

## Do Tax Incentives Work? A Global View of Tax Incentives and Charitable Giving

Host: Ted Hart

Guest: Adam Pickering – CAF

**Announcer:** Welcome to the *CAF America Radio Network*, a production of the Charities Aid Foundation of America. As the leader in global giving, CAF America offers more than 20 years of experience and expertise to corporations, foundations and individuals who wish to give internationally and with enhanced due diligence in the United States. Through its industry leading grants management programs and philanthropic advisory services, CAF America helps donors amplify their impact.

This show is dedicated to these donors and the charities they support. CAF America is uniquely positioned to serve as the bridge between these important partners and transforms vision into meaningful action. Guests on a *CAF America Radio Network* are leaders in their field who share tips for success and stories that inspire. Our host is Ted Hart, the CEO of the Charities Aid Foundation of America. This is a live call in show, add your voice by calling 914-338-0855. After the show you can find all of our podcasts at [cafamerica.org](http://cafamerica.org).

Don't forget to dial 914-338-0855. Now, welcome the host of the *CAF America Radio Network* Ted Hart.

**Ted:** Welcome here to this latest edition of the *CAF America Radio Network*. Thank you for joining us today, we're coming to you live from London, in the offices of the Charities Aid Foundation. Our guests here today is Adam Pickering, who serves as the International Policy Manager, here at the Charities Aid Foundation, which is a leading international civil society organization, that seeks to create an enabling environment for the development of social society through the provision of philanthropy, a philanthropic advice services and through advocacy.

Adam is responsible for developing global policy positions for CAF, and writes and speaks widely on global trends and philanthropy, and the legal environment for charitable organizations. Adam is currently leading the future world giving project, which seeks to create a policy framework that will help governments seize the potential for rapidly growing middle class populations to engage in philanthropy. I'm quite excited to have Adam here as our guest, and we're going to be speaking today about a brand new report entitled donation states and international comparison of the tax treatment of donations.

The question isn't whether tax incentives work, but more of what the extent to how they work, what they do. What I want to ask-- Well, first of all, I want to assure our listeners all of that may sound very dense and it is, and there's a lot of research that goes behind this, but the reason that we have the author of this report with us is because Adam has a unique way of breaking this information down, and truly making it fascinating. Stick with us for the show. Welcome here to the *CAF America Radio Network* Adam Pickering.

**Adam:** Thanks Ted, it's great to be here. I think you're right, I think the purpose today over the next half an hour is to try and prove to everyone that actually the study of tax incentives can sound quite dry, the reality is it talks a lot about the history, the culture, the politics. The whole tradition of giving is wrapped around questions about how tax incentives are justified, and why we have them, why they they fall, what he's giving for, tax incentives are pretty central to this conversation.

**Ted:** This report is based on extensive body of research that you had it up, could you give us a brief summary of what countries are included, the methodology that was used in the research and how the report differs from other areas of your work?

**Adam:** Sure. This piece of research follows on from another piece of research I did last year, which looked at every country in the world really, 193 UN recognized countries. It was called rules to give by and it was pretty huge in terms of its scope, but it wasn't particularly deep. Many of the findings in that report looks we're talking about tax incentives and I felt like it would be great to go back and look in a lot more detail. We chose 26 different countries, those countries really are the future economic powerhouses around the world.

They're across six different continents, they represent 77% of the world's GDP, at the moment, those countries range from developed world countries UK, US, Canada, Germany, but they also include countries like China, Brazil, Bangladesh, Argentina, Russia, Poland, Philippines, Nigeria. It's a real wide range of countries in a lot of different contexts, but the thing that ties them all together is that they're countries with big and growing economies that are going to represent the future of philanthropy.

**Ted:** You mentioned that the United States is part of this report, obviously being CAF America, I'd like to start there, the US, of course, prides itself on having a strong culture of charitable giving, year-after-year. How does our tax incentive system fair compared to others? Do you think it has helped make our culture, are giving culture what it is today?

**Adam:** The US was a trailblazer in a lot of different ways. We have a real unique history, and I think it's influenced the rest of the world a huge amount in terms of instituting tax incentives for giving around the world. The first thing to say is that-- I mean, you can only look at the US, its contribution to this as positive because massively influenced tax incentives in other countries. As a trailblazer obviously, it was the first country to make some of the mistakes as well.

Not everything's perfect, but I mean, generally, tax incentives in the US are very generous. This came around because of history. You only really have serious tax in the US after the 1913 Revenue Act. Under the war Revenue Act of 1917 provided a deduction, and a lot of the conversations around why that happened at the time has really shaped the conversations that we still have now around tax incentives in the US.

