The Community Foundation for Ireland

Legacies for Good

Wealth Transfer and the Potential for Philanthropy in Ireland

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Foreword

In the 18 years since it was established, The Community Foundation for Ireland has been making a difference by facilitating strategic giving and investing in people and solutions to benefit communities throughout Ireland. Through the generosity of its donors, The Community Foundation for Ireland supports the community and voluntary sector and provides a diverse range of grants in support of communities throughout Ireland and overseas. From an initial investment of €1m in 2000 and through the support of families, individuals, corporates and other trusts and foundations, cumulative donations exceed €40m and we have grown a perpetual fund of over €45m.

Through its work with the charitable sector and community groups throughout Ireland, The Community Foundation for Ireland is aware that community and voluntary groups remain under severe pressure to provide much needed services. Although never a substitute for state funding and investment in core services, The Community Foundation for Ireland believes that increased philanthropic giving – in particular in planned and committed ways – could make a significant difference across many areas of society could make a difference across many areas of society in Ireland, including health, education, the arts and community development.

As part of a global network of over 1,800 community foundations world-wide, The Community Foundation for Ireland has the opportunity to collaborate with other community foundations and to learn from their extensive experience developed over the past 100 years. This includes a strong track record in relation to charitable legacies – both as a trusted recipient of bequests as well as working with professional advisers and other stakeholders in promoting legacy giving and providing suitable pathways for engagement. Through this research initiative, we were interested to learn more about the likely scale of inter-generational transfers of wealth and the commensurate potential for charitable legacies and how that potential might be harnessed. The Community Foundation for Ireland commissioned Jim O'Leary to undertake the research. We thank Jim for his contribution and work.

This report is being published against a backdrop of strong economic growth and record levels of wealth. With a clear correlation between income, wealth and philanthropy, such trends suggest that the opportunity for philanthropy should improve, in particular in the context of inter-generational transfers of wealth.

Social change is rarely achieved overnight. While some societal issues can be solved quickly and with a once off injection of funds, most need persistent attention and sustained support over a period of years. The Community Foundation for Ireland advocates for and enables strategic giving which goes beyond the moment. Strategic giving translates a generous impulse into strategic investments and long-term relationships.

We are publishing this research as part of our commitment to growing philanthropy in Ireland and hope that it will focus attention on charitable bequests and the significant contribution that an increase in such giving could make in addressing societal challenges and building stronger communities. We would also like to thank people who have already chosen to include The Community Foundation for Ireland in their will. We hope many more will consider doing so in the future!

Tina Roche.

Tina Roche, Chief Executive

Executive Summary

- The financial position of Irish households has more than fully recovered from the great recession of the late noughties. The latest Central Bank estimate puts net household wealth at €727bn at end-2017. That's just 1% above the mid-2007 pre-crisis peak, almost 70% above the mid-2012 trough, and indicates that Irish households in aggregate are now wealthier than they have ever been.

- The distribution of that wealth is highly concentrated. CSO data for 2013 suggest that the wealthiest 1% of households owned 15% of all household wealth at that time. More recent data, published by Credit Suisse, point to a much sharper degree of concentration. They estimate that the wealthiest 1% of adults owned 33% of all private wealth in 2017, with the top 5% owning about 50% of the total.

- These statistics are by no means exceptional in an international context, but they do suggest, perhaps surprisingly, that there are several tens of thousands of multi-millionaires and more than one hundred thousand millionaires in Ireland today. This in turn points to the existence of an enormous pool from which the charitable sector, philanthropy in particular, might draw large-scale, strategic donations.

- Given the distribution of household wealth by age cohort and projected death rates over the 2017-2036 period, it is estimated that just over 21% of that wealth will be available for inter-generational transfer at death over the next two decades. This is probably a lower bound estimate, since some wealth will transfer from older to younger generations before death.

- In monetary terms, it is estimated that the total inter-generational wealth transfer at death is currently running at an annual rate of €5.5-6bn. Factoring in the likely future growth of wealth and the time profile of deaths, it is projected that the total amount of wealth available for inter-generational transfer at death could rise to somewhere between €9.6bn and €14bn per annum by the end of the 2017-2036 period, depending on the assumed rate of growth in wealth.

- This suggests a potential 20 year total inter-generational wealth transfer at death figure of at least €122bn. Depending on growth in wealth, the cumulative total could increase to as €185bn.

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

- Available estimates suggest that aggregate charitable bequests are currently running at about €50m a year in Ireland, thereby accounting for about 6% of all charitable giving or about 0.9% of the inter-generational transfer of wealth at death. In contrast, charitable bequests are estimated to account for 9% of all charitable giving in the UK and 12% in the US. Moreover, in the UK it is estimated that charitable bequests account for 3-4% of the aggregate value of estates at death.

- If charitable bequests in Ireland were to account for a similar percentage of the aggregate value of estates as in the UK, they would currently be generating something of the order of €220m per annum, a figure that could rise to the €380-€560m range by 2036, again depending on the rate at which wealth grows in the intervening period.

- The question is what might be done to realise this enormous potential and, more particularly, what policy instruments might be deployed by government to increase the amount of charitable giving created by the inter-generational wealth transfer process?

- In many other jurisdictions, such giving, in the form of charitable bequests, is incentivised by providing inheritance tax relief to the decedent’s estate. However, such an incentive cannot operate in the Irish system because the inheritance tax (Capital Acquisitions Tax) is levied on individual inheritances (in so far as they exceed certain thresholds), not on the value of the estate.

- However, there are ways in which the Irish system might be reformed in order to encourage charitable giving associated with wealth transfer at death. One, directed at the beneficiaries of wills, would be designed to encourage them to donate a portion of their inheritances. A simple, straightforward and easily understood way of doing so would be to allow such donations as a €-for-€ deduction from the amount of the overall inheritance liable to CAT.

- In making this proposal it is assumed that the increased flow of donations to the charitable and philanthropic sector, and the increase in the volume of activity by organisations in that sector that this would enable, are consistent with government policy objectives. In this connection it is noted that there has not been a statement of government policy on philanthropy since publication of the 2012 report by the Forum on Philanthropy and Fundraising.

- The government should avail of an early opportunity to restate its policy towards the charitable and philanthropic sector with any such statement based on a recognition that the sector plays an indispensable role in supporting social, community and cultural life in Ireland and that it does so in partnership with government at all levels. Such a statement should also recommit the government to measures that support and enhance the sector's capacity to raise funds independently.

- Finally, it is noted that there are serious deficiencies in the quality and timeliness of available data on the sector, especially the data relating to giving. It is important, from the point of view of strategic planning by organisations in the sector, and the setting and evaluation of public policy towards the sector, that these deficiencies be addressed.

1. Introduction

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

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

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

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

Another reason is that the amounts at stake are relatively large: wealth is typically a multiple of income (in some cases, a very large multiple) and for that reason, amongst others, the amounts that may be donated to charitable causes out of wealth are potentially much larger than the amounts typically donated out of income. These considerations have prompted extensive research into the scale of inter-generational wealth transfers in other jurisdictions, most notably the US[1].

An additional motivation for constructing such estimates in the Irish case is the

[1] See, for example, Havens and Schervish (2014): A *Golden Age of Philanthropy Still Beckons - National Wealth Transfer and Potential for Philanthropy*

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

The report is organised as follows. *Section 2* reviews the available estimates of and recent trends in household wealth in Ireland and draws together evidence on the distribution of wealth with particular reference to the top end of the distribution. *Section 3* sets out to provide estimates and projections pertaining to the inter-generational transfer of wealth.

