September 14, 2009

Philanthropic Trends, As Seen By A Private Banker

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Philanthropy is increasingly a topic that is raised by our clients and one that we are starting to raise proactively with them. For some cultures or religions, there is a clear imperative to give on an annual basis, for other people it may be a simple desire to give something back to the broader community.

This creates both opportunities as well as obstacles, due to the cross-border nature of their giving. We have to ask questions such as: are there tax benefits attached to any charitable donations, such as Gift Aid in the UK, or is the family more concerned by confidentiality, and would they prefer to keep a low profile to their philanthropic activity? What is the optimal vehicle to channel their giving, and is it compliant with their religious or ethical beliefs?

A concern has been that the economic downturn would reduce charitable donations from individuals as they rein in their expenditure, but this is possibly offset by a moral imperative to help others who are in distress or facing financial hardship. Anecdotally, we still see new funds being established, even if the initial capital or gifts are smaller than first anticipated.

Conflicting demands

In UK context, charities must be feeling that they are being pulled in different directions. At one end, their operational and investment income has been falling; their financial assets have been negatively impacted by declining interest on cash deposits, dividend cuts on their share portfolio and property rental income under pressure from failing tenants.

At the other end, the demand for their grants and services has never been higher, whether it is to complement or supplement government funding, (itself under pressure) or dealing with the direct consequences of rising unemployment and failing businesses. Those charities that are too reliant on government funding must look with envy at those with endowed funds which may be more flexible in gifting from capital as well as income. If ever there was a time for trustees to dip into capital to supplement grants that normally are paid from income, it is now.

UK Charitable Trusts

This has been the legal structure of choice in the UK for many years. Within SG Hambros, we have recently helped establish a number of UK charitable trusts, both for UK resident clients and also European and Asian clients. While wealthy UK families have a long history of establishing family trusts as a vehicle for their grant-making, it is the latter trend of international clients that has been surprising. There are distinct reasons for this. The first is that they are attracted to the robust legal nature of a UK charitable trust, which has evolved over many centuries and is regulated by the UK Charity Commission. The irrevocable nature of a gift to a charity may have greater attraction for a client who wishes to put clear water between their charitable assets and their personal assets, should there be any possible interference by their home state at a later date.

Secondly, a UK charitable trust is a relatively flexible structure where funds can be received from and made to non-UK jurisdictions (subject of course to the anti-money laundering checks and constitution of that particular charity). At present there is no pan-European giving vehicle where tax benefits are recognised across the European Union.

On checking the current state of EU legislation with Ceris Gardner of Maurice Turnor Gardner, she highlighted the European Court of Justice’s judgment in the case of Persche v Finanzampt Lüdenscheid. and the possible implications for cross-border tax deductions. The case concerned a gift by a German citizen (Hein Persche) to a retirement home in Portugal. He was denied tax relief on the donation by the German tax authorities, on the basis that the gift was made to an institution established outside Germany. Had the gift been made in Germany, he would have been eligible for relief.

The ECJ ruling was that an EU member state must allow a tax deduction for donations, whether in cash or kind, to a charity established in another EU member state. The implications of this case are not only that a UK citizen making a gift to European charity should consider making claims in their tax returns, but also that an EU citizen making a gift to a UK charity should also consider making a claim for tax deduction in their home state.

Community Foundations

I must admit to having a personal interest, both as a trustee and supporter of the work of the Community Foundations (CFs) in the UK. CFs are a great conduit for local giving in the UK to community-based groups, covering 95 per cent of the UK through 57 Community Foundations, each charities in their own right. The USA has stolen a march on the UK, with some US CFs having been established for over fifty years. The New York City Community Trust, for example, has over $1.5 billion of assets and made grants of $168m in 2008.

This is not something that we have been able to achieve in London, where there are competing charitable entities, including London based CF’s, the Mayor’s Fund and the Lord Mayor’s Fund. Logic dictates that there should be a charity champion for London but this, as yet, is not the case.

CFs also offer “donor advised funds” (DAF’s) which have gained traction as an alternative to establishing a family charitable trust. A DAF with a community foundation provides many of the same benefits to a client as a private family charitable trust, including all tax reliefs, but if they choose, clients are also able to use the CF's grant-making, due diligence, monitoring and reporting services.

In addition, for those families or companies who are looking to establish DAFs with their local CF, the Government has established a £50 million (around $83 million) matched fund whereby each £1 donated is matched by a minimum contribution of an additional £1, and in some cases greater. If you combine the tax benefits of Gift Aid along with matched funding, an initial £1 donation can result in a charitable fund of three times the initial value. The minimum size for an endowment fund through this route is £25,000.

Professional intermediaries as philanthropic advocates

A welcome trend over the last year is the recognition that professional advisors, such as lawyers, accountants and bankers, can be key advocates to their wealthy clients to advance their philanthropic activity. These professionals also need to work with each other across their specialist roles. A number of forums have been actively promoting these multi-disciplinary concepts, including the European Association for Planned Giving, New Philanthropy Capital and the Community Foundation Network.

Stephen Lloyd of law firm Bates, Wells and Braithwaite has taken this one step further by establishing a working group to lobby for London as a world recognised centre for philanthropy. The global nature of philanthropic giving is exemplified by the work of Rockefeller Philanthropic Advisors who, from a core US base, now advise over 150 donors making annual grants in excess of $200 million to more than 24 countries in Africa, Asia, Europe, Latin America and North America.

Philanthropy within private banks

So why are private banks building up their philanthropic services? A cynical response might be that it is a symptom of the zeitgeist, reflecting a backlash against excessive consumption and wealth creation. After all, it does no harm for a financial institution to show a little humility. A more balanced response is that it is good business practice, and is being driven by client demand.

The establishment of a dedicated philanthropic team within a private bank is not cheap and the perennial debate relating to this type of activity is whether it should be a profit centre or a cost centre. If the former, then that may be contradictory to the spirit of philanthropy. If the latter, then there needs to be evidence that this service both retains clients, by engaging them on a highly personal level, while broadening the range of financial and advisory activities.

At present, I would suggest that it is being used primarily for client retention than client acquisition. At SG Hambros, our objective is that every private banker should feel comfortable about raising this subject with their clients, which will require specialist training and resources.

We are working with colleagues in Europe to enhance our investment capability for clients (micro finance, socially responsible and Shariah compliant investments) as well as establishing dedicated funds for both clients and staff, such as the Société Générale UK Group Charitable Trust.