the tax frameworks between the two countries is that in the U.S. all tax incentives for charitable giving benefit the donor directly in addition to the charity, and this benefit manifests itself clearly and tangibly when an individual files his or her tax returns and itemizes deductions. The phrase “tax-efficient giving” means one thing in the U.S. (giving that benefits the donor by reducing his or her tax bill) and two things in the U.K. (benefiting the donor or the charity).
- 3.14 Tax-efficient gifts of cash (the most common gift form) still benefit the charity primarily and not the donor.¹⁶ Gift Aid makes available to the charity the income tax paid by the donor, and therefore acts in some ways like a “matching gift,” tying the donor’s direct contribution to a tax transfer from the government to the nominated charity. A basic rate taxpayer who makes a gift of £100, then, saves nothing on her tax bill by applying Gift Aid; the scheme enables her, however, to leverage her gift for the benefit of the charity. The benefit to the donor is a “feel good” benefit, the same sense of satisfaction one might get, for example, by assiduously recycling, not buying a gas-guzzling SUV, etc. Under the same scenario, higher rate taxpayers could reclaim £18, the difference in tax between the basic and higher rates. In the U.S., however, the full £100 contribution would be deductible from the donor’s taxable income, and if she itemized her taxes (and most likely she would if she had made charitable gifts) the impact on her tax bill would be apparent to her immediately. She would both feel good about having supported a charity, as well as about having demonstrated fiscal responsibility.
- 3.15 Because many more people in the U.S. than the U.K. file their own tax returns and itemize deductions, individuals tend to emphasise planning and identifying strategies to reduce taxes. Indeed, an entire industry has been built up around personal financial planning and what for some Americans has become an obsession to claim every possible legal (one hopes) deduction: chain-store tax preparers such as H&R Block; financial advisory firms, many of whom now have a mass-market approach; software programs such as TurboTax; the whole phalanx of charitable and estate planning attorneys, accountants and advisors, etc. Charitable donations are, of course, one strategy to reduce taxes, and data does suggest a strong correlation between taxpayers in the U.S. who itemize and those who claim charitable

¹⁵ Interview with Paul Roy, June 15, 2005.

¹⁶ The exception to this are gifts of shares and real property, which are now eligible from income and capital gains relief, as noted above.



deductions: in 2002, for example, 35% of taxpayers itemized, and 31% claimed charitable deductions.¹⁷

- 3.16 In the U.K., by contrast, the large majority of people pay taxes under the PAYE system; self-assessment was introduced only in 1996-97 and applies only to the self-employed and certain higher-rate taxpayers, many of whom have non-salary income. The low percentage of Britons who file their annual taxes and itemize deductions – combined with the fact that most taxpayers do not benefit financially directly and tangibly from their charitable gifts on their tax bill even if they did – is a key distinction between the two systems that may affect levels of individual charitable giving.

Income Tax Levels

- 3.17 The U.K. tax code, with only three income tax brackets, is more progressive than the U.S. system, which presently has six income tax brackets. The U.S.'s smaller differences among tax brackets (in places just 2% or 3% compared to the U.K.'s 12% and 18%) combined with the approach to tax planning outlined above often results in taxpayers' making charitable gifts precisely to "drop down" into the next lower tax bracket, thereby leveraging the tax incentive. It could be asserted, however, that the current U.K. system, if combined with certain key incentives that exist in the U.S., could result in a tax framework that provides substantial incentive to give, as both higher rate income and capital gains taxes are 40%.

Lack of the Partial Interest Rule

- 3.18 One of the most important aspects of the U.K. tax code that differs from the U.S. system – and that may be most germane to individual philanthropy – is the law that prohibits donors from retaining any interest whatsoever in a gift to charity or, related to this, from deriving any benefits from his or her gift. It is this lack of the "partial interest rule," as it is known in the U.S., which would need to be addressed before most U.S.-style planned giving mechanisms can be introduced.
- 3.19 The partial interest rule, established in the U.S. in 1969, allows a donor to make a gift to a charity and simultaneously retain part of the interest in that gift. In the U.K., by contrast, to claim relief donors must give the whole of his or her interest in the gift, thereby not retaining any interest.
- 3.20 The partial interest rule has allowed what are known in the U.S. as "split interest gifts." A split interest gift is a gift in which two parties – typically a donor and a charitable organisation – have an interest. In a typical example of a split interest gift, a donor makes a charitable gift, receives immediate tax relief and at the same time retains some financial interest, or benefit, in the gift during his or her lifetime. This benefit typically takes the form of an annual payment, life tenancy in a gift of real property, continued enjoyment for a period of time of a work of art promised to a

¹⁷ Another key reason most in Britain do not itemize is the fact that interest on home mortgages is not deductible, as it is in the U.S.



museum, etc. Upon the death of the donor, the remainder interest reverts to the charity. The kinds of split interest gifts widely in use in the U.S. but not yet in the U.K. include:

- Charitable Remainder Trusts (CRTs);
- Charitable Lead Trusts (CLTs);
- Charitable Gift Annuities (CGAs); and
- Gifts of Tangible Personal Property, including Art.
- Pooled Income Funds.

- 3.21 The amount of the donor's income tax deduction is equivalent to the present value of the remainder interest. That value is calculated based on Internal Revenue Service actuarial tables, and it must be worth at least 10% of the value of the contributed property. (A detailed description of each of these gift mechanisms can be found in Part One of this report.)

Treatment of Gifts of Tangible Personal Property

- 3.22 In the U.S., gifts of tangible personal property (works of art, jewelry, coins, and so on) are accorded the same tax relief as gifts of shares and real property: they are exempt from income, capital gains taxes and estate taxes. In the U.K., however, gifts of tangible personal property are eligible only for relief from inheritance tax; thus they have yet to be accorded the same relief as listed shares, land and buildings.
- 3.23 In terms of gifts of works of art, of critical importance to the museum sector, the Acceptance-in-Lieu and Conditional Exemption schemes have gone some way to encourage donations and to build museum collections. However, the narrow tax relief offered combined with the stiffer criteria introduced in the 1998 Finance Act governing quality (former "museum quality" works must now be deemed "pre-eminent" and public or "reasonable" access has been interpreted by government to mean 100 days per year) mean that the U.K. tax framework is not conducive to individual gifts of tangible personal property. This should be of key concern to the museum sector in particular: museums are distinguished by their collections, collections that comprise objects that were often once tangible personal property.

Fractional Gifts of Art

- 3.24 Because the U.K. tax framework does not recognize split interest gifts nor allow income tax deductions for works of art, fractional gifts of art have yet to be introduced. A fractional gift of art is increasingly popular in the U.S. as a way for museums to build their collections while allowing the donor to retain use of the artwork and receive relief from income as well as capital gains and estate taxes. With a fractional gift, a donor gifts only a percentage of the work, say 10%, per year to a museum, receives an immediate income tax deduction for the fair market value of that portion, and is able both to continue to enjoy the work in his or her home and to carry forward the deduction for five years.



- 3.25 In a typical scenario a donor continues to gift fractions of the work over time, stretching the tax benefit until 100% has been gifted, at which time the museum assumes full possession of the work. In terms of access, the donor must allow the museum to take possession of the work annually for a portion of the calendar year equivalent to its ownership percentage (i.e., if the donor has gifted 20% of a painting, the museum is entitled to take possession of the painting for 20% of the calendar year). However – and this is an important difference vis-à-vis U.K. practice – the donor is under no strict obligation to provide public access to the work – only to offer it to the museum – and the museum is categorically not required to display the work. Museums are free to waive this provision entirely, and in practice often do, which means the donor is free to carry on enjoying her picture in the drawing room.
- 3.26 The U.K.'s regulations regarding access, being fixed at 100 days are therefore less flexible and less tailored to individual donors and their gifts than the U.S.'s.

Gifts of Unquoted Shares

- 3.27 In the U.S., donors can make gifts of unquoted as well as quoted shares, and are accorded the same tax relief. In the U.K., by contrast, only gifts of quoted shares can be gifted.