In *Section 4* available estimates of charitable giving in Ireland are reviewed with particular emphasis on the scale of charitable bequests. This section also assesses Ireland's position in an international context by comparing estimates for Ireland with those available for other jurisdictions. *Section 5* examines what might be done to encourage greater philanthropic giving here and puts forward a proposal in this regard as well as some suggestions in relation to the collection and publication of data.

2. Household Wealth and its Distribution

Household Wealth Now at Record Level

There are two primary sources of official data on personal wealth in Ireland. One is the *Household Finance and Consumption Survey* (HFCS) carried out by the CSO in 2013 and published in 2015[2]. The other is the *Quarterly Financial Accounts* (QFA), published by the Central Bank four times a year since 2002, the latest version of which, published in May of this year, relates to Q4 2017.

The QFA contains estimates of household net wealth and its main components: financial assets; debt, and housing assets. As of Q4 2017, it is estimated that aggregate household net wealth amounted to €727bn. This represents an increase of just under 70% from the low point of Q2 2012, reached in the aftermath of the financial crisis, and indicates that aggregate household wealth has surpassed its pre-crisis high of mid-2007, albeit by a small margin of just under 1%. The latest estimate implies that average wealth per household was €421,000 and average wealth per adult member of the population was €209,000 at end-2017.

Of the €727bn total, just over €500bn comprised housing assets (implying that the average value of housing wealth per household was €285,000) and the balance of €226bn consisted of net financial assets (gross financial assets less liabilities). The composition of the latter figure is worth noting. Gross financial assets amounted to €377bn, of which €139bn was classified as currency and deposits, €129bn represented the value of private pension funds, and just over €110bn was composed of a variety of other assets including equities, other securities and life assurance policies.

By contrast with the QFA, the HFCS estimates are derived from a survey. The survey covered 5,400 households and was carried out in mid-2013. According to the HFCS, aggregate household net worth amounted to €362bn at that time. It is notable that this is considerably lower than the Central Bank's estimates for 2013, which show an increase from €431bn in Q1 to €469bn in Q4. This is despite the fact that the scope of the HFCS is somewhat wider than the QFA, since the only non-financial asset included in the latter is housing, whereas the former comprehends several other types including, in particular, land.

This in turn highlights a significant deficiency of survey-based estimates of wealth, namely their strong tendency towards understatement. That said, the HFCS contains data on the *distribution* of wealth which are entirely absent from the QFA, and therein lies its principal value as a source of information.

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[2] Fieldwork on a new survey is underway. It is expected that the results will be published in 2020.

The Distribution of Wealth

The report on the HFCS published by the CSO in January 2015 contains data on the distribution of household wealth across a number of dimensions including age, geography, household composition and household size. There are also unpublished data available on the distribution of household wealth by percentile. These are reproduced in Table 2.1.

These estimates suggest that the wealthiest 20% of households owned just under 73% of all household wealth in 2013 and enjoyed an average net worth of almost €800,000 (compared with the average of €219,000 for all households), while the top 1%, comprising 16,500 households, held almost 15% of the total wealth, and enjoyed average net worth of over €3.2m.

Table 2.1: Distribution of Net Wealth, 2013

	Top 20%	Top 10%	Top 5%	Top 1%
% of total	72.7	53.8	39.0	14.8
Mean (€m)	0.795	1.177	1.706	3.239

Source: CSO Household Finance and Consumption Survey (2015)

These figures relate to 2013 and, given the substantial increase in wealth that has occurred since, would need to be revised substantially upwards in order to reflect the current position. Moreover, as mentioned already, surveys generally produce underestimates of wealth, partly because wealthier households tend to be under-represented in them, and partly because wealthier respondents to such surveys are inclined to understate their wealth. A comparison of HFCS estimates and QFA estimates (which are not survey-based) strongly suggests that this is a significant problem with the former. As noted above, the HFCS estimate of aggregate household net wealth for 2013 is €362bn. The average of the QFA estimates for that year is €449bn, 24% higher.

Credit Suisse, the bank, has developed a sophisticated methodology designed to correct the bias towards underestimation that is inherent in surveys[3]. Its latest estimates relate to mid-2017. For Ireland, it calculates that aggregate household wealth at that point amounted to $853bn, or €748bn. This is almost 10% higher than the corresponding QFA figure (for Q2 2017), the difference reflecting the fact that the coverage of the Credit Suisse estimate is wider and extends to non-financial assets (in particular land) that are excluded from the QFA.

[3] [3] The methodology is described at length in Davies, J.B et al (2017): 'Estimating the level and distribution of global wealth, 2000-2014', *Review of Income and Wealth*

However, the really striking aspect of the Credit Suisse numbers for Ireland relates to their estimates of the distribution of wealth. These paint a notably different picture from the one portrayed by the HFCS, as indicated by Table 2.2, even allowing that the Credit Suisse analysis is based on adults as the unit of measurement, whereas the HFCS is based on households.

Table 2.2: Distribution of Net Wealth

(% of total)	Top 20%	Top 10%	Top 5%	Top 1%
CSO (2013)	72.7	53.8	39.0	14.8
Credit Suisse (2013)	71.9	58.4	46.6	27.1
Credit Suisse (2017)	80.1	65.8	53.7	33.1

Source: CSO Household Finance and Consumption Survey; Credit Suisse Global Wealth Databook 2017.

In respect of 2013, the two data sources produce similar estimates of the distribution of wealth by quintile. Thus, the two estimates of the proportion of wealth owned by the top 20% are similar at around 72-73%. The differences between the two sources become apparent in terms of the distribution of wealth within the top quintile, and are especially striking in relation to the top 1%. As noted earlier, the HFCS indicates that the wealthiest 1% of households held just under 15% of all household wealth in 2013, whereas the Credit Suisse estimates suggest that the wealthiest 1% of adults owned 27% of all private wealth at that time. Moreover, the Credit Suisse methodology suggests that the concentration of wealth became distinctly more pronounced between 2013 and 2017, by which time the top 1% are estimated to have owned 33% of all household wealth.

Table 2.3: Distribution of Net Wealth, Credit Suisse (2017)

	Top 20%	Top 10%	Top 5%	Top 1%
% of Total Wealth	80.1	65.8	53.7	33.1
Mean (€m)	0.872	1.432	2.338	7.204
Persons (000s)	686.8	343.4	176.7	34.3

Source: Credit Suisse Global Wealth Databook 2017; own calculations

It is worth teasing out what the Credit Suisse estimates mean in terms of absolute levels of wealth, particularly at the top end of the distribution. This is done in Table 2.3. These figures suggest that the wealthiest 20% of adults, who are estimated to own 80% of total wealth, enjoy average net worth of over €870,000 while the top 1%, comprising some 34,000 persons owning a third of total wealth, have an average net worth of €7.2m. Average wealth across the entire adult population is estimated by Credit Suisse at €218,000 in mid-2017. These are remarkable numbers, suggesting as they do that there are over one hundred thousand millionaires and several tens of thousands of multi-millionaires in Ireland[4]. Accordingly, it is worth clarifying the status of the Credit Suisse estimates.

As regards the aggregate wealth of the household sector (and, by extension, the average level of wealth across all adults or households), the Credit Suisse estimates are consistent with the Central Bank's QFA, allowing that their scope is somewhat wider because, as already noted, they include classes of real assets (principally land) that are not within the scope of the latter.

