The Beacon Collaborative

EXECUTIVE SUMMARY

THE UK AS A CENTRE OF EXCELLENCE FOR INTERNATIONAL PHILANTHROPISTS AND SOCIAL INVESTORS

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TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

- In the 21st century, philanthropy and social investment are emerging as twin disciplines that enable wealth holders to apply their private capital in pursuit of positive and transformative change to the world's most pressing social and environmental challenges. At its simplest, these are the mechanisms by which individual wealth holders can engage in social outcomes with the goal of using their resources positively to engage with communities and strengthen social cohesion. In this process they are reinventing philanthropy: driving social impact that can be measured; forging collaborations that can impact whole systems on a national or international scale; and, blending philanthropy and social investment to achieve sustainable change. The future of philanthropy and social investment is impact-oriented, blended, collaborative and global.

- The first international study on philanthropy conducted in 2018 identified 260,000 foundations in 39 countries[1]. Of this total 72% had been established in the previous 25 years. 12,753 are based in the UK, the seventh largest concentration in the world. The foundations included in the study had total assets of USD1.5 trillion and expenditure of USD150 billion. The report's authors highlighting that the total global figure will be significantly greater. We estimate that global foundation expenditure may be as high as USD250 billion, of which USD10 billion – USD30 billion flows through vehicles outside of the donor's home country each year.

- Sophisticated global philanthropists and social investors will seek out jurisdictions that support their global giving with a robust regulatory framework and where cross-disciplinary organisations work closely together with a common commitment to support international wealth holders to achieve their social impact goals. Policy needs to be unambiguous; regulation needs to be targeted and clear; the infrastructure needs to be world-class and the environment must support innovation.

- If the UK were able to achieve these goals, it would become the world's first global centre of excellence for philanthropy and social investment. By embracing global philanthropy and social investment, the UK can send a powerful signal to the world about the UK's commitment to responsible global leadership in a post-Brexit and post-Covid world. By welcoming responsible global citizens who are seeking positive social impact, the UK can enhance its position as a world-leading centre for progressive global finance and wealth management. The upgrade in skills deriving from offering a world-class infrastructure for international philanthropy and social investment will also benefit the home market. An increased focus on offering an enabling environment for philanthropy and social investment will lead to more and better giving in the UK.

[1] https://cpl.hks.harvard.edu/files/cpl/files/global_philanthropy_report_final_april_2018.pdf

TRENDS IN GLOBAL PHILANTHROPY AND SOCIAL INVESTMENT

- To support the social impact goals of international wealth holders, a centre of excellence in philanthropy and social investment needs to look to the future and be built on a bedrock of policy, regulation and fiscal treatment that is consistent, coordinated and developed with the express intention of enabling international flows of philanthropic and social investment.
- A number of countries in the Middle East, and also in Asia, do not have the legal structure to establish a private charitable trust or foundation. Therefore, wealth owners are restricted in their home country either to giving through corporate entities, thereby aligning their giving with corporate and social responsibilities of the business, or through faith organisations and government-sponsored programmes. In Russia, laws limit the ability of philanthropists to collaborate internationally. Wealth owning families from these countries that want to give according to their values will seek an international jurisdiction.
- Getting money to an international wealth management centre for philanthropic purposes often requires professionals with specialist knowledge to navigate cross-border restrictions appropriately. Once the capital is in a giving vehicle, it is also not easy to donate on a cross-border basis, particularly if there is no charitable status in the recipient country. As a consequence, even if it might be their preference to give to targeted interventions in certain countries, it is common for wealth owners to give in different ways, for example to educational establishments where family members are alumni, or to international research, arts or culture institutions, or to global health initiatives.
- Those who do persevere to give to specific causes in overseas territories accept heavy costs for professional support and can become isolated, especially if political circumstances change where they are giving resulting in an escalation of risk.
- Global networks are emerging to facilitate cross-border giving, such as the Global Alliance of the Charities Aid Foundation or Transnational Giving Europe. These networks can accept payments from donors in the home country and transfer those donations across the network managing tax and due diligence requirements. However, their reach is limited. The Global Alliance operates across the United States, Australia, New Zealand, Bulgaria, Brazil, Canada, India, Russia, South Africa. The Charities Aid Foundation is also a founding partner of Transnational Giving Europe which spans 21 European countries.