Gifts of Intangible Personal Property

- 3.28 The U.K. tax framework has not introduced allowing relief for gifts of intangible personal property other than shares. In the U.S., gifts of intangible personal property refers to property (other than real property) that has no intrinsic value but whose value stems from its intangible elements rather than from its specific tangible or physical elements. Common examples include copyrights, royalties, patents, personal service contracts, and partnership interests. In the U.S., for gift and estate tax deduction purposes, intangible personal property is subject to the same general rules as apply to tangible personal property and real property. While this form of giving represents a relatively small percentage of charitable gifts in the U.S., it holds application for entrepreneurs, creative/intellectual industries workers, and private business owners.



4 Recommendations

- 4.1 Our first recommendations focus on refining and building upon the reforms that are already in place so that they become more substantial drivers to increase individual philanthropy to the arts. Alongside these, however, we also recommend certain reform initiatives that would improve the framework in the U.K. for stimulating major, especially deferred gifts, and gift mechanisms of particular relevance to the arts sector.

Reform Gift Aid

- 4.2 The Gift Aid scheme is a good start to stimulating individual giving to the arts in the U.K. However, it is too complicated and does not appear to incentivise donors sufficiently, nor does it incentivise the right donors properly. Our survey results showing that Gift Aid is underutilized by donors is more evidence of what many commentators¹⁸ have already noted: it is a cumbersome, confusing process for donors, especially for higher rate taxpayers, the key constituency who provide the vast majority of charitable donations in the U.K. While the Gift Aid scheme may be simple for basic rate taxpayers (as the administration is borne by the charity), it is more complicated for higher rate taxpayers, the very group who should be cultivated.
- 4.3 Moreover, the design of the Gift Aid scheme reflects an altruistic model of philanthropy. If it is refined to enable taxpayers to realise more tangible personal financial benefit, it may encourage further giving, especially as the cost of living in the U.K. invariably continues to increase, as well as the number of pensioners looking for ways to economise and maximise income.

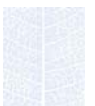
Increase Payroll Giving

- 4.4 Payroll giving became tax effective in the U.K. in 1987. Since then participation has grown but the scheme has never achieved the level of success that it has in the U.S. where it was established in 1943. In 2002, some 26% of U.S. employees were in workplaces with United Way Campaigns, and donations averaged over \$170 per employee, or \$14.18 per capita nationally.¹⁹ In the U.K., by contrast, just 1% of the population made a payroll gift in 2002/03, for a per capita gift of £1.45, and of all donors who did make any form of charitable contribution, just 1.5% did so via payroll giving.²⁰ According to Arts & Business, arts organisations reported receiving just £39,000 via payroll giving that year.
- 4.5 Clearly, promoted more aggressively, however, payroll giving could produce more individual giving to the arts, as it has several attractive features:

¹⁸ In particular, see "Increasing Voluntary Giving to Higher Education," Task Force on Voluntary Giving to Higher Education, May 2004, p. 44.

¹⁹ United Way of America, Research Services (2002).

²⁰ Compiled from Karen Wright, NCVO Survey, National Statistics online <http://www.statistics.gov.uk>.



- Gifts made through Payroll Giving are deducted from the donor's pre-tax income, so unlike Gift Aid, the donor receives the full benefit of the tax relief. A basic rate taxpayer who makes a payroll gift of £100, for example, reduces his taxable income by £22 pounds, and the charity receives the full £100. This is much more in line with U.S. – style gifts from income.
- Payroll giving is easy for donors. Once set up, it works automatically with little administrative work by either donor or recipient.
- Higher rate taxpayers do not need to reclaim relief.
- There is a large market for payroll giving. Any individual who pays taxes and works where a payroll giving scheme has been established can participate.
- Payroll giving can result in larger and longer term gifts. Research in the U.S. shows that the automatic nature of payroll giving can improve donor retention and provide a regular, sustainable income stream for the charity.

4.6 Some of the problems that have been mentioned with regard to Payroll Giving have to do with low levels of promotion and advocacy of the scheme; little corporate leadership; and too few corporate promotional campaigns. The arts and cultural sector could work with business leaders to promote payroll giving, especially to the arts. Government might institute recognition vehicles for corporations who support Payroll Giving and generate the high participation levels. Finding ways to connect payroll giving to the local community – and individual donors to local organisations – will be key, as currently payroll giving has a more national character.

Evaluate and Institutionalise Success

4.7 Initiatives such as The Giving Campaign, Philanthropy U.K. and the upcoming National Giving Week should be evaluated and, if deemed successful, refined and institutionalized.

Lobby for Reform with Other Sectors

4.8 The arts and cultural sector in the U.K. should lobby for tax reform in collaboration with other sectors. Attempts at tax reform to stimulate individual giving to the arts in the U.K. will most likely be more successful if the cultural sector works with other sectors – for example, higher education – as opposed to going it alone. This is because “hunting in a pack” is more efficient and a combination of sectors working together will make a more compelling, persuasive case harder for government to ignore.

4.9 Additionally, it would appear that what is good for philanthropy generally will be especially good for the cultural sector. This is because the profile of a typical donor correlates closely to that of a typical arts patron; wealthy people give the highest proportion to charity, and arts patrons tend to be wealthier than the whole. Of all the causes, the arts have the demographic that best maps the demographic of givers. On the other hand, advocating for tax reform to benefit the arts in particular would not appear to be strategic given its relative unpopularity as a charitable cause.



4.10 Organisations that have been working on relevant issues with whom the arts and cultural community might collaborate include:

- The Institute of Philanthropy
- Philanthropy U.K.
- Charity Tax Reform Group
- Charities Aid Foundation
- The Centre for Civil Society, London School of Economics
- National Arts Collection Fund
- Council for Voluntary Organisations
- The Department of Skills and Education

Introduce the Partial Interest Rule

4.11 Introducing the Partial Interest Rule in the U.K. and eliminating the stipulation that donors may not retain any interest from their gift is a first step that must be implemented before the majority of charitable giving mechanisms in use in the U.S. could be introduced.

4.12 Given the current tax and legal framework – as well as cultural and demographic factors – the charitable giving mechanisms in use in the U.S. that hold the most potential for increasing individual philanthropy to the arts the U.K. are the general class of split interest gifts. They hold particular application to the U.K. – and represent enormous potential to increase charitable giving there – as a high proportion of wealth in Britain is held in illiquid assets, such as real estate, and therefore enabling ways to make gifts from assets other than income and to convert illiquid assets into income streams are attractive to donors, especially pensioners. Demographic trends in the U.K. such as the aging of the population and low birthrates lend further support to the argument for introducing such mechanisms.

4.13 Therefore, our strong recommendation – corroborated by many others working in this field – is to lobby first for introduction of the Partial Interest Rule.

Extend Relief to Tangible Personal Property

4.14 The same relief that has been extended to gifts of listed shares and real property (buildings and land) should now be extended to gifts of tangible personal property. This is significant for the arts, in particular museums, libraries and archives, as their collections are built upon tangible personal property. Improving the framework for gifts of tangible personal property must occur before specific lobby efforts regarding gifts of works of art should be undertaken. We concur with the recommendations put forth by the Goodison Review, the National Art Collections Fund, and a recent



House of Commons²¹ report on the art market, all of which recommend an extension of the Gift Aid arrangements gifts of cultural assets. This reform would match current practice in the U.S.

Prioritise CGAs and Fractional Gifts of Art

- 4.15 As a secondary step, Charitable Gifts Annuities and Fractional Gifts of Art should be prioritised, either because there is a large potential market for such gift mechanisms, or because they hold specific potential for arts organisations. Notably, our survey respondents indicated they felt Charitable Gift Annuities held the most potential for increasing individual giving (see Appendix
- 4.16 While most reform efforts to date in the U.K. have focused on enabling CRT's and gifts of art, less attention has been paid to what in the U.S. constitutes the second-most popular planned giving vehicle: Charitable Gift Annuities. We recommend that CGA's be prioritized for three reasons:
- They are relatively easy to understand, to market, and to administer;
 - They apply to a wider population; in the U.S., for example, CGA's can be funded with as little as \$5,000; and
 - In the U.S., CGAs are attractive to arts donors: CRT's cannot be funded tax effectively with gifts of art at present because of the related use rule (i.e., because the gift of art is transferred to the Trust rather than the arts organisation, the art work is treated like a capital object of unrelated use). In the case of CGA's, however, there is no intervening Trust so a gift is more effective to the donor on a tax basis. CGA's thus constitute a more tax effective life income gift for artwork and might even provide an incentive to those unsure about the destination of their gift to pick an arts organisation over another charitable cause.
- 4.17 Fractional Gifts of Art should of course be prioritised due to their significance to museums' collection-building efforts. But again, extending relief to gifts of tangible personal property needs to come first to lay the groundwork for fractional gifts.

