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In Defence of Civil Society: The Virtue of Prescribed Private Funds

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In 2008 Australians donated about $13 billion to welfare, health, education, foreign aid, and other philanthropic sectors.

Unfortunately, the government is suggesting new regulations that will limit the flexibility of charitable funds and decrease the quality and quantity of philanthropy. This would be bad policy at any time, but given the current economic situation it is especially important that we protect civil society.

The suggested policy changes affect Prescribed Private Funds (PPFs). The purpose of a PPF is to allow donors to give tax-free money into a fund, which can then distribute that money later to approved deductible gift recipients. Since 2001, more than 800 PPFs have been registered, with a total value of about $1.3 billion.

The great virtue of PPFs is that they allow donors to distribute their money at the most appropriate time in different financial years (called 'inter-temporal shifting'), which allows for more efficient and effective distribution of donor money.

This flexibility allows donors to adjust to the changing circumstances over time. In some years there will be many deserving charities looking for funds, and able to produce good outcomes. At other times there will be fewer good projects.

For civil society to be most efficient and effective, we need the flexibility to shift money to times of the greatest need—such as during a recession or a natural disaster.

In their discussion paper on PPFs, the government proposed to introduce a compulsory minimum distribution, possibly at 15 per cent of the PPF capital amount. But there are various problems with the government's suggested changes:

- Reducing the time flexibility of PPFs would undermine their primary benefit, which is that they allow the effective shifting of philanthropy between years. This is likely to result in lower quality and quantity of philanthropy.
- The proposed reforms would decrease the incentive and opportunity to build a 'philanthropic brand' and result in lower levels of giving.
- Given that more than 800 PPFs have been formed on the understanding that donors would maintain significant control over the timing of their distributions, the new regulations represent a breach of trust.

Another problem is that making the contact details of PPFs available to the public would lead to increased requests for funds and, consequently, increased administration costs—resulting in decreased incentives to start a PPF.

While there is an important role for the government and for the market, this should not come at the expense of civil society. The government is right to keep an eye on PPFs to ensure there is no fraud. But unnecessary restrictions on the flexibility of PPFs will only undermine civil society in Australia.

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Introduction

Prescribed Private Funds (PPFs) are a way for individuals, families and businesses to contribute tax-free money to the philanthropic sector. Instead of giving their money directly to a tax-deductible organisation, PPFs allow donors to put their money in an ongoing fund that can be used to distribute money in future years.

The Commonwealth government is currently looking to change the rules governing PPFs. While a number of their proposed changes will improve the management and regulation of these funds, some of the proposals can potentially lead to perverse, unintended consequences and undermine civil society.

One key concern is the proposed requirement for funds to distribute a fixed minimum (perhaps 15 per cent of their total capital) to deductible gift recipient (DGR) charities each year. This paper argues that one of the key benefits of PPFs is that they allow donors the flexibility to shift their distributions into future years, and this flexibility leads to an increase in the quality and quantity of philanthropy. Restrictions on the flexibility of PPF distributions will undermine these benefits and potentially result in less effective philanthropy and less giving. The greater the restrictions on flexibility, the greater the cost.

The encouragement of a strong and vibrant civil society is a goal shared by people from across the political spectrum.[1] Towards this end, it is vital that we have a robust understanding of the consequences of government policy so that they do not weaken or crowd out private non-profit ventures.

PPFs allow donors the flexibility to shift their distributions into future years, and this flexibility leads to an increase in the quality and quantity of philanthropy.

Background: Philanthropy in Australia

Civil society incorporates a wide range of institutions and associations that are concerned with social, economic, cultural, educational, religious, recreational, intellectual, and other pursuits.

One important element of civil society is the philanthropic sector where donors contribute money to causes aimed at the welfare of others and/or the betterment of society.

The Australian government allows that philanthropic associations may receive tax-deductible donations. These DGRs are regulated by the government and include the general categories of health, education, research, welfare, environment, international affairs, culture, sport and recreation, family, and other.