THE LANDSCAPE FOR PHILANTHROPY AND SOCIAL INVESTMENT IN THE UK

- International philanthropists and social investors are drawn to the UK because of the concentration of skills and expertise in London across philanthropy, social investment, blended finance and other forms of for-profit responsible investment. London is a nexus for a multi-disciplinary approach to global social impact.

- Principal actors supporting the growth of philanthropy and social investment include umbrella organisations such as Charities Aid Foundation, UK Community Foundations, the Association of Charitable Foundations, Big Society Capital, the Impact Investing Institute, and Philanthropy Impact. The Beacon Collaborative is a multi-stakeholder initiative to coordinate and accelerate growth across the sector.

- The UK also has a vibrant range of fund managers offering social impact strategies. Good Finance lists 130 funds, specialist advisory firms and investors in its network. The UK has also become the first country in the world to offer a listed impact investment fund on the London Stock Exchange, a collaboration between Big Society Capital and Schroders.

- Donor advised funds provide a tax-efficient administrative platform for individual donors. Current providers of DAFs in the UK include: Charities Aid Foundation, UK Community Foundations, Prism the Gift Fund, NPT UK, Stewardship, Shared Impact, UBS, C Hoare & Co. Among these providers, Charities Aid Foundation, NPT UK and Shared Impact offer dual-qualified donor advised fund structures. The dual-qualified fund is recognised for tax purposes in both the UK and the United States.

- There is a growing group of funder networks emerging to support philanthropists and social investors such as Ariadne, the Thomas Paine Initiative, the Environmental Funders Network, New Philanthropy for Arts and Culture. American funder networks are also increasingly active in the UK, such as The Philanthropy Workshop, Nexus Global, the Science Philanthropy Alliance and Women Moving Millions.

- A number of innovative technology providers are also emerging aiming to connect capital more efficiently with social impact opportunities. These include 360 Giving, Brevio, The Big Give, Funders Collaborative Hub, Maanch, Validaid, IG Advisors, Charitybase, BizGive and So Give.

- Academic institutions across the UK provide in-depth knowledge and research on the practice of philanthropy and social investment. And, the proximity of international business and financial expertise to the philanthropy and social investment sectors means London is rapidly developing best practice in impact measurement.

KEY LEARNINGS FROM OTHER JURISDICTIONS

United States

- Contributing just over 2% of GDP, philanthropy is politically important at both Federal and State level.
- American philanthropy is firmly rooted within local communities and its prevalence means there is a well-established national infrastructure.
- Legislation, tax policy and regulation assume philanthropic activity will be domestically focused. International philanthropists based in the United States must therefore comply with the weighty domestic rule-book as well as the international equivalency qualification regime.
- There are two methodologies used for equivalency qualification in the United States. Expenditure responsibility requires an upfront questionnaire to ensure the grant purpose is acceptable and a post-grant report to ensure the funds were used according to the agreed purpose. Equivalency determination requires detailed due diligence certified by a qualified professionals that a non-domestic charity has equivalent status and is enforced through an audit process.

Switzerland

- Switzerland has the largest concentration of charitable foundations of any country in Europe, with more than 13,000. Total assets stand at CHF100 billion.
- Swiss foundations offer flexibility and legislation has been proposed to further enhance their effectiveness (Luginbühl Initiative). However, under Swiss law at least one Swiss national, or a European national resident in Switzerland, must sit on a foundation's council which is a drawback for international wealth holders.
- The guiding principle that a charitable foundation has a social responsibility that also applies when it comes to asset management (subject to prudent analysis of risk and return) offers a good framework for social investment. In recent years, there has been a collective effort to advance Geneva as a global hub for sustainable finance through close connections, partnership and alignment.