Improve the Framework for Share Giving

- 4.18 According to Arts & Business' 2004 survey, in 2002/03 arts organisations in the U.K. received just £730,000 from gifts of shares, a remarkably low amount compared to the U.S. However, share giving may represent substantial potential for increased giving to the arts. This is because capital gains taxes are relatively high, at 40%, but the current relief framework is the same as that in the the U.S.: donors may deduct the full fair market value of shares at the time of the donation. Gifting highly appreciated shares, then, is a way of making an often significant gift at a very low cost basis to the donor. Research in the U.S. has in fact demonstrated that gifts of

²¹ See National Art Collections Fund, "Living and Giving Campaign," at <http://www.artfund.org> and Select Committee on Culture, Media and Sport Sixth Report recommendation 13.



- stock increase when capital gains rates are high, and decrease after they are lowered.²²
- 4.19 However, share ownership may need to be stimulated before share giving has the same impact that it has in the U.S., where share ownership has been rising steadily over the past 20 years and now more than 52% of Americans are stockholders.²³ In the U.K., however, the trend is the opposite: the proportion of shares held by individuals has been declining since 1963, when individuals owned 54% of shares of U.K. companies, to 14.9% in 2003 and 14.1% in 2004.²⁴ That being said, share ownership is correlated with affluence, thus this gift mechanism is well-suited to the primary target market for arts philanthropy.
- 4.20 Another way to improve the framework for share giving is to extend relief from income, capital and inheritance taxes to gifts of unquoted shares in addition to quoted shares. Doing so may hold particular potential for reaching private company owners and entrepreneurs, a key target market for future arts philanthropy.

Extend Relief to Gifts of Intangible Property

- 4.21 As with unquoted shares, intangible personal property such as patents are giving mechanisms that could help to cultivate entrepreneur/philanthropists, and would seem to align with the growing government emphasis on developing the U.K.'s creative industries sector.

Join up with the Financial Services Sector

- 4.22 In the U.S., there are strong relationships between individual donors, fundraisers, charities, and private financial planners, and all work together to stimulate tax-efficient giving. Financial planners help to connect donors to arts charities as well as to educate arts fundraisers about charitable giving mechanisms. The Giving Campaign's section on the website (www.givingcampaign.org.uk) that targets professional advisors reflects this important link. The arts and cultural sector should work to strengthen connections with the financial services sector both to educate donors about tax-efficient giving and to make sure financial advisors promote the arts as a worthy cause when advising their clients. Financial services firms, government and private trusts could also fund educational workshops for donors and charities about planned giving.

Increase Public Recognition of Philanthropy

- 4.23 Many respondents cited the importance of fostering a more "public" face of giving. Additional public recognition vehicles for individual philanthropists – and individual philanthropists to the arts – are needed. Publicizing case studies of successful projects supported by philanthropy would help. Increasing public recognition applies

²² D. Eaton and M. Milkman, "An Empirical Examination of the Factors that Influence the Mix of Cash and Noncash Giving to Charity," *Public Finance Review*, November 2004, Vol. 32, No. 6.

²³ In 1983, just 18% did. Americans for Tax Reform, <http://www.ATR.org/content/pdf/2005/jul/070805pr-ssfact.pdf>.

²⁴ http://www.statistics.gov.uk/downloads/theme_economy/ShareOwnership2004.pdf



to the corporate sector as well. The PerCent logo, established by Business in the Community and given to companies giving 1% or more of their annual turnover to charity, is a good way to promote philanthropy and provide marketing exposure for the company at the same time. Efforts like these should be expanded.

Improve the Image of the Arts as a Worthy Cause

- 4.24 88% of respondents to our survey agreed that it was critical or extremely critical that the status and recognition of the arts as a worthwhile and charitable cause needs to increase (see Appendix C, Fig. 9). While this is a tough issue to address, increasing public recognition for arts philanthropy would be a place to start, as would demonstrating the impact that individual gifts have on an organisation – and, by extension, that the arts organisation has on the community. Arts organisations should exploit the Giving Forum for this purpose and ensure that the publicity about the Forum positions them accordingly.

Get Local

- 4.25 Related to this, arts organisations might take a “grass roots” approach toward cultivating relationships with individuals and business in their community. The more arts organisations become “owned” by their communities – in the sense that they feel connected to them and partly responsible for their well being – the better the climate for individual giving. Volunteering programs, outreach activities and links to local businesses to promote supporting the arts through payroll giving are other ways to establish connections to the community and make the case for giving to the arts.

Target Women

- 4.26 Women make up a slight majority of the population, and outpace men in terms of overall charitable giving and in arts patronage. Any efforts to increase philanthropy in the arts should target women especially.

Continue to Invest in Developing the Fundraising Profession

- 4.27 As the sophistication of the fundraising profession and voluntary sector are critical aspects of philanthropic giving, developing professional fundraising practices needs continued investment. This investment should be multi-faceted, and come from government, the third sector as a whole, the arts and cultural sector, and individual arts organisations. The key areas requiring focus are board and volunteer development; training fundraisers in ways to deepen donor affiliation and sense of community; and specific education on the tax framework for individual giving, especially planned giving, as it is both new and complex. Most of the arts fundraisers surveyed for this report had little or no awareness of planned giving concepts (see Appendix C, Figs. 6 and 7); they will therefore need substantial education and training both to market and administer successfully planned giving vehicles in order to increase individual giving to the arts.



5 Conclusion: The “Golden Triangle of Charitable Giving”

- 5.1 While tax reform is crucial to establishing a “culture of philanthropy,” it is important to bear in mind that ultimately effecting such a change will require more than tax reform. Charitable giving is built upon a “golden triangle” comprising three elements: a tax and legal framework that incentivises giving; culture, attitudes and practices that motivate and reward it; and a strong third sector that facilitates it. The first two are integrally linked, as, in a sense, a country’s tax system reflects the philosophy that the citizenry holds about the respective responsibilities of government and individuals for public welfare. It is a symbiotic relationship, as reforming a tax and legal framework can serve as a catalyst to change culture; yet at the same time the very fact of reform initiatives may signify that attitudes are in fact already changing.
- 5.2 As many who are working to encourage more philanthropy in the U.K. have noted, stimulating individual philanthropy will require a combination of tax and legislative changes; an evolution in attitudes toward philanthropy; and a simultaneous strengthening of the “business” of philanthropy and fundraising. All three are critical, and inexorably linked; as one is strengthened, so in turn are the others, no one can be successful on its own.
- 5.3 The shift in responsibility for arts funding from government to private individuals is ultimately about the re-emergence of civil society where citizens take active responsibility for and control of large parts of the public sphere. Attempts at increasing philanthropy are thus bound to have greatest promise if they keep this larger trend in mind, and if arts organisations continue to invest in fundraising and build bridges to both social institutions and individuals, grounding philanthropic support in affinity and pride in the arts and in specific arts organisations.
- 5.4 Britain has the opportunity, whilst maintaining the tradition of substantial public funding for the arts, to develop new and stable sources of income to sustain the vitality of the cultural sector. While the level of public funding of the arts in the United Kingdom is the envy of cultural institutions in more highly volatile market environments such as those in the United States, supplementing this through new sources of contributed and earned income is central to long-term sustainability. The opportunity represented by making relatively minor adjustments in the fiscal framework for individual giving holds enormous potential to develop a British hybrid arts funding model that combines the best of both the traditional European model and the American model, and recognises and encourages the roles of both the public and private sector to sustaining a vibrant cultural sector. It should be seized by the arts community and all who value it.