According to the QUT's Australian Centre for Philanthropy and Nonprofit Studies (CPNS), $1.55 billion was donated to DGR institutions in the 2005–06 financial year.[2] This is an increase of 5.7 per cent from 2004–05.

The average DGR donation by Australian taxpayers in 2005–06 was $371. This represents an increase of 8.6 per cent from 2004–05, and the CPNS reports that average giving has more than doubled in the last decade. This giving has also increased as a percentage of income (from 0.2 per cent to 0.34 per cent over the last decade).

A large number of donations came from taxpayers with an income of more than $1 million. These donors gave an average of $47,246 to DGR organisations (compared with an average of $371), which makes up 1.39 per cent of their income (compared with an average of 0.34 per cent).

However, much philanthropic activity occurs outside of DGR organisations. Philanthropy Australia admits that data on giving in Australia is difficult to obtain and is not comprehensive.[3] They estimate that total giving by individuals and businesses was about $11 billion in 2004 (plus an additional $300 million for the Asian Tsunami appeal).[4] Given the philanthropic growth of about 5 per cent, total philanthropy in Australia in 2008 could be estimated at more than $13 billion (1.2 per cent of GDP). This number excludes philanthropy among friends and family.

To put this number in perspective, if total philanthropic giving was given directly to the poorest 5 per cent of Australians, then each person (adult and child) would receive about $12,200 per year.[5] This is more than the Newstart Allowance and the Family Tax Benefit.

Prescribed Private Funds and time

Prescribed Private Funds (PPFs) represent a relatively new approach to philanthropy. Following the Business and Community Partnerships Working Group on Taxation Reform (26 March 1999), the government agreed to establish PPFs as a vehicle for private groups (businesses, individuals, families) to provide money to DGR organisations.

The first PPFs were approved in 2001 and the first distributions to DGR organisations began in 2002. Since then, more than 800 PPFs have been registered, with a total value of approximately $1.3 billion and annual distributions of around 15 per cent of the total value.

A more efficient civil society means that money is being directed towards the best time and place to provide the greatest benefit.

When considering PPFs, it is important to remember the reason for their establishment. Before the introduction of PPFs, donors were still free to make tax-deductible donations directly to a DGR organisation in that year. The important innovation of PPFs is that they allowed a donor to shift money between time periods, so that they could donate money in one year and distribute that money in a different year. This is referred to as 'inter-temporal shifting.'

Without the existence of philanthropy funds (such as PPFs), a person could either donate money to a DGR or pay tax on that money. Under such a system, it would not be possible for a person to use tax-free income from one year to support a DGR in a subsequent year.

The introduction of PPFs and inter-temporal shifting provides three significant benefits. First, it increases the efficiency of the philanthropic sector so that money is going where it is needed most. Second, it allows donors to build a 'philanthropic brand,' which increases the perceived benefits of giving. And third, the increased efficiencies and benefits of giving leads to more giving.

Benefit 1: A more efficient and effective civil society

Talk of efficiency is often dismissed as only relevant to economists and having little real world impact. But efficiency simply means making sure that resources (including money) go to where they are most effective. A more efficient civil society means that money is being directed towards the best time and place to provide the greatest benefit.

The choice between spending or donating money is an economic decision that is based on a person's preferences and expectations about the future. One important consideration is the choice about when to act.

It is possible for individuals to *spend* all of their income in the same year that they earn it. Alternatively, they could *save* some of the income and use it later. This freedom to shift spending between time periods allows people to spend their money on goods and services that bring them the most benefit.

For example, consider 'Bruce' who wants to go on a big holiday—maybe to South Africa in 2010 to watch the Football World Cup. With inter-temporal shifting, Bruce can save some money in 2009 and 2010 to go on his preferred holiday. If he could not shift his spending between years, then he can only go on two smaller holidays (in 2009 and then 2010) because he would be required to spend his income in the same year that he earned it.