KEY LEARNINGS FROM OTHER JURISDICTIONS

Singapore

- Singapore's capabilities as a global centre for philanthropy and social investment are expected to rise as wealth and wealth management continue to grow in the region.
- Singapore is already seen as leading the way for the region in terms of how to create and sustain a progressive environment in which the social sector and donors can thrive.
- The regional growth in wealth levels and sustained collaboration between politicians, regulators, financial sector professionals, academics and the emerging charity sector leaders in Singapore suggest the Lion City will progressively become established as a jurisdiction for global philanthropy.

Netherlands

- The Netherlands is favoured by international philanthropists with links to the EU or from civil law jurisdictions. It is the only jurisdiction within Europe to apply, without limits, European Community law stating gifts to an entity in another member state should not be subject to discrimination.
- The light-touch regulatory regime relies on transparency and self-regulation and encourages innovation, particularly among those seeking to explore the opportunities of social investment and investment in social enterprises. Dutch regulations allow for the combination of non-profit and for-social-profit activity to operate within one structure.

Jersey

- Jersey foundations provide a flexible structure for global tax planning for international philanthropists. Jersey foundations offer complete foreign ownership, incur no taxes and offer privacy for the founder and beneficiaries.
- Jersey is attractive to international philanthropists who require a well-regulated, neutral or private environment from which their affairs can be managed, while living and operating from a base elsewhere.

RECOMMENDATIONS

The UK's strong regulatory framework provides a significant attraction for international philanthropists and social investors. The independence of the Charity Commission from HMRC and other government departments is seen as a benefit. Charity Commission guidance is, in the main, comprehensive. The fact that there is no formal requirement for trustees to be resident in the UK is a notable benefit for international families. Legislation and regulation also make provision for trustees to explore social investment, including programme-related investments and mixed motive investments.

The UK also offers a well-balanced package of tax incentives for giving and social investment to tax residents, including Gift Aid, Social Investment Tax Relief (SITR), capital gains tax relief on land, property or investments, stamp duty land tax relief and inheritance tax relief.

However, there are a number of specific measures that could strengthen the existing regime to make it more appealing to international philanthropists and social investors, especially in the wake of Brexit. These fall broadly into three areas: enable, invest and promote.

ENABLE

1. Amend the Finance Act 2010 and implement a UK equivalency regime

In alignment with the conclusions of the recent OECD report, *Taxation and Philanthropy*, we propose the UK government should remove the jurisdictional limit in the Act and implement an equivalency regime that draws on the experience of the Internal Revenue Service in the United States. This regime would set out rules by which overseas organisations could be judged to be of equivalent status to UK charities and a system by which funds could be tracked to ensure they are used for purposes deemed appropriate.

This would allow UK residents and non-residents, who have a philanthropic vehicle in the UK, to give freely to overseas organisations from the UK, provided they meet the remaining tests in the Finance Act 2010 and enhanced tests for equivalency to UK registered charities. These tests could be based on the existing provisions of the UK Charities Acts, which establish the public benefit principles, and HMRC's overseas payments regime.

RECOMMENDATIONS

2. UK Charities SORP (FRS102) – Related Parties

The costs and challenges of complying with the related parties requirements of the UK Charities SORP (FRS102) are regarded as a significant disincentive for some international philanthropists to operate from the UK. There are circumstances in which the application of the rules, in the UK context, can be burdensome, especially where a philanthropic vehicle in the UK is capitalised with shares from for-profit entities overseas.