6 Appendix A: Key Legislative Developments to Support Charitable Giving

- 1987 Charity Finance Directors' Group established
- Payroll Giving Established
- 1990 Gift Aid Established
- 1991 Upper limit on Gift Aid abolished.
- 1993 Minimum limit on Gift Aid moved to £250
- 1998 Finance Act enacted, stiffening criteria for objects eligible for relief from inheritance tax.
- 2000 Tax relief extend to gifts of shares
- Payroll giving upper and lower thresholds removed; government matched payroll giving donations by 10% for 3 years (later extended to 4).
- Institute for Philanthropy established with a mission 'to make it easier for philanthropy to thrive' the institute was founded to promote philanthropy in the UK.
- 2001 The Giving Campaign launched
- Carnegie Medals of Philanthropy inaugurated, given biannually to one or more philanthropists who have dedicated their private wealth to public good
- 2002 Finance Act: gifts of land or buildings deemed eligible for full relief from income and capital gains taxes
- 2003 Gift Aid: Higher rate taxpayers now able to carry back relief on their donations to the previous year
- 2004 Payroll Giving Grant scheme launched, assisting enterprises with fewer than 500 employees in setting up a Payroll Giving Scheme.
- 2005 Charities Bill that would make it incumbent on charities to pass a 'public benefit' test introduced (not passed yet)
- Payroll Giving Grants: New scheme administered by Institute of Fundraising and Business in the Community gives up to £500 and matches the first £10 donated by each employee every month for 6 months
- New Gift Aid scheme implemented for charitable visitor attractions



www.nationalgivingweek.org launched by CAF for National Giving Week, featuring information on tax-efficient giving and a comprehensive guide to effective giving.

The Giving Forum, a high-profile group convened to explore ways of driving up charitable giving in the UK and internationally, established and will run through 2007.



7 Appendix B: Survey Results and Methodology

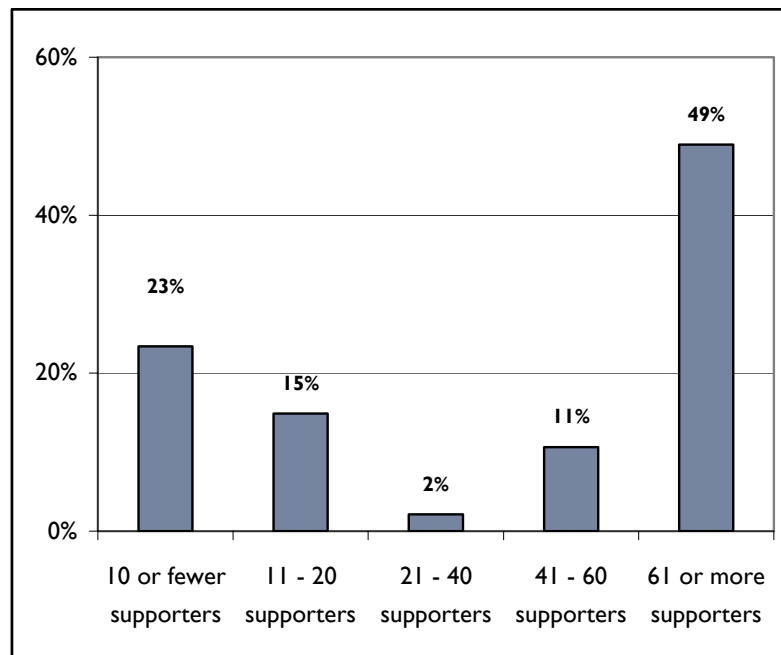
7.1 As part of this exercise, AEA Consulting conducted a web-based survey of U.K. arts fundraisers who have received gifts from individuals drawn from Arts & Business' database. Survey respondents were selected from A&B's database that collects members of A&B's development forum, fundraisers in arts organisations (single and combined art forms including museums, heritage, music, visual arts organisations, arts centers and more) of various sizes across Britain. The criterion for selection was that the organisation responded to Arts & Business' Private Investment Benchmarking Survey 2004/05 and received funding from private individuals in 2004/05.

7.2 The respondent pool was sent an email message by A&B inviting them to take the survey. This message contained a URL link to the survey itself. The response rate to the Private Investment Benchmarking Survey was XX. Out of these XX respondents, XX were selected and received the invitation to take our survey. Our response rate was xx%.

Number of individual donors

7.3 Question #2 asked about the number of individuals donors in arts organisations, and revealed that there is still room for growth. It also demonstrated a gap between those with many individual donors and those with few or none: 49% responded that the number of individual supporters exceeded 60, while almost one-quarter of respondent organisations have 10 or fewer supporters.

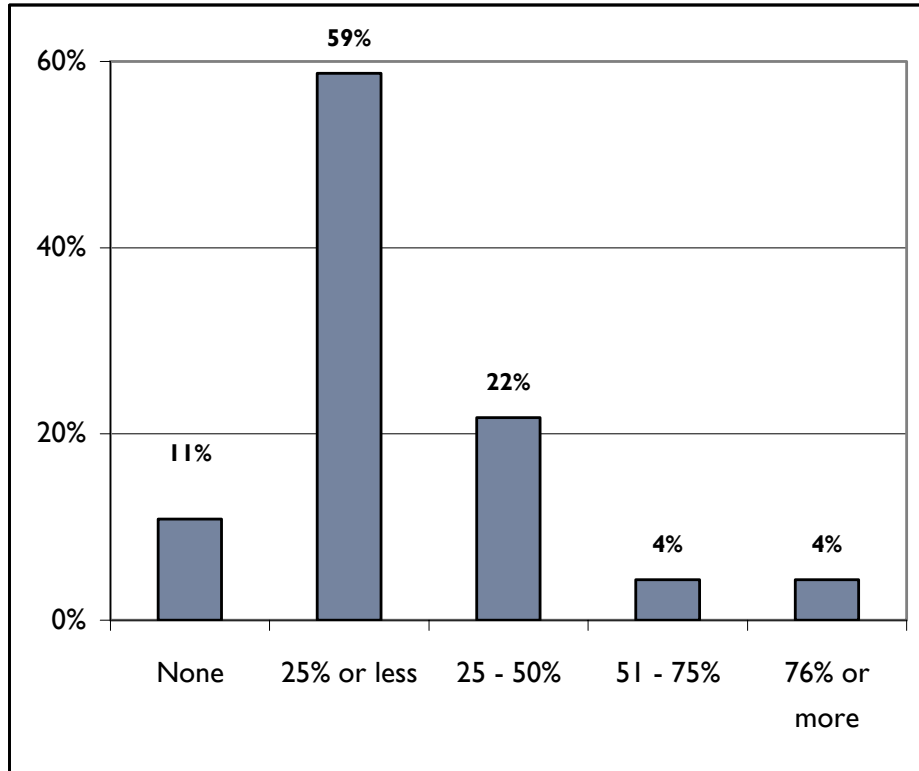
Fig. 1. Number of Individual Donors



Growth in New Supporters

7.4 At the same time, a growth in new supporters among most organisations demonstrates that current efforts to broaden their donor pool are showing results: in almost one third of arts organisations surveyed (30%), first-year supporters represented 25% or more of the total donor base.