The same rationale applies to all decisions about money, including decisions about giving to the philanthropy sector. By allowing inter-temporal shifting, people can do a better job of matching their money with their goals (irrespective of whether those goals are personal consumption or helping society).

Removing the ability to save would significantly decrease the efficiency of the for-profit market because people could not efficiently match their income with their consumption preferences. Likewise, if individuals did not have the ability to 'save' their philanthropic donations, this would lead to a decrease in the efficiency of the non-profit sector because people would not be able to efficiently match their income with their philanthropic goals.

PPFs provide the ability to 'save' philanthropic donations so that they can go to the best projects at the most suitable time.

There are various parts of the 'efficiency argument' that deserve to be addressed specifically—including 'smoothing,' 'bulking,' 'adjusting to the situation,' and the 'compounding of philanthropic money.' These are considered below.

a) Allows 'smoothing' over time

Inter-temporal smoothing allows individuals to spend a consistent amount of money every year despite the possibility that their income will fluctuate.

An example of smoothing in personal consumption is when a person saves when income is high and uses the savings when income is low.

Another prominent example of inter-temporal smoothing is the government's Future Fund, which received a large deposit in 2007 following the sale of Telstra. Without inter-temporal shifting, the government would have been required to distribute all of that money in the year that it was received. However, with inter-temporal shifting (such as the Future Fund),[6] the government is able to 'smooth' the distribution over many years so that there is more stability in distribution and the money can go to the most appropriate place and time.

Regarding philanthropy, inter-temporal smoothing would allow a donor to contribute a large amount of money when it was available, and then distribute that money to DGRs as a consistent and stable flow of funds. It is possible that the years when donors can make large contributions will not be the same as the years when DGRs can make best use of those funds.

This benefit is especially relevant now as we face an economic downturn. In the current economic climate, it is possible that donors will spare less money for philanthropy. However, if donors were allowed to 'smooth' their distributions then they could donate more than they distribute during periods of strong economic growth and then distribute their 'saved philanthropy' in the lean years.

b) Allows 'bulking' over time

In addition to smoothing the distribution of large donations over time, inter-temporal shifting also allows 'bulking' for those people who may wish to donate a string of smaller amounts with the aim of contributing a 'bulk' amount of money to a DGR in the future.

Bulking allows a donor to contribute a consistent and stable flow of donations each year to their fund, and have that money used later to meet large one-off DGR costs. Without the option of 'bulking,' DGR activity would be restricted by the ability of donors to contribute in any specific year. However, there are many reasons why a DGR may face a large one-off cost. It may be a large capital expense or it may be that the DGR is aimed at responding to catastrophic accidents.

c) Adjusting for the situation

Not all charitable acts are equal. At some times there will be many deserving DGRs looking for funds with the ability to produce a good outcome. At other times there will be fewer good projects and the outcomes will have relatively lower benefits. In economic jargon, the 'marginal benefit of charity' changes over time. To get the highest benefit from philanthropic funds, donors must be able to shift funds towards those years with relatively higher marginal benefit from charity.

It is likely that the marginal benefit from charity will be highest when there is a crisis, economic downturn or catastrophe. In these cases, it would be preferable for donors to be able to shift funds between time periods so that they can more effectively meet this changing demand for money.

It should be expected that the distributions from PPFs will change over time, depending on changing circumstances of the various DGRs. This is exactly what we have seen. While

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the average rate of distribution has been 15 per cent of the previous year fund value, the average annual rate of distribution has ranged from 8.5 per cent to 17.3 per cent. The range of distributions for each PPF is likely to be much higher. This fluctuation and diversity is to be expected, and it represents the flexibility of the funds to be able to cater their distributions to the changing demand.

d) Allows the compounding of philanthropic money

Inter-temporal shifting also provides an incentive to bring forward the donation of funds, with those funds to be distributed later. There is anecdotal evidence that this has occurred.