Professional bodies that oversee the accounting profession should develop best practice guidelines in this area in consultation with international philanthropists and their wealth advisers to ensure consistent and proportionate application of the UK's related party transaction rules in the case of philanthropic vehicles. The consultation should also consider the viability of recognising the non-UK audit of an international operating business in such cases. If appropriate, measures identified through this review should inform future versions of the UK's financial reporting standards and statements of recommended practice.

3. Guidance from Charity Commission and HMRC

There are a number of areas where international philanthropists and social investors lack clear guidance from the Charity Commission and HMRC. Specifically:

- There should be targeted guidance and examples for international philanthropists on the overseas payment regime and on the application of public benefit rules in an international context.

- There should be clear guidance and consistent application of the rules governing whether family members and non-UK resident individuals can be appointed to the boards of trustees of charitable entities. There are currently no specific legal restrictions, yet application documents are being reviewed on the basis of these criteria resulting in protracted and costly negotiations at the point of set-up.

- The Charity Commission's consultation on responsible investment should seek to develop a progressive framework that supports the intersection of philanthropy and social investment for individual philanthropists and social investors. International philanthropists and social investors will be drawn to a regime that enables social investment as an integral part of their social impact activity, especially where this activity is not supported or is under-developed in their home country.

RECOMMENDATIONS

4. Tax opportunities

Together, Gift Aid and Social Investment Tax Relief (SITR) offer a unique regime for social impact activity for international philanthropists and social investors who have a UK tax liability. Yet, neither is widely understood or championed either in the domestic or international arena.

Gift Aid has raised £18 billion for UK charities since it was launched. It is a robust and principled system that could offer an attractive incentive for international philanthropists to establish their philanthropy in the UK. For these wealth holders, Gift Aid would benefit from more clearly drafted guidance from HMRC. This should be supported by a targeted campaign of education and promotion.

SITR is a world-leading and generous incentive designed to encourage social investment innovation. It offers the UK the unique opportunity to attract progressive international social investors to base their social impact activities in the UK. The views of international social investors should be sought as part of the current consultation on the future of this tax relief.

The government should consider if other tax incentives could be used to encourage international philanthropists and social investors to establish their social impact activities in the UK, alongside other business and investment activities. This analysis should be aligned with and guided by the principles identified by the Charities Aid Foundation report: *Donation States: an international comparison of the tax treatment of donations*[2] and the OECD report *Taxation and Philanthropy*[3].

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[2] https://www.cafonline.org/about-us/publications/2016-publications/donation-states-an-international-comparison-of-the-tax-treatment-of-donations

[3] https://www.oecd-ilibrary.org/sites/df434a77-en/index.html?itemId=/content/publication/df434a77-en&_csp_=5110e1aff1e78c9321ac5759cebc19c5&itemIGO=oecd&itemContentType=book#section-d1e18417

INVEST

5. Invest in regulation

Enabling these proposals requires an investment in the regulatory infrastructure currently supporting philanthropy and social investment in the UK. Additional government investment should be considered for the Charity Commission to support the cost of enabling the proposals in this report. To enable the UK to develop as a global centre of excellence for philanthropy and social investment, the Charity Commission will need to be resourced effectively and connections with HMRC will need to be enhanced. For example, the HMRC Charity Helpline and the Charity Commission could establish dedicated units trained to respond consistently to international philanthropists, social investors and their advisers.

6. Digital Enablement for Philanthropy and Social Investment

As Danny Kruger MP noted in his 2020 report, *Levelling up our communities: proposal for a new social covenant*[4], that digital technology can create a step change in civil society. It is essential that this digital enablement extends to include philanthropy and social investment organisations that can provide a backbone for future funding flows and to ensure innovation in critical areas such as impact measurement.

Government funding should be offered to develop technology that can support philanthropists and social investors to navigate their giving and investment choices. This could be offered via a government-backed grant or social investment programme managed through NESTA, Social Finance, or other social investment organisation with digital expertise.

Solutions that offer domestic and international functionality should be encouraged, including ensuring international user-groups are involved in the design of these platforms. Technology or data standards developed for the UK market should be developed with compatibility with other global centres in mind. If necessary, the UK must provide leadership on this issue.