Table 2.4: Distribution of Net Wealth, 2017

(% of total)	Top 10%	Top 5%	Top 1%
Europe	**69.1**	**55**	**31.8**
- Denmark	68.3	55.1	33.2
- France	53.7	41.5	21.6
- Germany	65.2	53.6	32.3
- Netherlands	54.3	41.6	22.3
- Ireland	*65.8*	*53.7*	*33.1*
- Italy	64.5	54.3	36
- Spain	53.8	42.9	25.1
- Sweden	77.8	65.2	41.9
- UK	57.2	44.3	24.3
United States	**76.7**	**65.4**	**38.3**

Source: Credit Suisse Global Wealth Databook 2017

[4] Credit Suisse provide the following estimates for mid-2017: 125,000 adults with net worth of over $1million of whom 14,000 have a net worth of over $5 million and 111,000 have a net worth of $1-5 million. Source: Credit Suisse Global Wealth Databook 2017.

As regards the distribution of that wealth, it is worth making the point that the Credit Suisse estimates are based on a statistical methodology that supplements survey-based measures with information drawn from sources like 'rich lists' in order to correct for the understatement of wealth that is characteristic of surveys. It is difficult to know how robust this methodology is: the results it produces cannot be corroborated. What is worth doing as a very loose test of the plausibility of the Credit Suisse results for Ireland is to compare them with the results for other countries. This is done in Table 2.4.

What emerges from this table is that the distribution of wealth in Ireland is broadly similar to that of Europe as a whole, though considerably more unequal than some countries (France, the Netherlands and the UK) and somewhat more equal than others (Denmark and, surprisingly, Sweden). Wealth would also appear to be rather less concentrated in Ireland than the US. The Credit Suisse estimates therefore do not by any means portray Ireland as an outlier.

Irish Households Amongst the World's Wealthiest

Household wealth in Ireland has recovered strongly from the economic and financial crisis and is now higher than ever before. As a result, Irish households have consolidated their position amongst the wealthiest in the world, with average wealth levels comparable to those enjoyed by other advanced Western European countries, as indicated in Table 2.5. (Note that these data represent average wealth per adult and are expressed in dollars.)

Table 2.5: Average Wealth per Adult, 2017 ($000)

Austria	221.5
Belgium	278.1
Denmark	281.5
Finland	159.1
France	263.4
Germany	203.9
Greece	111.7
Ireland	248.5
Italy	223.6
Luxembourg	313.7
Netherlands	204.0
Portugal	89.4
Spain	129.6
Sweden	260.7
UK	278.0
US	388.6

Source: Credit Suisse Global Wealth Databook 2017

3. The Inter-Generational Transfer of Wealth

Introduction

The previous section discussed the level of household wealth in Ireland and its distribution. Amongst the important points to emerge from this discussion were the following:

- The aggregate wealth of Irish households has recovered strongly from the economic and financial crisis and now stands at its highest level ever;
- The distribution of that wealth is highly concentrated with Credit Suisse estimates suggesting that the wealthiest 1% own a third of the total and the wealthiest 5% a half.

These statistics have remarkable implications for the sheer number of wealthy people and for net worth on an individual basis. If they are even approximately accurate, it implies that there are several tens of thousands of multi-millionaires and several hundred thousand millionaires in Ireland. This points to the existence of an enormous pool of wealth from which philanthropic causes might benefit.

An obvious channel through which some of that pool might be made available for philanthropic purposes is the process of inter-generational wealth transfer. That process is the focus of this section of the report. More specifically, the focus is on the question: how much household wealth is likely to be transferred to the next generation over the coming twenty years?

Addressing this question involves a high degree of complexity and providing a robust answer would require information the scope and detail of which are well beyond what is currently available. As a result, the analysis that follows necessarily proceeds on the basis of a number of simplifying assumptions and produces estimates that are best regarded as indicative rather than definitive.

Distribution of Wealth by Age

As a first step in addressing the question, it is necessary to consider the available data on the distribution of wealth across age cohorts. Table 3.1 sets out some relevant data drawn from the HFCS, the only source of such information. The estimates in the table relate to 2013. The first five rows of data (up to and including those relating to the age cohort 65+) were published in the original HFCS report; the data in respect of the constituent parts of the 65+ cohort did not appear in that report[5].

[5] For the purposes of putting together projections of the inter-generational transfer of wealth the extra detail provided by the unpublished data is a requirement but it comes at a cost: at this level of granularity, the risk of sampling errors is greater. This is probably the explanation for the V-shaped pattern of wealth across the 65-74, 75-84 and 85+ age cohorts portrayed by the data.

As might be expected, average wealth rises with age (more specifically with the age of the head of household), from €38k for the youngest age cohort to almost ten times that for the cohort aged 55-64. This pattern broadly conforms with the standard life cycle theory of wealth accumulation.

There is something of a plateau effect around the traditional retirement age: households headed by a person aged 65 or more are not significantly wealthier on average than those where the reference person is aged 55-64. This is the outcome of a number of different factors.

Table 3.1: Distribution of Household Wealth, 2013

Age	Mean Net Wealth (€000s)	Share of Total (%)
Under 35	38	3.5
35-44	123	13.3
45-54	283	25.1
55-64	344	25.7
Over 65	348	32.5
Of which:		
65-74	375	20.6
75-84	282	9.2
Over 85	382	2.7
All	219	100.0

Source: CSO Household Finance and Consumption Survey

One is that many older households start to transfer their wealth before death for a variety of motives including assisting children to buy houses. Recently published data on Capital Acquisitions Tax (CAT) receipts indicate that the transfer of wealth before death is a significant phenomenon in Ireland.

Another, offsetting factor, is a purely statistical effect. Longevity is positively correlated with wealth: wealthier people tend to live longer. This phenomenon on its own would tend to push up recorded average household wealth as households age.

However, the most obvious and, arguably most important factor at work is that, post-retirement, the balance between income and expenditure changes. Thus, it is likely that with much depleted earnings and inadequate pensions, many older households have to run down their capital in order to sustain an acceptable standard of living and to cover health- and care-related expenses. If all older households were in this sort of position, average wealth would decline with age beyond retirement.

On the other hand, there are some households the composition and scale of whose assets are such, that the income generated by those assets is more than sufficient to finance comfortable lifestyles throughout their retirement years, such that they continue to accumulate wealth.

There is not enough detailed information available on the distribution of household wealth and the consumption patterns of older households to deal with this issue in an entirely satisfactory way. The expedient adopted for the purposes of the current exercise is to assume that pension wealth is fully consumed in retirement and that no pension wealth is available for transfer to the next generation. This is obviously a simplifying assumption. It is operationalised in the computations that follow by simply subtracting the total value of private pensions, as estimated by the QFA, from total household net worth and essentially using the resultant figure as the measure of net transferable wealth.

The actual figures used are the averages of the four quarterly QFA observations for 2017: €126bn for the value of private pensions and €698bn for aggregate household net worth, yielding an estimate of €572bn for what might be called 'net transferable wealth'. The QFA is preferred to Credit Suisse as the data source, notwithstanding the fuller coverage of the latter, on the grounds that the QFA data are official and the composition of the QFA estimates of aggregate household wealth is more transparent.

Very Large Wealth Transfers in Prospect

In addition to plotting the pattern of average household wealth by age cohort, Table 3.1 indicates the share of total net wealth accounted for by each cohort. Of particular interest are households where the reference person is in one of the older cohorts (65-74, 75-84 and 85+) because it is overwhelmingly from these households that the inter-generational transfer of wealth will come over the next twenty years. Together, they are estimated to have owned 32.5% of total net wealth in 2013.

Does this percentage provide a reasonable guide to the proportion of total wealth that will be transferred? It might seem so on the face of it. However, this would be to implicitly assume 100% mortality rates amongst the members of the relevant age cohorts over the next twenty years, and such an assumption would grossly underestimate longevity.