For a lot of people, it was a way of trying to ask tax increased, to try and meet the cost of the First World War, obviously a lot of charitable organizations were contributing to the war effort,

and government wanted a way to continue to encourage people to help with that effort. Providing a deduction from the increased taxes that they were paying the war time as a way of really pushing on to help them. That's really continued to be part of the narrative, I think, in a lot of ways government and policymakers see tax incentives for giving as a way of augmenting the services that the government provides which is logical.

I think in that a some of the issues that you have, because they're very pragmatic about the way in which they use tax incentives, they want people to be responsive to them and when they're not, they don't perhaps think it's worth the effort. Which is perhaps why they only really applies to those who itemize their taxes and there's a question about fairness as to whether accessibility of tax incentives is fair for those that are not itemizing the tactical and can't really access them, that's the one area I suppose of push back.

Other than that they're generous, the capital are very high, it's a full deduction, and I think most importantly in the US, tax incentives apply to a very wide range of causes. When we look around the world, that is not always the case, doesn't often serve a very narrow limit on which causes you're able to get tax incentives for, whereas in the US both generous and there's a wide range, of course and very broad.

**Ted:** When we speak of tax incentives, many of us tend to consider only the value of the incentives, are there any other related factors that influence the effectiveness of tax incentives for giving?

**Adam:** Yes, I think that's right. I think so much of the conversation about tax incentives seems to focus exclusively on the value, and that's understandable, right? Particularly this industry where we know that people will be responsive to tax incentives when they're generous, but I'm not sure having been the research, I'm not sure that that's the most important thing. I actually think the system through which tax incentives are offered, it's just as important, which causes can you actually get donor incentivized status for and how easy is it to claim incentives?

What's the system to which they're offered? Is there a huge burden in climbing those incentives. Is it too complex for most donors to understand how much those incentives are worth? All these questions really heavily influenced the impact and the responsiveness to tax incentives.

**Ted:** Here on the CAF America radio network, we always try to make sure that when we speak of topics of the sort that we bring it to a very practical level for our listeners. From your extensive research and you've been speaking on this this topic as you've been releasing this important report, what would you say are the reasons why the average grant maker, the average philanthropic, a person engaging in philanthropic endeavors would need to care about incentives, or government action, or donation states?

**Adam:** Yes, actually there is a few different reasons. One is that, the obvious one, which is, it's in all of our future interests to ensure that we have a kind of pro-realistic civil society, where people are able to pursue some of the courses they're interested in. We might not all believe in

each of those choices, unlike in philanthropy people we believe in their right to have that choice and that's been a fundamental part of the-- not just the development of philanthropy, but the development of democratic society.

We have an interest in trying to popularize the idea around the world. Tax incentives play a huge role in that, not just because they help to incentivize people to give, but because it's a message that governments send to people which is, the government believes that this is such an important activity, that you're able to fulfill some of your personal goals in giving, and to use your personal voice in the way that you give.

That is such an important thing for society, that they're going to choose to forgo some of their tax, potential tax revenue, which is really an important statement to make from government. They all have an interest in talking about why government does that. Understanding it so that we can protect in the future and so that we can make sure that it's effective and fair and sustainable in the future. Particularly at the moment, as tax continues to be a discussion around the world, particularly in a globalized economy.

There are forces that are pushing taxes down around the world, as people trying to compete for business and investment. It's important that we still are able to make a strong case of tax incentive that is sustainable into the future so that we can retain that in society.

**Ted:** Adam, I think you've raised an important topic here and that's, the pressure is on tax incentive. I think from perhaps a practical point of view, part of this show, part of this report for philanthropists is to draw our attention to what they might consider to be just part of the fabric and that fabric in some way it is coming swayed for some cultures and for some parts of the world. We'll hang on to that question, we're going to take a quick break.

When we come back, if you can give us more a global picture, what's happening with incentives, and is this something that's always going to be as it is now or is it under threat, and we'll be right back.

**Announcer:** Remember our podcasts and archives are always available 24 hours a day at [cafamerica.org](http://cafamerica.org). If you're listening today, our phone lines are open. Call in and ask a question by dialing 914-338-0855. Now, back to the CAF America Radio Network, and our host, Ted Hart.

**Ted:** We're here live with Adam Pickering, who is the international policy manager at Charities Aid Foundation. Before the break Adam I was asking that you take a look at some of the global framework, and is it becoming stronger for incentives, or are we seeing some fraying and should donors and philanthropists be aware of what that global market looks like?

**Adam:** Ted, actually we're at a crucial and unprecedented point in talking about this subject. It would be easy to underestimate the importance of it, because as we discussed at the top of the show, a lot of people think that tax incentives are a fairly kind of dry up initiative element of civil society. The reality is in many countries around the world, particularly those that are transitioning from being developing countries into becoming wealthier countries.

Many of those countries have huge populations, look at China, look at India, look at the Philippines, look at Indonesia, these types of countries are facing a choice. For most of these countries governments likely understand that philanthropy is important in terms of helping

government to deliver services and adding, augmenting to what the government is able to provide, to help with creating sustainable development.