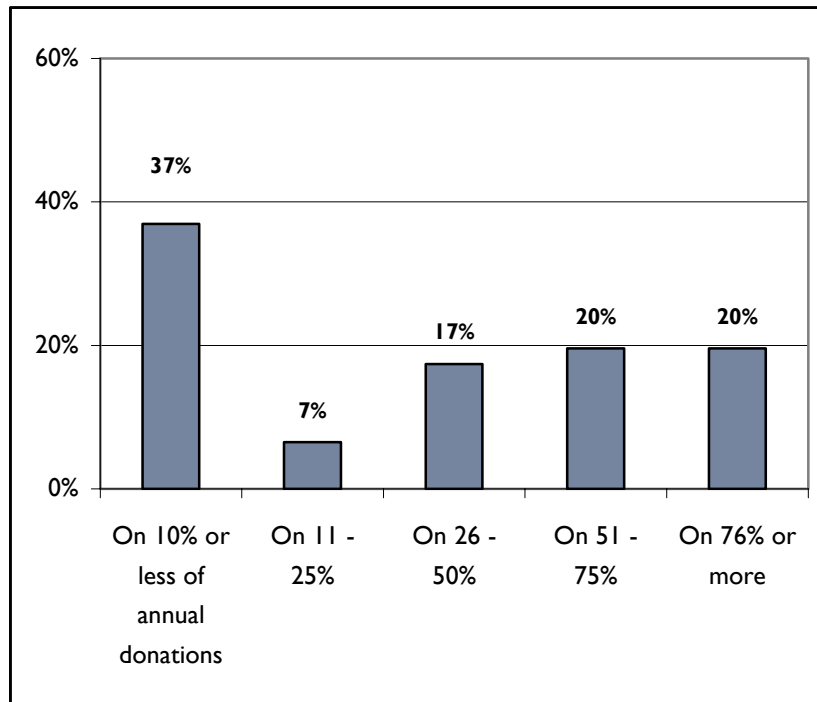
Fig 2. Share of New Supporters



Gift Aid

7.5 56% of respondents said Gift Aid was used frequently, and 40% estimated donors used Gift Aid on more than half of all donations their organisations received during 2004/05. However, 37% of respondents said Gift Aid was applied to 10% or less of donations. Clearly, “frequently” is not enough.

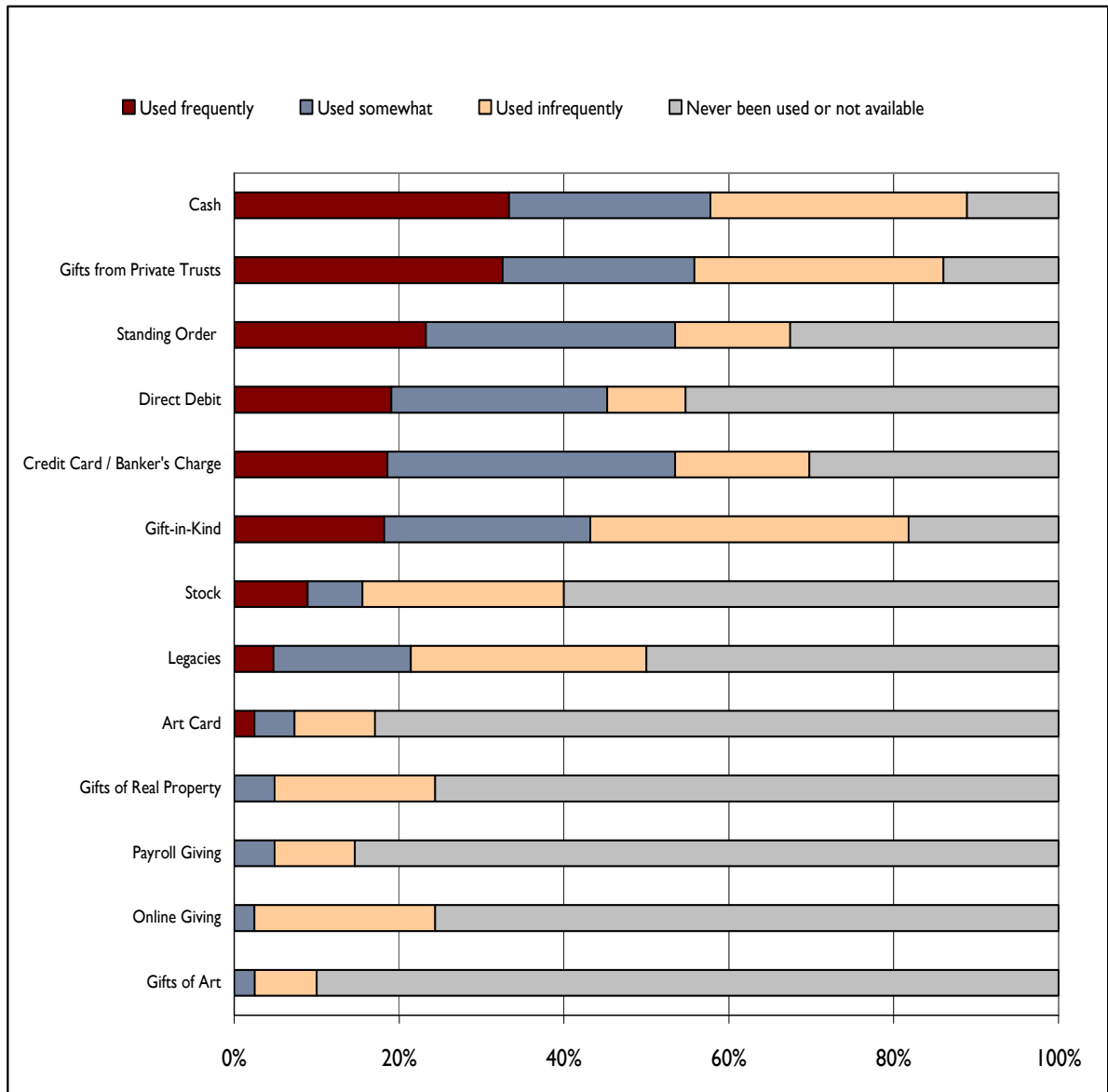
Fig. 3. Application of Gift Aid



Most Common Ways of Giving

7.6 The most commonly used gift mechanisms employed by donors are Cash and Gifts from Private Trusts (used frequently in 33% of respondent organisations), Standing Orders (23%) and Direct Debit or Credit Cards (19% each). Gifts in Kind followed at 18%.

Fig. 4. Most Common Ways of Giving



7.7 These figures illustrate, however, that there is still scope to diversify donor funding mechanisms. Only two mechanisms, Gifts from Private Trusts and Cash, were used