For example, according to the latest CSO population projections[6], 10% of those aged 75 to 84 in 2106, and fully 45% of those aged 65-74 in that year, are expected to survive to 2036 and beyond. It is clear therefore that somewhat more refined analysis is required. It is also necessary to include the 55-64 cohort in the analysis because a non-trivial contribution to the overall transfer of wealth is likely to be made by this cohort.

[6]CSO (2008): *Population and Labour Force Projections, 2011-2041*

The exercise to be carried out must take into account (i) the proportion of people in each of the relevant age cohorts in 2016 who are projected to die by 2036; (ii) the marital status of those who are projected to die, and (iii) the probability that those who die will leave a spouse or civil partner who will survive to 2036 or beyond. A fuller description of the computations and the data used is set out in Appendix 1

The overall results of this exercise are summarised in Table 3.2. What it indicates is that 21.4% of all net household wealth will be available for intergenerational transfer over the period 2017 to 2036. This implicitly assumes that the inter-generational transfer of wealth is triggered only by death. But, of course, as adverted to earlier, it is not unusual for some portion of household wealth to be transferred before death. However, there is no means available of reliably estimating this portion.

Table 3.2: Wealth Transfers

Age	Share of Total Wealth (%)	Amount to Transfer (%)
55-64	25.7	9.2
65-74	20.6	36.5
75-84	9.2	90.0
85-plus	2.7	100.0
Total of above	**58.2**	**21.4**

Source: CSO and own estimates

Applying the 21.4% proportion to the figure of €572bn for net transferrable wealth discussed earlier indicates that the amount of wealth available for inter-generational transfer over the 2017-2036 period is estimated at €122bn or about €6bn per annum.

Transfers Will be Boosted by Further Growth in Wealth

Of course, it won't quite pan out like that. There are at least two factors that will add a little complexity to the situation. First, the wealth will grow (unless it's all held on deposit and interest rates remain at approximately zero!). Second, the number of deaths amongst the age cohorts we are focused on (the cohorts aged from 55 upwards) will not remain constant from year to year.

As regards deaths, CSO projections show the number of deaths across the relevant target age cohorts rising from an average of just over 26,000 per annum in 2017-2021 to almost 30,000 per annum in 2032-2036. If there was no growth in wealth, this time profile of deaths would mean that the €122bn would be distributed over time along a gently rising trend, starting at around €5.7bn in 2017 and increasing to about €6.6bn in 2036.

As for the growth in wealth, it is worth examining the historical record. Reference was made above to the fact that QFA estimates point to an average annual increase in household net wealth of 11% between 2013 and 2017. This is exceptionally rapid and provides a poor basis for projecting long term growth rates. It reflects the strong recovery of asset values, particularly residential property prices, from the depressed levels to which they had fallen in the aftermath of the financial crisis.

Looking instead at the much longer period since 2002, when the Central Bank's QFA was first compiled, it emerges that household net wealth has grown by a cumulative 92% or at an annual average rate of 4.5%. Over the same period, GNP has grown at an annual average rate of 5.3% in nominal terms. This suggests that over the long run, the rate of growth in nominal GNP might be a reasonable guide to the rate of growth in nominal wealth.

Table 3.3: Nominal Growth Rates, 2000-2017*

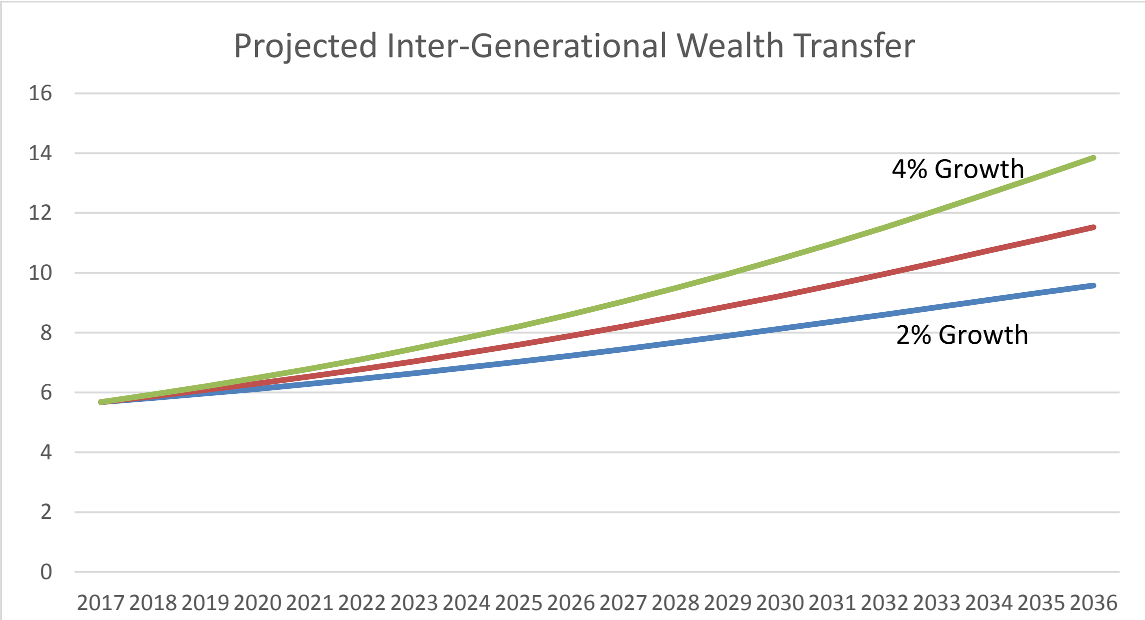
	GDP	**Wealth**
Australia	6.9	10.1
Canada	4.6	6.7
Denmark	4.1	6.5
France	3.8	6.3
Germany	3.8	5.2
Italy	3.1	4.1
Japan	0.1	1.2
Netherlands	4.2	4.4
New Zealand	6.6	11.5
Sweden	4.4	8.6
Switzerland	5.5	6.3
UK	2.7	4.0
US	3.8	4.8
Ireland	***7.1***	***7.7***

** Measured in US dollars; ** GNP*
Source: Credit Suisse Global Wealth Databook 2017

Indeed, international data suggest that household wealth over the long run rises somewhat faster than measures of macroeconomic activity like GNP or GDP. Table 3.3 presents the relevant data for a selection of countries for the period 2000-2017. In most cases included in the table, the rate of increase in wealth has exceeded the rate of economic growth over this period by at least 1% point, and in a number of cases by rather more than that.

What growth rates would it be reasonable to project for the Irish economy over the 2017-2036 period? The ESRI's December 2016 report *Ireland's Economic Outlook: Perspectives and Policy Challenges* envisages average annual growth rates of 3-3.5% for the years 2016 through 2025. Accordingly, an annual average growth rate at the lower bound of this range (3%) is assumed for the somewhat longer and more distant period 2017-2036, and projections of household net wealth are constructed within margins of +/-1% point of this, that is a range from 2% to 4%.

It should be noted that these are real rather than nominal growth rates. Accordingly, the wealth projections can be construed as being denominated in today's prices.



Combining the time profile of deaths with the range of wealth projections results in an annual pattern of projected inter-generational wealth transfers as illustrated in the accompanying graph.

In the case where 2% annual average growth in wealth is assumed, the annual wealth transfer increases from €5.7bn in 2017 to €9.6bn in 2036, yielding a cumulative €150bn in 2017 prices over the period as a whole. Assuming 4% growth, the annual transfer rises from €5.7bn to almost €14bn, for a cumulative total of about €185bn.

In the central case where it is assumed that household wealth increases in line with GNP growth of 3%, the annual transfer increases from €5.7bn in 2017 to €11.5bn in 2036, and the cumulative transfer over the twenty-year period is €165bn, again all in 2017 prices.