The bringing-forward of philanthropy provides greater certainty that the money will be provided, as once the money has been donated to a PPF, it can only be distributed to DGRs. It also provides an (admittedly small) potential increase in savings in Australia.[7]

An additional benefit of the bringing-forward of philanthropy funds is that the money in PPFs will be receiving a return and that return will also be directed to philanthropy. Without the existence of PPFs this money could still receive a return. However, with PPFs that return will be spent on philanthropy while without PPFs the same money could be used for general consumption.

People would value the opportunity to be able to build their own 'philanthropic brand.'

For example, compare the non-PPF situation of individuals who will donate $5 per year for 20 years with the PPF situation where they bring forward their donation as a one-off payment of $100, which is then distributed at 5 per cent per year. In the non-PPF situation the total payment is $100 with a present value of $46.8 (discounted at 10 per cent).[8] In the PPF situation the total payment is $130.3 with a present value of $56.3.

Benefit 2: Building a 'philanthropic brand'

PPFs not only lead to efficient philanthropy but also allow donors to build a 'philanthropy brand' such as an ongoing family fund and legacy.

People are social animals. Stepping away from what is sometimes seen as a narrow economic framework, it must be accepted that we do care about our role in the world and how we are viewed by others. Many people would value the opportunity to be able to build their own 'philanthropic brand.'

Basically, even if the same money is given to the same DGRs, the brand element of PPFs means that an act of philanthropy looks relatively more attractive from the donors' perspective.

In addition, these philanthropic brands will provide an increased incentive to ensure the effective use of the funds, as the effectiveness of the funds will reflect on the quality of the brand. The various philanthropic funds will also be able to learn from their own institutional history and absorb the lessons of other funds to ensure that funds are better targeted to where they are most needed. A community of philanthropic brands would also present the opportunity to cooperate and share knowledge.

Finally, the growth of philanthropic brands encourages the view that charitable giving is a normal and admirable part of our culture. This view will shift preferences so that people are marginally more willing to contribute to the philanthropic sector.

Benefit 3: Leads to more giving

A more efficient allocation of funds means that the same amount of funds can be used more effectively to help more people. And the increased benefits from a more attractive philanthropic sector (from the donors' perspective) mean that donors will receive more personal benefit even if the same money went to the same DGRs.

However, there is another, perhaps more important, benefit that comes from these initial benefits—an increase in philanthropic giving.

Explained in economic jargon, the more efficient allocation of funds across time periods, improved incentives to get good results, and increased perceived attractiveness of giving are analogous to an improvement in 'technology,' which is represented by an increase in the 'supply' in the philanthropic market.

In addition, the cultural element of PPFs, where people marginally shift their preferences towards philanthropy, will increase the 'demand' in the philanthropic market.

Both these effects result in an increase in the 'quantity demanded' for philanthropy, which basically means that donors are willing to 'buy' more philanthropy.

Switching from economics to English, this means that when people can get better results from giving money, they are more likely to give money.

This theory is backed up by recent experience. The CPNS reports that in the five years following the introduction of PPFs, there was an average increase of 11.6 per cent in donations to DGRs. They attribute this in part to the introduction of PPFs.[9]

Increased philanthropy means more benefits for the recipients of that philanthropy: more aid for struggling families; more assistance for those dealing with mental, physical or substance-abuse problems; more money for research, sports and the arts; and more money spent on education and health.

However, the growth of civil society has further potential flow-on benefits. To the degree that the philanthropic sector can achieve real benefits, there is less need for the government to be involved. Consequently, the government can re-direct funds to other causes or reduce the tax burden. There is also an argument that encouraging civil society helps to build a stronger society with more compassion, responsibility, civic virtue and tolerance among the population.

The current review

In the 2008 Budget, the government announced it would change the regulations regarding PPFs. Subsequently in November 2008, the government released a discussion paper called 'Improving the integrity of Prescribed Private Funds (PPFs),' which included a number of suggestions and questions.