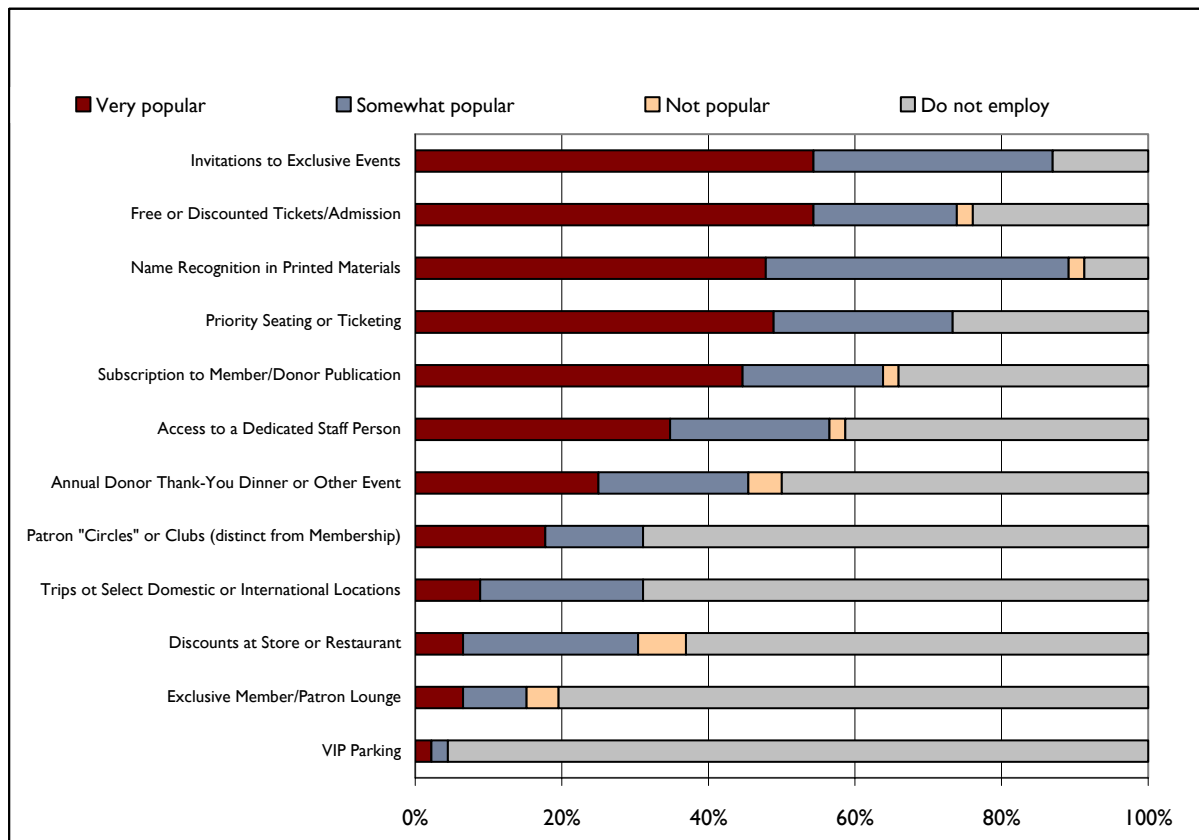


frequently in more than 25% of organisations. In particular, there would appear to be significant potential to increase Payroll Giving, which has never been used in fully 85% of organisations, and Stock (Share) Giving, where fully 65% of organisations replied that they have never received a gift utilising this mechanism which is very popular in the U.S.

Donor Benefits

7.8 Arts organisations in the U.K. provide a variety of benefits to incentivise donations. Arts fundraisers indicate that the most popular incentives are free or discounted tickets or admission and invitations to exclusive events (55% indicated they are “very popular”), priority seating or ticketing (49%), name recognition in printed materials (48%), subscription to member/donor publications (45%), and gaining access to a dedicated staff person (35%). Individual donors appear to respond to benefits similar to those in the U.S.

Fig. 5. Most Common Donor Benefits



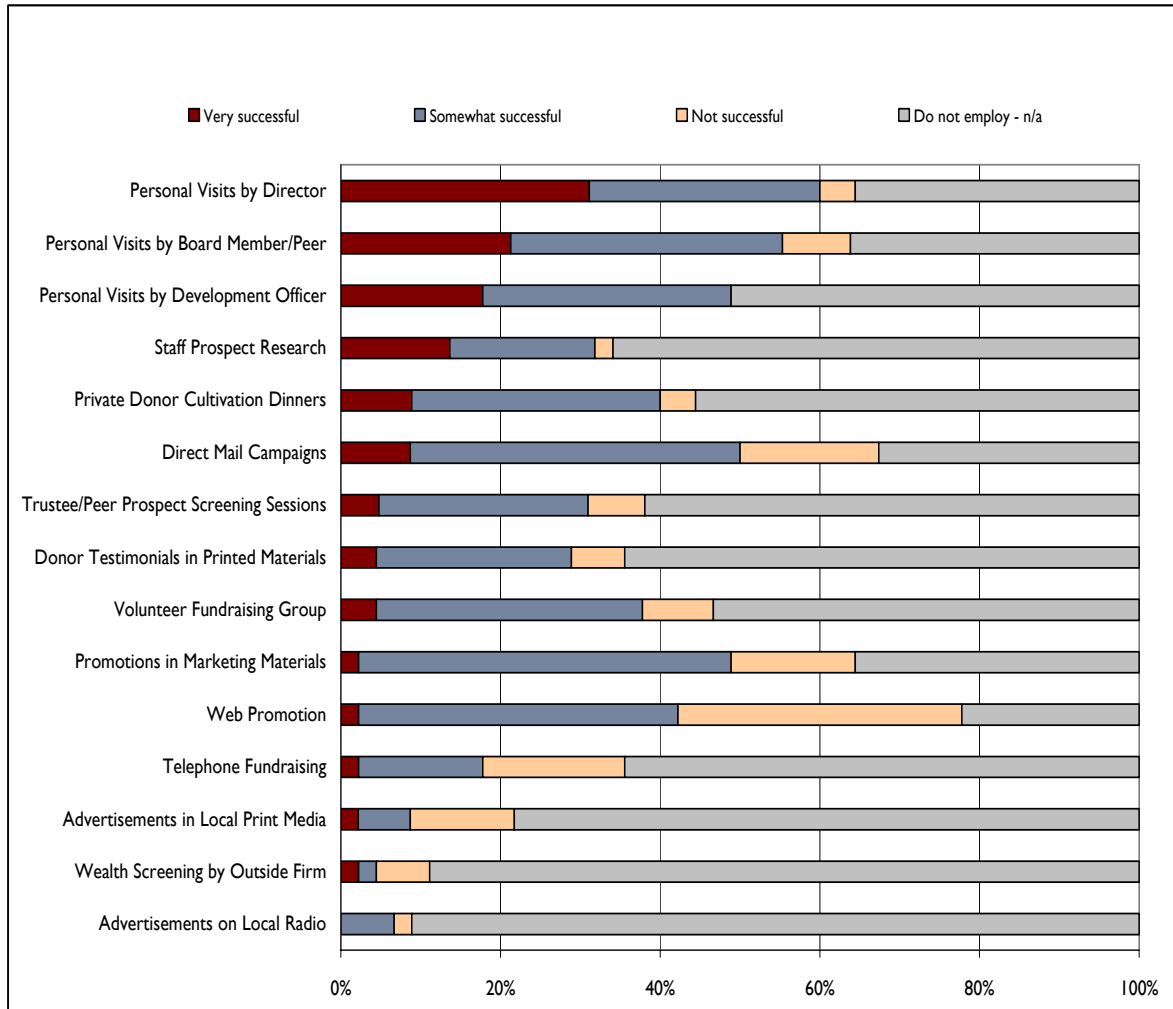
Donor Cultivation

7.9 Fundraisers also employ a variety of tactics aimed to recognize donors in order to deepen donor affinity and cultivate their continued support. The following tactics



are seen as most successful: personal visits by the director (very successful in 31% of respondent organisations); personal visits by a board member or peer (21%); and personal visits by a Development officer (18%). Staff prospect research is also viewed as a successful part of a donor cultivation strategy.

Fig. 6. Most effective donor cultivation tactics



7.10 The results indicate that, as with fundraising in the U.S., personal solicitations are the most effective solicitation method, and serves to underscore the importance that fundraisers and volunteers must place on cultivating and maintaining personal relationships with donors and potential donors.

7.11 Direct mail campaigns appear less successful in the U.K. than in the U.S. Fully one-third of respondents said they do not employ such campaigns, while just 9% of respondents find them very successful and 17% find them not successful at all. This contrasts with the U.S., where direct mail is an integral part of arts organisations’ solicitation portfolio, typically for annual fund gifts below a certain “major donor”