Estimates derived from CAT receipts

The methodology used above implies that the amount of household wealth available for inter-generational transfer in 2017 was about €5.7bn. Given the simplifying assumptions that have constrained the analysis, this is best regarded as an indicative rather than a definitive estimate. Even so, it is worth comparing it with another (partial) estimate that's available for the same year. The partial estimate in question is derived from data on CAT receipts published by the Revenue Commissioners. These data break down overall CAT receipts by Group Threshold[7]. The relevant data are reproduced in Table 3.4.

From these data it is possible to compute the aggregate value of inheritances received in 2017 where a tax liability arose. The figure is €3.1bn.

Table 3.4: CAT Receipts 2017

Threshold	Cases	Receipts
Group A	4,244	€141m
Group B	11,602	€226m
Group C	3,876	€58m

Source: Revenue Commissioners

On the face of it, the gap between our estimate of the amount of household wealth available for inter-generational transfer at death in 2017 and the aggregate value of inheritances that attracted a tax liability, at €3.1bn, seems surprisingly large. However, there are several factors that help to explain this gap including the following: (i) evasion and avoidance of CAT; (ii) exemptions from CAT, and (iii) inheritances that are below the relevant threshold.

By their nature, the scale of tax evasion and avoidance are not known, so their contribution to explaining the gap cannot be quantified. However, given how easily assets can be tracked in this era of advanced information technology, it seems unlikely that the quantum of evasion is large. Avoidance is a somewhat different matter: there are several mechanisms available to legitimately reduce CAT liability although it is not possible to quantify the extent to which they are

[7] Liability for Capital Acquisitions Tax (CAT) is a function of the margin by which the gift or inheritance exceeds the applicable Group Threshold where the applicable threshold is determined by the relationship between the disponer and the beneficiary. Where the beneficiary is a son or daughter the Group A threshold (€310,000) applies. Where the beneficiary is a sibling, grandchild, niece or nephew, the Group B threshold (€32,500) applies. In all other cases, the Group C Threshold (€16,250) applies. The rate of CAT has been 33% since 2013.

used and what the overall implications for the yield from CAT might be.

Regarding exemptions, the principal classes of which comprise farms and businesses, the Revenue Commissioners have published data on the cost thereof which suggest that in the period 2013-2016 about €1bn of assets were passed on through this channel on an annual basis. A similar figure may be assumed for 2017.

As for inheritances that are not high enough to attract a tax liability, there is no robust means of estimating how much might be at stake here. However, it is worth noting that the liability threshold for children of decedents is €310,000 and that for other close relatives is €32,500. This implies that decedents numbering three or more children and a small number of other relatives amongst their beneficiaries could leave estates valued at upwards of €1 million without any tax liability arising. It is also worth noting that estates of less than €1 million comprise the vast majority that go to probate. So, it seems likely that the majority of estates (by number) that go to probate are those where the beneficiaries are not liable to CAT.

Of course, it cannot be concluded from this that the greater part of the wealth that is passed on does not attract a tax liability: those estates that result in a tax liability arising for beneficiaries are obviously bigger on average than those that don’t, and the aggregate value of estates that create a tax liability for beneficiaries is likely to be significantly greater than the aggregate value of estates where no such tax liability is created.

The questions of whether and to what degree this is the case depends on the distribution of wealth across the relevant cohort of households: the more equal that distribution is, the greater the aggregate value of estates where no liability to CAT arises is likely to be.

4. Estimates of Giving

Estimates of charitable bequests: Ireland

There is a paucity of firm data on charitable bequests in Ireland. In the first instance, there are no official data. This is somewhat puzzling and represents a gap that, on the face of it, could be easily remedied. Solicitors applying for a Grant of Probate of any will that contains a charitable legacy are required to lodge a simple one-page summary form with the Probate Office setting out the details of all charitable bequests in the will[8]. These forms are then forwarded to the Charities Regulator on a monthly basis. It would seem to be a fairly straightforward matter for the Charities Regulator to collate the information received in this way and to calculate and publish data in relation to the number and amount of charitable bequests. However, the Regulator does not see it as its function to carry out this task and claims not to have the resources to do so.

In the absence of official data, a number of attempts have been made to construct estimates. A report by The Community Foundation for Ireland published in 2010[9], using data obtained from the then Commissioners of Charitable Donations and Bequests, estimated that aggregate charitable bequests in Ireland over the period 2007-2009 averaged €31m per annum. Factoring this upwards to reflect the increase in household wealth that has occurred in the intervening period would yield a figure of around €40m in respect of 2017.

More recently published reports provide the basis for constructing alternative estimates. The Benefacts report *Nonprofit Sector Analysis 2018* gives some information on the funding of Irish nonprofits in 2016. The information is extracted from the financial statements of some 8500 entities. However, almost 40% of these organisations publish abridged accounts that do not permit a breakdown of their income. As for the balance, the breakdown published does not always permit all sources of income to be separately identified. Consequently, the Benefacts data are subject to some measurement error.

Benefacts estimates that the non-profit sector turned over an aggregate €10.8bn in 2016, of which about €800m is classified under the caption 'Donations, Fundraised Income'.

The 2into3 report *Transforming Not-for-Profits* provides data on funding in 2015[10]. Its estimates are derived from a survey of over 1200 entities, supplemented by a much smaller but more focused survey of just 25 organisations. It reports that 10% of income in the sector is derived from fundraising, or €823m in absolute terms. This is close to the Benefacts estimate for the following year.

[8] The information includes the exact wording of the charitable bequest.
[9] *Realising the Power and Potential of Charitable Bequests in Developing Irish Philanthropy*, March 2010
[10] *Transforming Not-for-Profts,* 2into3, 2017

The 2into3 report disaggregates fundraising into a number of components, amongst them 'Donations' (by far the largest), 'Legacies', 'Trusts & Foundations' and 'Unspecified/Other'. Based on the results of the larger survey, legacies are estimated to have accounted for 5% of all fundraised income in 2015, or about €40m in absolute terms. The smaller of the two surveys conducted by 2into3, the scale of which allowed a much more detailed analysis of funding sources to be carried out, suggests that the proportion of income accounted for by legacies was 7%, pointing to a cash amount of about €60m.

Having regard to all sources discussed above, the indications are therefore that aggregate charitable bequests are currently running at the rate of €40-60m annually. In what follows, we use a figure of €50m, the mid-point of this range.

A useful way of scaling this, for the purposes of comparison with other jurisdictions, is to relate it to estimates of the annual inter-generational transfer of wealth discussed in the previous section: (i) the €5.7bn estimate of the total amount transferred, and (ii) the €3.1bn estimate of the total taxable value of estates at death. Aggregate charitable bequests it seems are running at about 0.9% of the former and about 1.6% of the latter[11].

International Comparisons

The quality of available international data on charitable bequests varies across jurisdictions, but is typically poor. There are good quality data for the US and the UK and for a small range of European countries. For other countries, the data tend to be patchy and unreliable.

Aside from quality, what matters for comparative purposes is not the absolute numbers but the numbers appropriately scaled. As suggested above, the most meaningful comparison is provided by relating bequests to some measure of wealth transfer. This of course makes comparison a much more difficult exercise because such wealth measures are generally not available.

In the UK, it is estimated that aggregate charitable bequests have been running at over £2bn per annum in recent years. In 2014, the amount was £2.2bn which is estimated to have amounted to the equivalent of about 4% of the total value of estates at death in that year[12]. Data assembled by the consultancy firm Smee and Ford indicate that aggregate legacy income received by charities in 2016 totalled €2.5bn which they estimate was equivalent to 3.2% of the value of all estates at death in that year[13]. These proportions are between 3.5 and 4.5 times higher than the corresponding proportion we have estimated for Ireland.