One of the issues addressed in the discussion paper is that the government wants to increase regulation on inter-temporal shifting. The government is arguing that the voluntary amount of inter-temporal shifting may be wrong in that people will think too long term, and the government should therefore force the funds to act more short term.

Specifically, they have raised the prospect of introducing a fixed minimum rate of distribution (perhaps 15 per cent of their total capital) to DGR organisations each year.

The discussion paper says that 45 per cent[10] of the money belongs to the 'government,' and they want an immediate 'bang for their buck'—and if a fund does not give enough short-term benefits, then it is not being philanthropic.

Consequently, the discussion paper says that such 'long-term' funds should not be tax deductible as the government could put the same money (which is considered to be 'government' money) to better use through government spending programs.

One of the concerns specifically cited by the government's discussion paper is that 'long-term' funds may lose money through negative investments and fees, and consequently no money will ever be transferred to the charitable sector.

By increasing regulation on inter-temporal shifting, the government proposals would decrease the efficiency of philanthropy.

The main problem: distorting inter-temporal philanthropy

The increased regulation of PPF distributions would undermine the effectiveness of inter-temporal shifting. By increasing regulation on inter-temporal shifting, the government proposals would decrease the efficiency of philanthropy, restrict the ability of donors to build a 'philanthropic brand,' and consequently lead to relatively less giving.

The only way to justify the regulation of the inter-temporal shifting is if there is some evidence that the natural rate of inter-temporal shifting is somehow wrong. This could only be caused by bad intentions or mismanagement of philanthropic distribution. There is no reason to believe this is the case.

The philanthropic intentions of the fund donors are clear by virtue of the fact that they've given up their own money towards a fund that does not benefit them. There is an

appropriate role for government in monitoring these funds to ensure they do not engage in fraud. However, as long as the funds are run honestly the existence of the funds is proof of the good intentions of the donor.

The more likely accusation is that fund managers will mismanage the inter-temporal allocation of their resources. There is no evidence of this, and indeed PPFs provide the opportunity and the incentive for the improved management of funds.

While it is effectively impossible to a-priori determine the 'perfect' amount of inter-temporal shifting, it is nearly certain that the correct amount is not always zero. Yet, without PPFs, more donors will revert to zero inter-temporal shifting.

While there is a valid role for both the market and the government, these should not come at the expense of civil society.

The proposed requirement for a high minimum distribution would lead to fewer PPFs for two reasons. First, by reducing the flexibility of the funds the proposed regulation would reduce the incentive to set up a PPF in the first place. Second, a high minimum distribution would exceed the likely returns on PPF money and, in absence of further contributions, would lead to the closing of many funds.

By reducing the number of PPFs, the opportunity for inter-temporal shifting (for those effected donors) is reduced to the clearly incorrect amount of zero.

In addition, it is likely that PPF managers are in the best position to determine the appropriate time to distribute their funds. PPF managers will be catering towards specific demand and dealing with their own changing personal situation. Consequently, the correct management of their donations and distributions will require a large amount of knowledge specific to the time and situation. This information is concentrated with the donors.

Indeed, by removing the inter-temporal decisions from donors it is more likely that there will be a misallocation of resources due to less accurate information.

Further, the existence of a 'philanthropic brand' adds to the incentive for PPF managers to allocate the money effectively, and it also provides opportunities for PPFs to learn from their own history and the experience of other PPFs. This indicates that PPF donors would be more likely to make a good judgement compared with non-PPF donors. Having fewer PPFs would reduce this benefit.

Based on these incentives, there is no reason to assume that PPF managers will significantly misallocate resources; and it is likely that flexible inter-temporal shifting will increase (not decrease) the efficiency of resource allocation.