At the same time, particularly after the Arab spring and you have the Orange Revolution in Ukraine before that, governments are also quite concerned about their own sovereignty and their continue in power. Some governments are trying to choose a third way at the moment, which is to allow the kind of philanthropy that they see as supporting the government's agenda, but to try and marginalize those types of activities which don't support the government's agenda.

In some countries they do this by aggressive pieces of legislation, which put people in jail and they engage in protests and things, but in many countries they go for a very subtle form of trying to skew civil society and they do that in tax incentives. If you offer tax incentives for activities such as working in the medical sector, or in education with children and young people, or with the elderly or disabilities, that's fairly uncontroversial and in supporting the government's agenda in terms of delivering services.

Whereas if you are working for environmental courses, maybe the government thinks that that's drawing attention to a subject that it feels, it's going to make it difficult to attract investments from say extractive industries. In this environment then those governments will offer incentives, to those things that they think helps their agenda and not the things that they don't think it's going to help their agenda. The problem with that is, what does that mean for the future of the public understanding of philanthropy in the future.

Look to the US. People in the US see philanthropy as a personal extension of their ideals and their beliefs. They look at it as something that they can try and elicit some kind of positive change in the world. If a type of philanthropy develops around the world, that is very much associated with the government's agenda, will that be as compelling and ask will people want to give as much? Will civil society be as strong?

We're saying, once we try and set an example to the world and I think it's important that we have a conversation and try and talk about, how we as philanthropists in the west can have a positive influence on people's understanding of philanthropy in other countries and maybe it's time we started talking about what, until recently maybe this thought was quite boring subject about tax incentives and legislation. Maybe that's actually some of the pressure points that we should be focusing on.

**Ted:** Part of the starting that dialogue is to understand what the current states of incentives are, which you augmented in this report. One of the things that I believe you learned in the research you just did is, the countries with higher income taxes are also more likely to have more effective tax incentive systems for charitable giving. You mentioned that there is global movement to try to reduce taxes, to encourage investments and lower taxes, meaning that there is a movement towards fewer incentives.

**Adam:** It's a really interesting one, but when you think about it it's fairly obvious. There has been stories of this in the US. The US is a place, where many of the best kind of long achieved most of this of giving of a third, and so research tends to be sort of skewed towards the US, but certainly studies there have shown that across the years when the highest rates of tax, when people are being taxed a lot in the US, the amount of giving has spiked.

Now, this happens amongst the wealthy in particularly for obvious reasons. If you're paying 70% tax is likely than if you're getting a full deduction when you give to charity. The marginal cost of giving is much lower than if you were paying only 30% or 40% tax. As a result the tax incentive just becomes more generous and more compelling. I don't think it's particularly political point to say, and I'm definitely not saying that we should all be taxed, but it's just a fundamental point that the more-- if you get a full deduction and you're taxed more, then that deduction becomes a more valuable proposition.

**Ted:** It's really just a point of the research, not a part of the conclusions?

**Adam:** Yes, it's absolutely not a finding, but I think it's something that we should-- we need to think about when we have conversations about tax incentives. Maybe that way you've done the discussions about, would there be over innovative ideas to change the way tax incentives work? That could be by offering a tax credit instead of a deduction or it could through match funding schemes. There are many other options, and just because a tax deduction was one of the first and also very successful way of managing tax incentives, it doesn't mean [crosstalk]

**Ted:** You raised that point, and then in the research you note that three-quarters of countries studied offer tax deductions as their form of tax incentives. There are others as you just mentioned, such as credits or what you call grossed-up donations. What do you find to be perhaps the better form in terms of being a true incentive?

**Adam:** Yes, I suppose what I'm saying is there's no definitive answer for me from this. I think there are different options which have strengths and weaknesses. With the deductive system like we have in the US, yes the advantage have been pretty easy for people to conceive all. You just deduct your tax and it makes sense, conceptually. It's fairly simple compared to all the types of regimes to administer, actually.

The disadvantages as we might've talked about before, maybe we have something that scholars call the upside-down effect. Whereby the more tax you pay relatively, then because the deduction is higher because you're paying more tax, the relative cost of giving becomes cheaper. It's a slightly perverse effect where the wealthier you are, the cheaper, essentially the cheaper it is to give. Which is great if you're wealthy in the US.