[11] Another way of providing context is to recall the case of Basil Larsen, a Scottish businessman who established a charitable foundation in 1999 and died in 2014 leaving £25m (€31m) – about 60% of the Irish total – as a legacy to that foundation to be spend on good causes around the UK.
[12] *Giving in Europe: the state of research on giving in 20 European countries*, ERNOP.EU, 2017
[13] *Legacy Trends 2017 Update*, Smee and Ford

Table 4.1: Charitable Bequests and Deaths

		Charitable Bequests		Number of Deaths	Bequests/ Deaths
		(€m)	(% of GDP)*	(000s)	(€)
Austria	2012	50	0.01	80	625
Belgium	2012	140	0.04	109	1285
Denmark	2013	67	0.03	52.4	1290
France	2013	600	0.03	558	1075
Netherlands	2013	265	0.04	141	1880
Norway	2013	36	0.01	41	870
Sweden	2013	98	0.02	90	1085
Switzerland	2007	660	0.13	61	10820
UK	2016	2500	0.13	582	4295
US	2016	30400	0.16	2713	11200
Ireland	2015	50	0.02	30	1670

** GNP for Ireland*

US research suggests that the aggregate amount bequeathed to charities represented 7.5% of the total assets of all taxable estates in 2000[14]. This proportion is almost five times higher than the corresponding proportion for Ireland.

Data relating to the US and UK and a number of other (mostly European) countries are presented in Table 4.1. In the absence of wealth transfer estimates for the vast majority of countries included in the table, GDP is used as the scaling factor here. Again, relative to the US and the UK, and also Switzerland, Ireland under-performs by a considerable distance. Relative to the other European countries listed in the table, Ireland occupies a position towards the lower end of the range 0.01-0.04% of GDP, but it is not a conspicuous outlier. A similar conclusion emerges when the aggregate value of charitable bequests is related to the number of deaths.

Comparisons of broader measures of giving

It is worthwhile examining available data on broader measures of giving to establish whether Ireland's position in relation to charitable bequests mirrors its performance in other areas of giving. Again, one must note a problem obtaining estimates that are reliable and consistent as to scope and quality across countries. Table 4.2 assembles some available estimates. The data on giving in this table are sourced from a 2016 European Foundation Centre publication[15].

[14] Schervish et al (2002): *Charitable Giving: How Much, By Whom, To What and How?,* Boston College Centre on Wealth and Philanthropy
[15] *Gross Domestic Philanthropy: An International Analysis of GDP, Tax and Giving,* European Foundation Centre, 2016

These data, it should be noted, relate to individual giving and exclude charitable bequests and giving by corporates.

According to these estimates, Ireland compares reasonably well with the other countries that are listed, lagging some distance behind the UK, an acknowledged and long-established international leader in charitable giving[16], but well ahead of a number of other wealthy European countries including some (France and Switzerland) that Ireland underperforms in terms of charitable bequests.

Table 4.2: Giving by Individuals

	Year	Giving (% of GDP)
UK	2014	0.54
Italy	2011	0.30
Netherlands	2013	0.30
Ireland	2013	0.22
Germany	2014	0.17
Sweden	2013	0.16
Austria	2015	0.14
Finland	2013	0.13
France	2011	0.11
Norway	2012	0.11
Switzerland	2013	0.09
Spain	2014	0.05

Finally, it is worth noting that bequests account for a smaller proportion of total charitable giving in Ireland than in other countries for which reliable data are to hand. In Ireland the proportion is estimated at 5-7%. The corresponding estimates for the US and the UK are 9% and 12% respectively.[17]

[16] A telling metric in respect of giving in the UK is provided by the Sunday Times Rich List for 2016 which features 11 donors who together donated a total of £1.1bn that year (and average of about £100m each), much of it via foundations. See http://uk.businessinsider.com/sunday-times-rich-list-2017-most-charitable-rich-people-in-britain-2017-4

[17] Source: 2into3 report *Transforming Not-for-Profts*

5. Policy Analysis and Proposals

Introduction

So, Ireland compares reasonably favourably with other countries in terms of individual giving but, as noted earlier, giving in Ireland tends to be small-scale and spontaneous. The practice of planned and/or large-scale giving is relatively underdeveloped. This is reflected in the data on charitable bequests reviewed in the previous section: Ireland is a laggard in relation to legacy giving, especially relative to the international leaders in this space.

Does this matter? Why is the composition of the income that the charitable and philanthropic sector generates through fund-raising important? Why, in particular, is it problematical that large-scale donations, are relatively undeveloped as a source of income for the sector? Why, more especially, is it desirable that legacies become a more prominent source of income? Several reasons suggest themselves.

- In the first place a degree of balance in the composition of a charity's income is important on grounds of risk diversification and to assist financial planning.
- In this context, larger contributions help to provide greater certainty about funding. Legacies are typically many multiples of out-of-pocket donations, or other forms of giving that are essentially income-based.
- The paucity of large-scale giving implies the underdevelopment of entities like philanthropic foundations whose activities are typically long-term and strategic in nature.
- The underdevelopment of charitable bequests as an income source almost certainly means that the income generated from fundraising activity by the sector is lower than it would otherwise be, perhaps considerably lower.
- There may be an efficiency argument is favour of large-scale giving: the unit cost of raising funds may be significantly lower in respect of charitable bequests than in relation to small donations. If so, increasing the proportion of income generated through such channels will release resources in the charitable and philanthropic sector for other purposes.

Side by side with these arguments, there is the matter of opportunity: as demonstrated earlier, household wealth in Ireland has been growing strongly again and has reached new record levels, which signals the great potential that now exists for large-scale, wealth-based philanthropy. Given the outlook, that potential is going to grow considerably further over the decades ahead and there is now a great opportunity to encourage and cultivate philanthropic giving by leveraging off the process of inter-generational wealth transfer.

How might this be done? What policy instruments might be deployed to achieve this objective?

Taxation and giving

There is considerable variation in the propensity for philanthropic activity across countries. This is true not only of charitable giving in general, but also of components like bequests. Some of this variation is a function of cultural, political and historical factors. It is likely, for example, that cross-country differences in the scale and scope of government involvement in the provision of social services and income supports and the associated tax burden play a part.

That said, as Table 5.1 indicates, there is no obvious correlation between the level of taxation and giving: the UK and Spain have comparable tax burdens, expressed in terms of total tax revenue relative to GDP, but are at opposite ends of the scale when it comes to donating to good causes. Conversely, Norway and Switzerland achieve broadly similar positions on the giving index but are at opposite ends of the spectrum in terms of taxation.

Table 5.1: Giving by Individuals and Taxation

	Year	Giving	Tax (% of GDP)
UK	2014	0.54	34.4
Italy	2011	0.30	41.7
Netherlands	2013	0.30	37.2
Ireland	2013	0.22	34.9
Germany	2014	0.17	39.5
Sweden	2013	0.16	43.8
Austria	2015	0.14	43.8
Finland	2013	0.13	43.9
France	2011	0.11	45.2
Norway	2012	0.11	41.5
Switzerland	2013	0.09	27.1
Spain	2014	0.05	34.4

What these examples suggest is that the propensity to give is the outcome of a complex, multi-factorial process. Some of the factors involved, such as deep-seated cultural and political norms, are not susceptible to government influence, at least in the short to medium term. But others, including the tax treatment of giving, are.