The specific consequences of the proposed regulation are the inverse of the benefits outlined in the earlier part of this paper. In particular:

1. Less efficient civil society

The appropriate amount of distribution from PPFs will vary from fund to fund and from year to year. While the average rate of distribution has been 15 per cent of the total asset value, sometimes the best level of distribution will be less than 15 per cent. Since the introduction of the fund, the average annual level of distribution has ranged from 8.6 per cent to 17.5 per cent, and some individual funds will have distributed above and below these annual averages.

By restricting the flexibility of distribution, the proposed regulations will reduce donors' ability to 'smooth' their philanthropic distributions, reduce their ability to 'bulk' their philanthropic distributions, reduce their ability to cater their distributions to philanthropic demand, and decrease the incentive to 'bring-forward' their giving.

In short, the consequence of this proposed regulation would be for a less efficient civil society, where funds are *not* distributed to the time and place where they are most needed.

2. Losing the 'philanthropic brand'

In some cases, compulsory distributions will result in some PPFs not being sustainable, and some donors choosing not to start a fund. This decreases the ability of donors to build a 'philanthropic brand.'

In addition to decreasing the incentive for efficient allocation of funds, this will decrease the benefits of giving as perceived by the donors and decrease the perception that philanthropy is a normal and appropriate part of our culture.

3. Leads to less giving

The reduction in the efficiency of philanthropy, and the difficulty in building a 'brand' would lead to lower total giving and a smaller civil society.

Social democrats, conservatives and liberals are united in their praise for civil society and its many consequent benefits, such as the building of social capital and the more personal and direct approach to social issues.

In the case of the proposed regulation, the size and quality of civil society would decrease and be crowded out by more personal consumption and more government spending. While there is a valid role for both the market and the government, these should not come at the expense of civil society.

Other problems with the proposed regulation

From an economic point of view, the main concern with the proposed reforms is that they will distort inter-temporal shifting—leading to less giving and less efficient philanthropy. However, there are several other issues in the report that also deserve mention.

1. Privacy

While it is important that the government monitors the activities of PPFs to ensure there is no fraud, there is no need for the details of these funds to be made public. There is a concern that the removal of the donor's privacy will result in increased unsolicited requests for funds, which will increase the administrative costs of PPFs and deter donors from establishing an ongoing fund.

2. Breach of trust

Already more than 800 PPFs have been formed on the understanding that the donors would maintain significant control over the timing of their distributions and be able to build a family legacy. Removing this freedom, and in some cases undermining the viability of the PPFs, would be seen as a breach of trust by donors. This precedent would undermine confidence in the rules surrounding philanthropy and decrease the incentive to pursue innovative philanthropic structures.

3. Growth of funds and time preference

The report cites concerns about a PPF potentially shrinking due to negative investments and costs. However, the return on invested funds (including PPFs) is generally positive. Despite the current economic troubles, it is likely that funds will continue to provide a positive return in the future.

While the government is right to suggest a 'time preference for money,' the discounting of future benefits should be offset by the returns on funds. This means that the timing of the decision is less important than the quality of the decision.

4. Counter-factual of government spending

The report suggests that the government could do more good with the tax revenue forgone than could be achieved through a 'long-term' fund (i.e. a PPF which distributed less than a set minimum every year). This seems very unlikely. First, there is no evidence that a 'long-term' fund would provide fewer benefits than a 'short-term' fund, and the above discussion on inter-temporal shifting and efficiency indicates the opposite.

In addition, there are several reasons for thinking that there would not be significant benefits from the counter-factual of government spending.

First, of every $1 that the fund would distribute (albeit at a later date) the government will only receive a maximum of $0.465 (top marginal tax rate plus Medicare levy). While the other $0.535 (or more) will still be productive in the private sector, there is no reason to believe it would be more productive than if the money were to be distributed through civil society.

Further, all tax imposes a 'deadweight loss,' which is estimated at between 20 per cent and 50 per cent of the revenue raised.[11] This leaves the government with $0.23 to $0.36 for every $1 of 'long-term' charity prevented. For the government spending to produce

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a benefit greater than the benefit in civil society, the government program would need to produce a significant benefit.