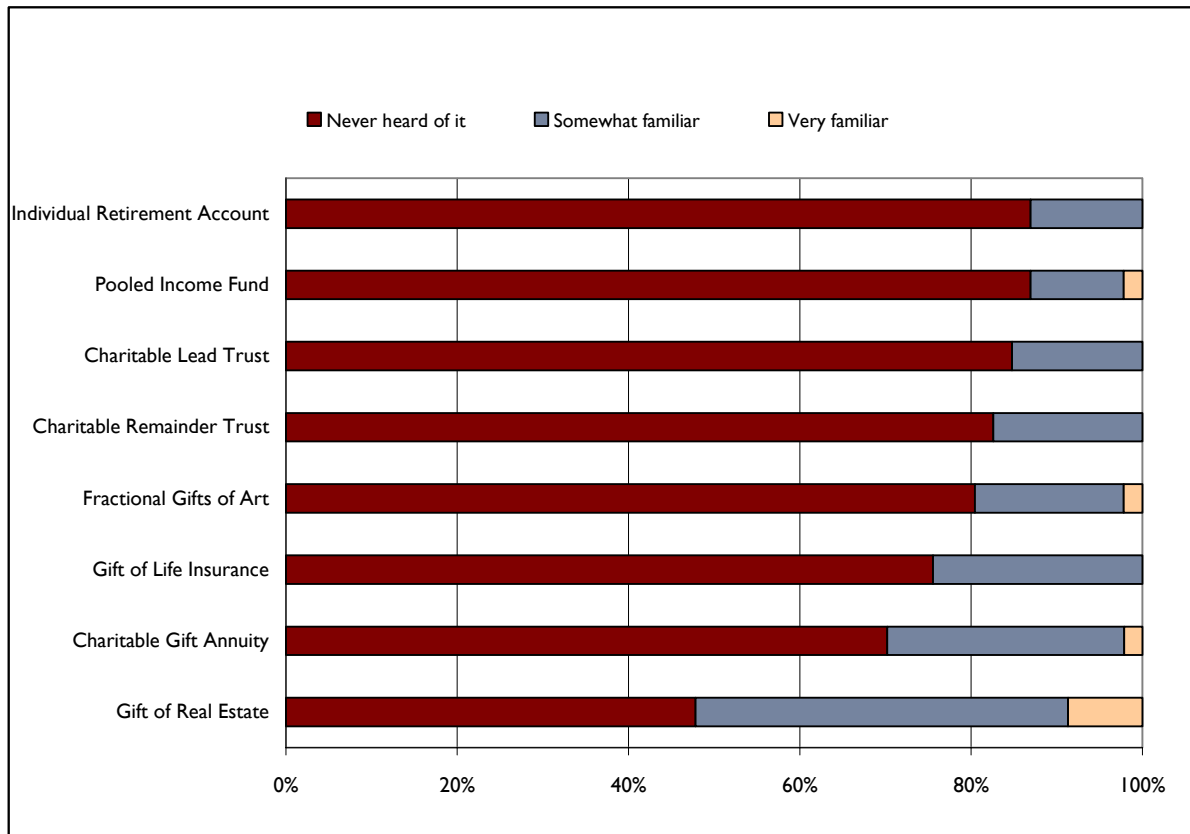
threshold, for memberships, and, in the case of performing arts organisations, for subscription and ticket sales campaigns.

- 7.12 By contrast, 34% of respondents indicated that their organisations conduct prospect research by staff members, and 36% conduct trustee or peer-based prospect research. These results, combined with the 11% of respondents who said they have commissioned an outside firm to conduct wealth screenings of potential donors, are a positive indication that U.K. arts fundraisers are using these sophisticated tactics which are popular in the U.S. and an increasingly important aspect of successful individual fundraising efforts.

Familiarity with Planned Giving Mechanisms in the U.S.

- 7.13 Our survey results revealed, however, that U.K. arts fundraisers may not be familiar with the planned giving mechanisms that are the focus of this exercise, and that increased education and awareness about them is a likely need. Fully 80% or more said they have never heard of the majority of planned giving mechanisms in the U.S.; respondents were most familiar with Gifts of Real Estate and Charitable Gift Annuities.

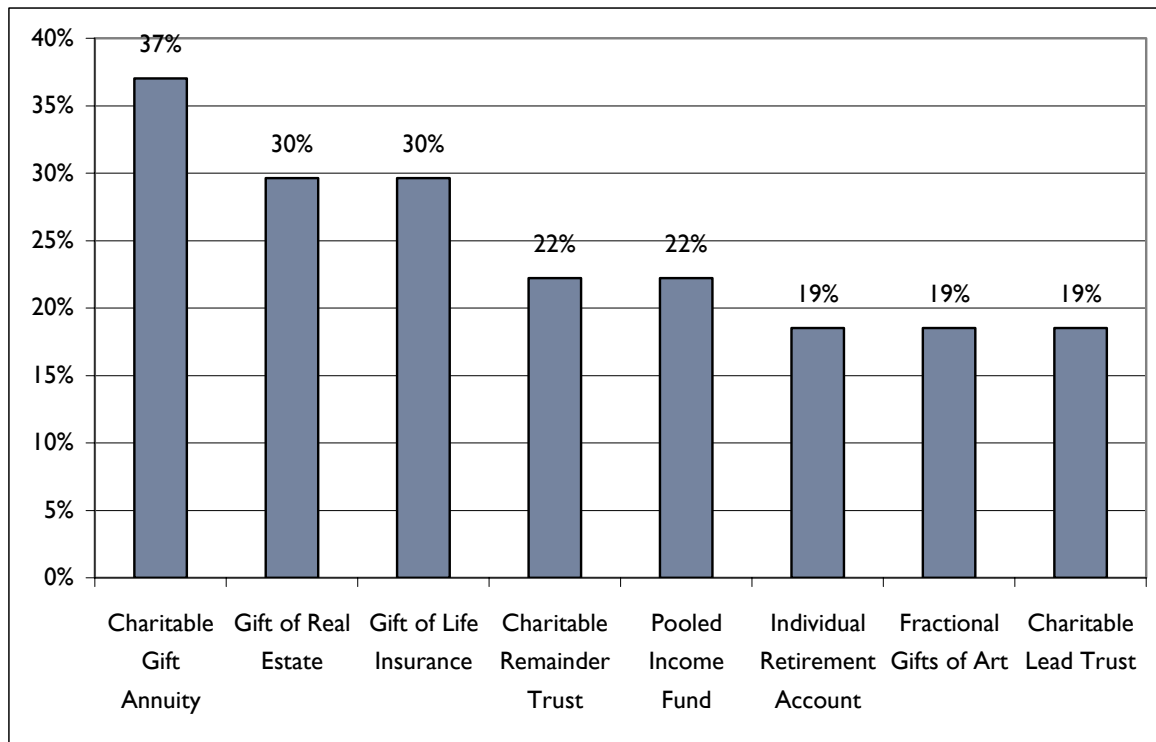
Fig. 7. Familiarity with Planned Giving Mechanisms in the U.S.



Potential of Planned Giving Mechanisms

7.14 Among respondents who had familiarity with some or all of the planned giving mechanisms, Charitable Gift Annuities were felt to hold the most potential for the U.K. Of those who expressed an opinion, 37% felt CGA's held either high potential or some potential for increasing individual giving to the arts; Gifts of Real Estate and Life Insurance were next at 30% each, following by CRTs and Pooled Income Funds. Paradoxically, however, 22% of respondents felt Gifts of Real held low potential. This contradiction, combined with the low response rate to this question, provide further evidence that those surveyed may not be sufficiently informed to give confident answers, and this should be borne in mind when attempting to draw conclusions.

Fig. 8. Potential of Planned Giving Mechanisms



Relative Importance of Various Factors to Increasing Philanthropy

7.15 Arts fundraisers surveyed felt tax reform was the third most critical factor in order to increase individual philanthropy. The status of the arts and attitudes toward philanthropy were deemed most critical.