It is difficult to disentangle the role of tax incentives from other factors, especially using cross-country analysis. We cannot conclude, for example, that French people give more than Spaniards (they do), because the French tax system is much more generous in its treatment of charitable donations than its Spanish equivalent (it is)[18]. The reason is that this explanation does not have regard to any of the other factors in play. Besides, it begs the question: why do the French give so much less than the British, despite a much more favourable tax regime?[19]

However, where the tax treatment of giving changes over time in a particular jurisdiction; its effect may be better discerned. What appears like a clear example of this, and one that is especially germane to our interest in exploring how the inter-generational wealth transfer process can be harnessed as a source of major gift philanthropy, is the simple but conspicuous change made to the inheritance tax regime that took place in the UK in 2012. Before then charitable bequests were tax deductible. Under the new arrangements, tax deductibility continued but, in addition, the applicable tax rate was reduced from 40% to 36% if the amount bequeathed to charity reached 10% or more of the estate.

It seems that the policy change has had a big effect: in the five years following the introduction of the new measure, aggregate charitable bequests increased by 40% to €2.5bn[20]. Not all of this increase can be attributed to the tax change – the broader economic and financial environment also became more benign over this period - but a sizeable proportion of it can.

A proposal to encourage wealth-based giving

In the Irish system, unlike the system in the UK, inheritance tax is not levied on the value of the estate. Instead, it is paid as Capital Acquisitions Tax (CAT) on individual inheritances (and gifts) in so far as they exceed certain thresholds.[21] Charities are exempt from CAT: a charity that benefits from a legacy does not have to pay tax on that account.

The Irish system provides a much weaker incentive to make charitable bequests than the UK system. In the UK, not only is such a bequest tax-free in the hands of the receiving entity, but the amount of the bequest is fully deductible against the inheritance tax bill faced by the estate. Since inheritance tax in Ireland is not levied on the estate, the second incentivising element present in the UK is not replicable here under our current system.

[18] In Belgium, France and Spain, a tax credit equivalent to x% of the amount donated to charity is granted to the taxpayer up to a maximum of y% of income. X is 66 in France but only 25 and 45 in Belgium and Spain respectively. Y is 20 in France but only 10 in Belgium and Spain.
[19] In Britain, the system operates in such a way that no financial benefit accrues to standard rate taxpayers from charitable donations they make while the benefit that accrues to higher rate taxpayers is limited to the difference between the higher and standard rates.
[20] The cost to the UK Exchequer of inheritance tax relief for charitable donations increased by almost 80%, to £840m, in the five years to April 2017. It had been broadly flat over the preceding five years.
[21] See footnote 6 above.

One way in which the Irish system might be reformed in order to encourage charitable and philanthropic giving associated with the wealth transfer process would be designed to encourage those who are beneficiaries of wills to donate a portion of their inheritance to a good cause. A simple, straightforward and easily understood way of doing so would be to allow such donations as a €-for-€ deduction from the amount of the overall inheritance liable to CAT. Such a measure would be equivalent to adding the amount of any charitable donation, on a €-for-€ basis, to the relevant CAT threshold.

To illustrate how this measure would work, consider the case of a son or daughter of the decedent who receives a legacy of €1m. At present the amount payable in tax in such a case is €227,700 being 33% of the total amount of the legacy *minus* the applicable (Group A) threshold which is €310k, or 33% of €690k.

Table 4.2: CAT Liability: Existing and Proposed

	Existing **(€k)**	Proposed **(€k)**
Amount of Inheritance	1000.0	1000.0
Group A Threshold	310.0	310.0
Charitable Donation	100.0	100.0
'Effective' Threshold	310.0	410.0
Taxable Amount	690.0	590.0
CAT Payable	227.7	194.7

Suppose the beneficiary decides to donate €100,000 of his/her legacy to a charity. Under the existing system, such an act of generosity would leave his/her tax liability unchanged. Under the proposed reform, however, the tax due would be reduced to €194,700, being 33% of the total amount of the legacy *minus* the Group A threshold *minus* the amount of the donation, or 33% of €590k. In these circumstances, the net cost to the beneficiary of his/her donation of €100,000 would be €67,000, the balance consisting of €33,000 in tax relief. In effect, the Exchequer would be subsidising the donation to the tune of 33% under this measure.

It is worth making the point that such a proposal implies the adoption of no new principle of taxation. On the contrary, it involves extending to CAT a principle that already applies in relation to income tax, namely that tax relief should attach to charitable donations, albeit in the case of the CAT proposal the relief would accrue to the donor.

The need for a restatement of government policy

The proposal put forward above presupposes that the benefits that it is believed would flow from adopting it would be in keeping with government policy. In other words, it is assumed that the increased flows of donations to the charitable and philanthropic sector, and the increase in the volume of activity by organisations in that sector that this would enable, are consistent with government policy objectives.

In this connection it is of note that there has not been a statement of government policy on the not-for-profit sector since the then Minister Hogan launched the report of the Forum on Philanthropy and Fundraising in July 2012, almost six years ago, and there has been no policy initiative adopted by government in relation to the sector since the measures introduced in the 2013 Finance Act, discussed above. This is all the more surprising given the scale of the sector which it is estimated has an aggregate turnover of almost €11bn and employs at least 150,000 people.[22]

The economic contribution of the sector was recognised by Minister Hogan in his July 2012 statement, a statement in which he also noted the value that the not for profit sector brings to our quality of life and the fact that funding channelled into the sector goes straight to work in every city, town and parish across the country. He went on to say that 'there is not an individual in the country who does not benefit in some way from the work of the sector'. In keeping with this belief, he made it clear that he would work to ensure that Government would do everything possible to increase funding in the sector.

In the intervening period a number of opportunities to restate policy have been eschewed. Amongst them, the briefing note for the new Minister for Rural and Community Development prepared by his departmental officials at the start of this year. This document sets out an overview of current policy priorities but, other than listing the need to agree a new contract with Social Innovation Funds Ireland, it is silent on the issues of philanthropy and charitable giving.

The government should avail of an early opportunity to restate its policy towards the charitable and philanthropic sector. Such a statement should be based on a recognition that the sector plays an indispensable role in supporting social, community, cultural and economic life in Ireland and that it does so in partnership with government at all levels. Such a statement should also recommit the government to measures that support and enhance the sector's capacity to raise funds independently.

[22] Benefacts (2017)

The need for better and more timely data

An important set of recommendations made by the Forum on Philanthropy and Fundraising in its 2012 report related to data collection and publication. Amongst the proposals put forward was that government should support initiatives to develop and disseminate reliable data relating to charities and philanthropies.

The thinking behind this recommendation is correct. Timely and reliable data are essential to the development of sound strategy by organisations operating in the not-for-profit sector, especially when it comes to fundraising. Timely and reliable data are also essential to the design of good public policy in relation to the charitable and philanthropic sector, and in particular to the process of reviewing policies to assess their effectiveness.

As regards the latter, it is worth drawing attention to two sets of policy measures adopted in recent years that haven't been reviewed, one suspects in part because of data limitations. One of these is the National Giving Campaign and the associated 60% target increase in giving by 2016 adopted by the Forum on Philanthropy in 2012. The other is the reform of the system of income tax relief for charitable donations announced in 2013. The value of such policy initiatives is not fully captured if they are not subject to a rigorous ex post evaluation designed to assess their effectiveness and the appropriate lessons are not drawn.

A striking discovery in the course of compiling this report was the dearth of reliable data on charitable bequests and on the process of wealth transfer at death. In relation to the former, it has already been remarked above that computing the number and aggregate value of charitable bequests should be a straightforward exercise, given that solicitors are required to extract the relevant information from wills and transcribe that information onto forms that must be sent to the Probate Office (and are subsequently forwarded to the Charities Regulator).