While some government programs do produce a high net benefit, when comparing two options it is necessary to compare the marginal benefit of that spending. The net benefit of the marginal government project is by definition going to be lower than the benefits from current government spending, and there is no evidence to suggest that it will have a high net benefit.

The government's discussion paper suggests that we should consider the benefit that the government could do *in the same sector*. As money is entirely fungible there is no reason for this restriction. However, the effect of this approach is actually to decrease the estimated net benefit from the government spending, as the benefit of the marginal project *in the same sector* is unlikely to be the best available government project.

5. The concept of 'government money'

The report claims that the tax deduction is equivalent to 'government' money, but this is based on the assumption that the government *should* tax civil society. Taxes decrease the activity that is being taxed and the government has claimed that they support civil society. The 'null' hypothesis should be that civil society is not taxed, and the money 'rightfully' belongs to those civil society groups.

Conclusion

Economists, politicians, commentators, philosophers, and voters around the BBQ have long argued about the relative virtues and vices of government intervention compared with the market. Less attention has been given to the third option—non-profit and non-government civil society.

It is easy to say positive things about civil society, and especially philanthropy, but it is harder to get a full understanding of how government policy may influence the quality and quantity of this important sector.

PPFs have made it easier for donors to pursue inter-temporal shifting in their giving and build a philanthropic brand, and have consequently led to more and better philanthropy. But the government's proposed regulation regarding minimum distributions would undermine the flexibility and sustainability of PPFs, decrease the benefits of inter-temporal shifting, reduce the incentive to give, and consequently harm the philanthropic sector.

Endnotes

1. There are three ways for people to interact: through the market (voluntary for one's own benefit), the government (involuntary), or civil society (voluntary for the benefit of others). While social democrats and classical liberals often disagree on the relative merits of the free market vis-à-vis government intervention, both groups agree on the importance of civil society.
2. The Australian Centre for Philanthropy and Nonprofit Studies, 'Tax Deductible Giving in 2005–2006,' CPNS current Issues Information Sheet 2008/5, www.bus.qut.edu.au/research/cpns/documents/2008_5_Tax_DED_Giving_v12_WebVersion.pdf (Accessed 8 February 2009).
3. Australian Council of Social Service (ACOSS), Giving Australia: Research on Philanthropy in Australia (October 2005), www.brookesnews.com/091201carbontax.html (Accessed 8 February 2009).
4. This is made up of $5.7 billion from adult Australians, $2 billion from charity gambling or special events, and $3.3 billion from business sources.
5. It should be noted that only a part of philanthropic donations go towards welfare services. In addition to welfare services, money is donated to culture, health, education, research, overseas aid, and other philanthropic activities. The numbers quoted are intended only to give some perspective for the size of the philanthropic sector in Australia.
6. It should be noted that the Future Fund is not the only way for the government to engage in inter-temporal shifting. For example, in previous years they have simply deposited money with the RBA.
7. While PPFs lead to an increase in 'philanthropic saving,' it is not clear how much of this represents additional net savings and how much is a transfer from other savings.
8. To make an accurate comparison between two flows of future benefit, it is necessary to 'discount' the future benefits to compensate for inflation and for the time value of money. While there is no fixed rule for the appropriate discount rate, in economic analysis it is common to use a discount rate of about 10 per cent.
9. The Australian Centre for Philanthropy and Nonprofit Studies, 'Tax Deductible Giving in 2005–2006,' as above, p. 2.
10. The report indicates that the majority of donors are on the top income tax bracket and pay 45 per cent on their marginal income. Including the Medicare Levy, their marginal tax is 46.5 per cent.
11. For an outline of the literature on deadweight loss, see Alex Robson, 'How High Taxation Makes Us Poorer,' in *Taxploitation: The Case for Income Tax Reform*, (CIS: Sydney, 2006).

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