Fig. 9. Tax and Legal Factors

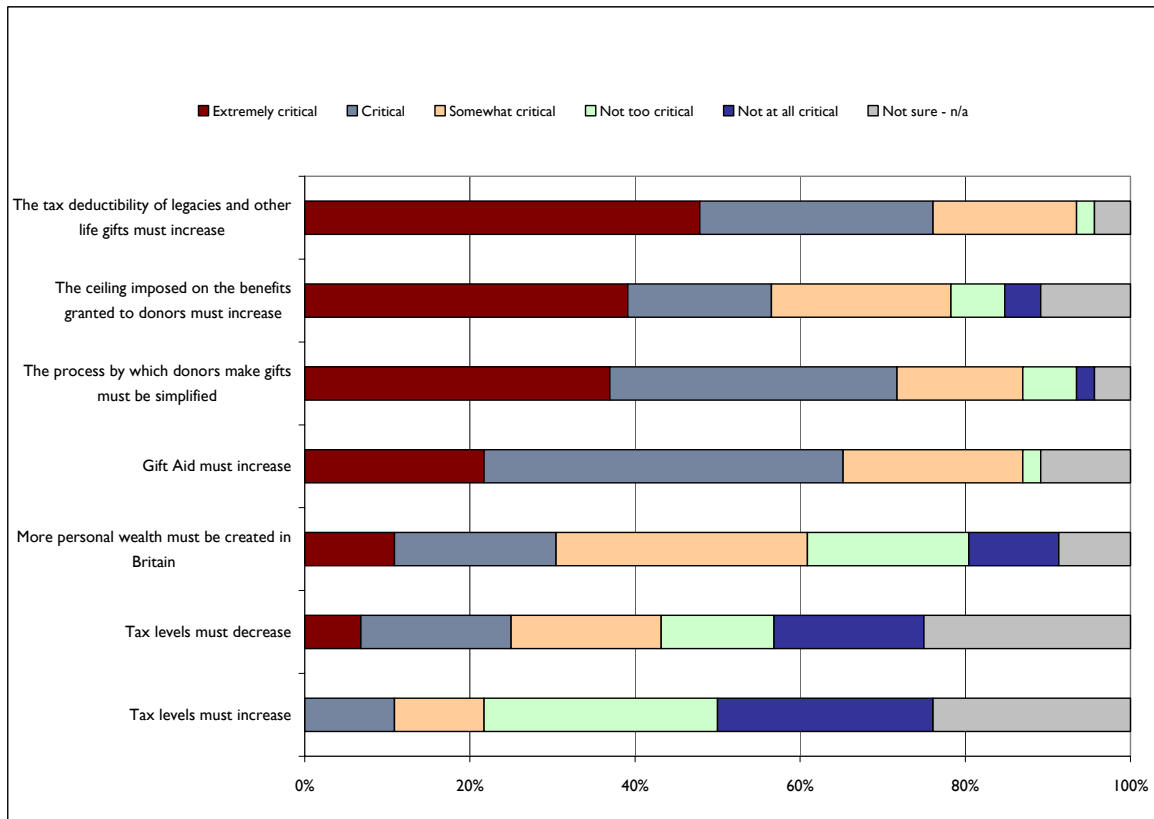


Fig. 10. Cultural Factors

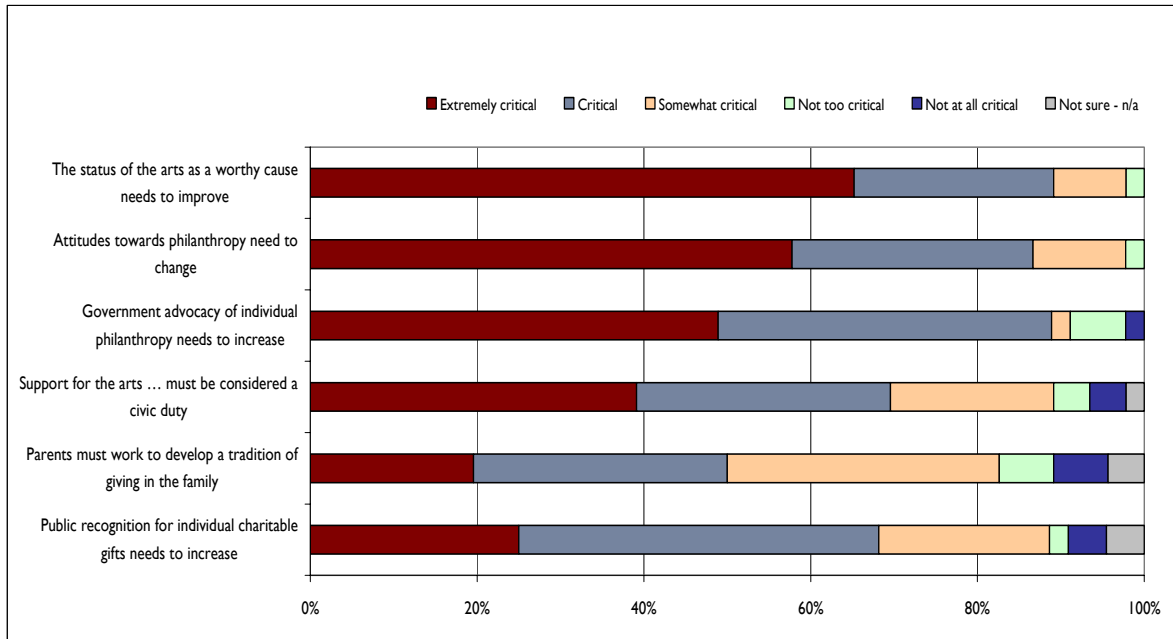
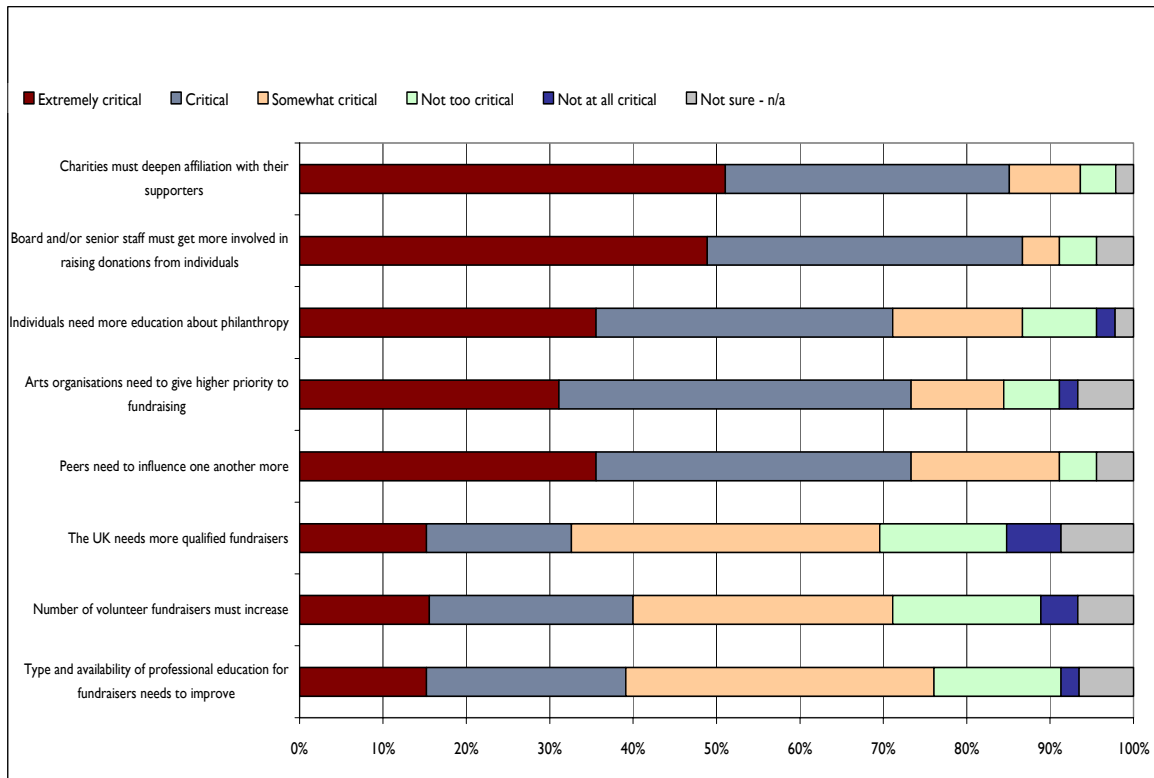


Fig. 11. Charitable Sector/Fundraising Profession



8 Appendix C: Interviewees

Carreno, Kate	Head of Public Services and Administration, Sainsbury Centre for the Visual Arts
Cooper, Moss	Director of Capital Services, Arts Council of England
Daly, Brenda	Director, Future Fund, National Theatre, London
Fisher-Jones, Liam	Director of Development, Royal Shakespeare Company
Foster, Suan	Development Manager, Watermill Theatre
Kurland, Norman	Special Advisor to the President, J. Paul Getty Trust
Laubacher, Donald	Senior Vice President, Key Private Trust
Morton, Rebecca	Development Manager, Huddersfield Contemporary Music Festival
Peterson-Todd	Director of Development, Barbican Centre
Roy, Paul	Partner, Withers Bergman Worldwide LLC
Thierfeldt, Peter	Director of Development, National Galleries of Scotland
Whitehouse, Karen	Director of Development, South Bank Centre



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