[4] https://www.dannykruger.org.uk/sites/www.dannykruger.org.uk/files/2020-09/Kruger%202.0%20Levelling%20Up%20Our%20Communities.pdf

PROMOTE

7. Whitehall architecture

There is an immediate opportunity to promote the UK's capabilities as a centre for international philanthropy and social investment on the international stage. Maximising this opportunity will require a greater level of coordination between the Department for Digital, Culture, Media and Sport (DCMS), which includes the Office for Civil Society (OCS), and the Department for International Trade (DIT) linked to existing initiatives designed to encourage inward flows of capital to the UK.

A coherent and joined up approach to develop and promote the UK as a centre of excellence for philanthropy and social investment will be best served by the appointment of a "Philanthropy Commissioner". This individual will have responsibility for overseeing the agenda of enablement, investment and promotion of the UK as a centre of excellence, recognising that philanthropic capital often sits alongside a wealth holder's other business, investment and personal assets.

The government should also consider giving responsibility for championing the UK as a centre of excellence for international philanthropy and social investment to a Minister within DIT complementing any programmes designed to encourage flows of wealth to the UK. The efforts of DCMS and DIT should be coordinated and enabled by an International Philanthropy and Social Investment policy unit working within the OCS. This unit should also routinely brief Prime Ministerial trade envoys on the opportunities for international philanthropy and social investment in the UK.

The government should establish an International Philanthropy and Social Investment Council, comparable to the five Business Councils advising on post-Brexit business plans. This council should be co-organised by the DCMS and DIT and include an advisory panel of international philanthropists and social investors to provide input on policy proposals. These individuals should also be encouraged to play a role acting as Philanthropy and Social Investment Ambassadors for the UK supporting international trade missions from DIT.

RECOMMENDATIONS

8. Promotion, campaigns and activities

The government should step up its promotion of philanthropy and social investment internationally. Measures could include:

- The GREAT Britain Campaign running "Philanthropy is Great" and "Social Investment is Great" to highlight the UK's leadership in these fields.
- Ensuring that the programme of the 2022 Festival of Britain recognises and celebrates the importance of philanthropy, especially in relation to the UK's heritage of innovation and creativity.
- Establishing an International Philanthropy Day similar to the National Philanthropy Day© in the US, Canada and Mexico.
- Running a global event for international philanthropists and social investors to convene and consider how they can support action on global issues.
- Highlight through the Honours system the achievements of international philanthropists and their contribution to civil society in the UK and internationally.

9. Match funding partnerships

Government has an opportunity to develop partnerships with international philanthropists and social investors through match funding schemes. Through genuine partnership government may gain greater insight into on-the-ground activity internationally and these schemes could unlock significant funding flows for initiatives that are of mutual interest.

The government should consider how the experience and funding mechanisms of UK Aid Match[5] could be extended to partner with international philanthropists.

The government should consider match funding initiatives that tap into the interest of international wealth holders to give to UK educational and cultural institutions. The government ran a match funding scheme in 2008-11 to incentivise giving to universities and to encourage fundraising professionalism within institutions. The scheme triggered £580 million for higher education in England[6].

The government should consider acting as a cornerstone investor in social investment programmes on global issues, potentially using the Sustainable Development Goals as a framework for action.

[5] https://www.gov.uk/international-development-funding/uk-aid-match
[6] https://www.morepartnership.com/library/Review_of_Philanthropy_in_UK_Higher_Education.pdf

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Working Group

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Other Contributors

40 interviewees provided their insights on the jurisdictions and changing global landscape for philanthropy and social investment. They include international philanthropists and social investors, international lawyers, accountants, family office professionals, philanthropy consultants, and policy experts. Interviewees were located in the UK, US, Switzerland, Singapore, Hong Kong and the Middle East.

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