I am not saying that it's fair or unfair, but it's a different system to other countries where if you have a tax credit, you can offer a credit which is just the same rate for every taxpayer. Even if you are not paying any tax at all, you might still get 20-30% tax credit, but then if you're paying huge amounts of tax it would still be the same amount. It's a flat rate of credit and that offers different strengths and weaknesses. It means that everybody's able to share in the offensive

regime, but perhaps that means, unless you offer an incredibly high rate of incentive, some of the wealthiest people in society are going to receive a less generous incentive as they would [crosstalk]

**Ted:** Then perhaps change it [crosstalk]

**Adam:** They'll see that as one of their principal strategies at that point. Yes.

**Ted:** There's been lots of research in the US that's pointed to incentives don't make people give, but it affects the amount that they give.

**Adam:** Yes. I looked through lots and lots of studies into the responsiveness of donors to incentives. The word in economics they use for this is price elasticity. It's important to policy makers so they can show that donors are price elastic. Which means that as the cost of giving goes down, or another way of thinking about that is as the incentive value goes up, donors will give more.

That seems obvious, right? But, actually, it's hard to work out. There's been lots and lots of studies over time and many of them have disagreed, but one study looked at 138 other studies over lots of time. They have a huge amount of data, I guess about 1.4 million people something like that. The result of that managed to show that, I think it's deduced by John Pulozner and Peter Steele, it managed to show that there was a price elasticity ratio of -1.11. Well, that doesn't mean anything to anyone, so I'll try and explain what that means.

Essentially, that means that if the value of an incentive increases by about 1%, then the amount the people will give will increase by about 1.11%. That shows that as far as the treasury's concerned, that was sufficient, because you're getting more than you're putting in to that system in terms of what is the value of incentives from the government's point of view. What's important about that figure is, yes it's true, donors are responsive and is price elastic, but it's only just price elastic.

People are responsive to tax incentives but it's clearly not the biggest story there. The biggest story is that people give, because they feel passionately about giving. The important thing about tax incentives is that it sends a message to donors that the government wants you to give. The other important thing is that people don't feel like they're losing out in the system.

**Ted:** I'm mindful of the time, so I wanted to make sure that we cover all the main points of this report and to make sure that our listeners know that they can download a complimentary copy of your report at [cafamerica.org](http://cafamerica.org).

**Adam:** Yes.

**Ted:** The extensive nature of this report will give a lot of insight into the benefits that you may be enjoying in the country that you contribute, but also give you a sense of, "Is this movement, a strong movement? Is it fraying on me?" Is this something that perhaps in your country is under assault? One of the issues that you raised is the issue of whether or not these incentives

are equitable and are in many countries, are they weighted more towards corporations than individuals?

**Adam:** Yes. It's an interesting finding. I think probably a lot of people are not quite aware of that, actually in many countries, tax incentives exist for corporations but not for individuals. In even more countries, the tax incentives are more generous for corporations than they are for individuals. Now, I think this comes from pragmatism really.

In many governments, particularly in countries that are developing, they all have some big foreign companies that may be working in the extractive industries or something like that. They're paying huge amounts of tax, whereas lots of individual people, most people are not even involved in the tax system. It would be expensive to administer for a small benefit individual giving.

See, you'd see how that would make sense initially, but in the long term that is a problem because when people do start to come into the tax system, they look at giving and they see, "Well, hey, how come corporations get much more generous tax incentive than I do? Is that because the government doesn't think I should be giving? Or is there something worrying going on between the government and corporations?" It breeds cynicism. I think it's really important that there seem to be some kind of parity and fairness between corporations and individuals.

**Ted:** Adam, your research is extensive, and we very much appreciate you working so diligently on donation states. We only have about two and a half minutes left, so I'm going to give that time to you to wrap up donation states, to make sure that we send our listeners off today with the most salient points about this report.

**Adam:** Yes, absolutely. Yes, I encourage everyone to read the report. There's a lot of stuff there. I've even published all the notes I got. I think it's important that I give some credit to some of the help I got from this, from the Thomson Reuters Foundation helper, an organization within them called Trust Law, which provides *pro bono* legal advice. And through their mouths put in touch with DLA Piper, and they helped me conduct a lot of these legal research from around the world.

That's the strength of the report. There's a lot of detail in there. In the notes of it, I will encourage you to go and look for it. It's also fairly accessible. The executive summary is a fairly readable document in and of itself. I think it would give you not just information about the values of incentives in the laws about it, it will help you to go away and think critically about what incentives are for and how we help justify them.

The fundamental point that I came out having done this research is that the conversations that we're having at the moment mostly, in most countries, is that we're not really connecting with the real issues here. We justify incentives based on the services they provide or is it tax efficient. We really need to be justifying tax incentives based on how we value civil society, how we value our freedom to give in society.

Thus, I suppose my call at the end, this is would be for people to get back to the basics and to try and engage in that kind of critical thinking about tax incentives.

**Ted:** Adam Pickering, International Policy Manager for Charities Aid Foundation. Thank you so much for your research, and thank you for being my guest here today on the *CAF America Radio Network*.

**Adam:** Ted, that's my pleasure. Thank you very much for-

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