It is recommended that data relating to the total number and aggregate value of charitable bequests be published annually as a matter of course, together with an analysis of the size distribution of such bequests and the charities supported. It would also be useful from the point of view of ascertaining and analysing trends over time if data for earlier years were published.

As for the broader process of wealth transfer at death, there is a sizeable volume of data currently being collected by the system which could be better harnessed for policy-making purposes. This is particularly true of data generated by the probate process and collected by the Probate Office, which includes the so-called Internal Revenue Affidavit (Form CA 24), a form that executors must have completed by their solicitors in order to obtain a Grant of Probate. Potentially, the CA 24 data could be a rich source of insights, not only of interest to the non-for-profit sector but also to a range of other actors in the public policy space.

More generally, it would be of considerable value to those involved in fundraising in the not-for-profit sector if the opportunity could be availed of by the CSO and by research bodies like the ESRI, when surveying the financial situation and spending patterns of households, to obtain more data pertaining to households' giving behaviour.

Appendix 1

Computing the Proportion of Household Wealth That Will Transfer at Death

A twenty-year timeframe is adopted for this exercise and projections for the period 2017 through 2036 are presented. In order to estimate the likely inter-generational transfer of wealth over this timeframe, it is necessary to calculate the proportion of the wealth owned by each of the relevant age cohorts (55-64, 65-74, 75-84 and 85+) that is likely to transfer.

In the first instance, this is a matter of estimating what proportion of the people in each of these cohorts in 2016 will die over this period. In the case of those aged 85 or more in 2016, for example, it is reasonable to assume that the proportion will be 100% since the youngest member of that cohort would be 105 if they survived until 2036. By extension, it is reasonable to assume that 100% of the wealth owned by this cohort will have transferred by 2036.

As regards the next oldest cohorts, the situation is not quite as clearcut. The CSO's latest set of population projections[23] is underpinned *inter alia* by detailed projections of deaths by single year of age. From these the numbers and proportions of those in each age cohort in 2016 who are projected to have died by 2036 can be readily estimated. These proportions are set out in Table A.1.

Table A.1: Deaths 2017-36 as a % of 2016 population

Age	(%)
55-64	24
65-74	55
75-84	90
85-plus	100

Source: CSO

It is expected that 90% of those aged 75 to 84 and 55% of those aged 65 to 74 in 2016 will have died by 2036. These are remarkable figures in what they imply about survival rates. The age cohort 75 to 84 in 2016 will be aged 95 to 104 in 2036, yet 10% of its members, or almost 20,000 in absolute terms, are expected to survive to 2036 and beyond. In the case of the 65-74 cohort, 45%

[23] *Population and Labour Force Projections, 2011-2041*

or 164,000 are expected to survive to live to ages in the range 85 to 94. Given these death/survival rates, what proportion of the wealth of the corresponding households is it reasonable to assume will transfer to the next generation over the 20-year period, bearing in mind that the data on deaths relate to individuals while the wealth measures are household-based? The obverse of this question is: what proportion of those who die will leave a spouse or civil partner who will survive beyond 2036?[24]

To answer this question, it is necessary to know or make assumptions about the following:

(i) The proportion of people in each cohort who were married in 2016;
(ii) The relative mortality rates for the married and not-married members of each cohort, and
(iii) The survival rate of those members of each cohort who were married in 2016 but whose spouse will have died by 2036.

The data required for (i) are available and published by the CSO[25]. As regards (ii), it is assumed that mortality rates are the same for married and not-married members of each cohort. This is a simplifying assumption that is probably not entirely in keeping with the facts but is made for the purposes of tractability. As regards (iii), it is assumed that the survival rate beyond 2036 of those members of each cohort who lose a spouse in the 2017-2036 period is the same as the average survival rate of the cohort as a whole. Again, this is a simplifying assumption.

Take the cohort aged 65-74 in 2016 as an example of how the computations are carried out. 55% of the members of this cohort are projected to die between 2017 and 2036, implying that 45% will survive.

Those not married comprised 33% of this cohort in 2016 and, it is assumed, will comprise a corresponding proportion of all the deaths in this cohort over the 2017-2036 period. In other words, deaths over the 2017-2036 period amongst the members of this cohort who were not married in 2016 will amount to 18.2% of the total cohort. Their wealth in its entirety, it is assumed, will be available for transfer directly to the next generation upon death.

Deaths over the 2017-2036 period amongst members of this cohort who were married in 2016 will amount to 36.8% of the cohort (that is, total cohort deaths amounting to 55% less the 18.2% of the cohort representing deaths amongst the non-married). It is assumed that in 45% of these cases, the spouse of the deceased will survive beyond 2036. Accordingly, in 55% of these cases (the equivalent of 20.2% of the total cohort) the spouse will also die before 2036, thereby making the household wealth available for inter-generational transfer.

[24] It is assumed that wealth is left in its entirety to the surviving spouse and only becomes available for inter-generational transfer when the surviving spouse dies. In the case of those who in 2016 were not married (i.e. were single, widowed, separated or divorced), it is assumed that their wealth in its entirety becomes available for inter-generational transfer upon death.

[25] The proportions of the cohorts aged 55-64, 65-74 and 75-84 who were married in 2016 are as follows: 69%; 67% and 50% respectively.

Table A.2: Wealth Transfers

Age	Share of Total Wealth (%)	Amount to Transfer (%)
55-64	25.7	9.2
65-74	20.6	36.5
75-84	9.2	90.0
85-plus	2.7	100.0
Total of above	**58.2**	**21.4**

Source: CSO and own estimates

All told therefore, it is estimated that 38.4% of the wealth of the cohort aged 65-74 in 2016 will be available for inter-generational transfer over the 2017-2036 period. A corresponding set of computations were carried out in relation to the cohorts aged 55-64 and 75-84 in 2016. The results of the exercise are summarised in Table A.2.

Summing across the four cohorts and weighting each by the proportion of aggregate household wealth owned, yields an estimate of 21.4%, being the estimate of total household wealth that will be available for inter-generational transfer at death over the 2017-2036 period.

The Community Foundation for Ireland

Appendix 2

Why Support The Community Foundation for Ireland in Your Will?

People who channel their money to great causes via The Community Foundation for Ireland know that issues change and new priorities arise. We know for sure that the population of Ireland will age, that environmental issues will become ever more important and both will bring demands for new funding. Other topics can be harder to predict but there is no doubt things will change.

Sustainable solutions to society's challenges very often need independent funding to make a real impact. It's not just about being reactive. The Community Foundation for Ireland is ambitious for our country and its people. It seeks to support the most innovative and effective community groups and charities. The Community Foundation for Ireland hopes that more people will support The Community Foundation for Ireland in their wills to help make this possible.

Some reasons people support The Community Foundation for Ireland in their will include to:

- Give strategically, knowing that The Community Foundation for Ireland will find superb projects that reflect the needs of the day – whatever they may be.
- Support a particular part of the country – e.g. the county where you were born in and / or where they lived most of their life - the real essence of 'putting something back'
- Support a particular theme or area of interest. You may wish to support one of the following funds at The Community Foundation for Ireland or indeed help establish others where there are also needs:
    - Environment Fund
    - Infant Health and Wellbeing Fund
    - LGBT+ Fund
    - Older Persons' Fund
    - Women's Fund
    - Arts Fund

Advisers Trust Us

Community foundations worldwide work with professional advisers to help them to help their clients with their planned and current charitable giving. Please contact us if you have any questions:

Niall O'Sullivan
Fund Development Advisor
The Community Foundation for Ireland
T: 01 874 7354, M: 086 048 8726
E: nosullivan@foundation.ie