



Giving after Christmas

Christmas is over for another year and it seems much less than 12 months ago that I looked at the 2007 figures. In 2007 we reviewed hundreds of investment products and found only a few that were worthy of recommending to clients. In 2008 we have again reviewed many investments but found only two that merited long-term inclusion in our portfolios.

So much has happened in the financial world in the last twelve months. The New Year newspapers were again full of forecasts about the future of the economy, inflation, the value of property and which investments to buy and sell. All of the predictions for 2008 were absolutely useless and this is why we never take any notice of them.

Later on in this Newsletter we focus on deposit accounts and there will be more on investing in the next issue. This issue focuses on a separate topic, one that is always discussed more in the December of each year, that of giving.

Charitable giving

We can spend vast amounts of time, energy and money deliberating over what to buy our friends and family for Christmas. We are giving something but we know it is often the other way around. The look of surprise and excitement on a child's face when they unwrap their presents from Santa is one of the most special gifts a parent or grandparent can receive. However, giving need not stop at family or only last for one day a year. Whether it is giving financially, or our time and effort to make a difference to the lives of others, giving can have an almost unmeasurable positive effect on the giver. One definition of philanthropy is "the desire to promote the welfare of others". Wouldn't it be wonderful if we could all become philanthropists? What would you do to change the world and leave a positive impact?

Think of philanthropy and you may conjure up images of the 19th century industrialists who became rich and then went on to give vast sums away. They paid for public libraries, music halls, schools and universities and enriched the lives of millions as a result. There is no shortage of modern day philanthropists such as the massive publicity surrounding Warren Buffet and Bill Gates. Much philanthropy is done anonymously and far more modestly.

In fact some of the most beneficial gifts are relatively small amounts of money or a commitment of time to help causes that really do make a difference to others. For example, we have more than one client making regular gifts to projects in Africa which are helping to improve people's education and standard of living, and there is great joy in seeing the results.

We, as a company, make a modest donation to the Orang-utan Foundation, in the expectation this will help our grandchildren's children to be able to see orang-utans in the wild. Also, we all enjoy the photos which I use in the newsletters.

“Man does not live by bread alone. I have known millionaires starving for lack of the nutriment which alone can sustain all that is human in man, and I know workmen, and many so-called poor men, who revel in luxuries beyond the power of those millionaires to reach. It is the mind that makes the body rich. There is no class so pitifully wretched as that which possesses money and nothing else. Money can only be the useful drudge of things immeasurably higher than itself. My aspirations take a higher flight. Mine be it to have contributed to the enlightenment and the joys of the mind, to the things of the spirit...the noblest possible use of wealth.”

It is sometimes surprising that wealthy people often do not think of themselves as wealthy. One of our wealthy clients once said to me that measuring success in terms of money meant little as “no matter how much money you have there is always some one else with more”. Definitions of wealth differ but a commonly used guide is:

High Net Worth (HNW) – individuals with over £500,000 of investable assets.

Super High Net Worth (SHNW) – individuals with in excess of £1.5 million investable assets.

Ultra High Net Worth (UHNW) – individuals with in excess of £15 million investable assets.

All three groups have grown rapidly in recent years and it is forecast there will be over a million high net worth households in the UK by 2017.

According to a recent report by the think tank Policy Exchange, “The total wealth of the 1,000 richest people in the UK increased from £99 billion in 1997 to £412.8 billion in April 2008. Below them the so-called mass affluent have also grown rapidly and now constitute about 10% of the population.”

You might expect people to be giving less to charity during the current economic downturn but this is not so. Although investment markets have fallen over the last 18 months wealthy individuals of all levels of wealth do not seem to be cutting back on their support for charities and ‘good causes’. The BBC’s Children in Need campaign alone raised a record breaking £21 million pounds in November - well done Pudsey Bear.

Clients will understand my belief that Wealth Management is not about money or investments but about achieving all that is important to you. Money is simply a facilitator to allow individuals to make a difference to their lives and the lives of those that matter to them. A truly comprehensive approach to wealth management should cover four key areas

- 1 – Wealth Enhancement
- 2 – Wealth Transfer
- 3 – Asset Protection
- 4 – Charitable Giving

However, there are some big question marks regarding giving.

Most advisors assume that clients should be concerned about saving inheritance tax (IHT) by passing their wealth to their children. But not everybody wants to do this. Giving too much money to people too soon can be as much of a curse as a blessing. Karl Marx said that work, not money, sets us free. Giving people money can rob them of the self-esteem earned from working to create their own success. Warren Buffet summed it up perfectly when he said, “I want my children to have enough money to do anything they want, but not enough to do nothing.”

Tax efficient gifts

Effective estate planning is not always that of passing wealth to family, it is an individual choice which a good adviser should help with but not judge. Philanthropists often face a similar dilemma. Should you give money to help people or should you give them the benefit of experience and guidance to help people help themselves, or for their environment?

If a monetary gift is to be considered it must be structured in the most appropriate and efficient way. Careful consideration should be given to the most tax efficient means of giving money to your chosen causes. At the simplest end of the spectrum you should see if you can claim gift aid on donations. While the charity can claim basic rate tax relief at source, higher rate tax payers should record gifts and claim the difference between basic and higher rates through their tax returns.

In some cases it can be more effective for the donor and the charity to gift existing assets instead of cash. You could, for example, make a gift of to a charity and claim Gift Aid on the market value of some shares which doesn't crystallise any capital gains on the donor and the charity can then sell the shares free of tax.

Where an asset is sitting on a loss, however, it may be better for the donor to sell and crystallise a loss for CGT purposes. The cash proceeds could then be gifted to the charity allowing the donor to carry forward the loss to offset against future gains on other investments. Clearly, each individual gift needs to be considered carefully to ensure the most attractive tax treatment for both the donor and the charity.

Charity costs

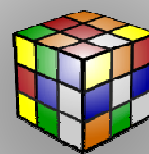
Many donors worry about the costs of giving as some of the biggest charities in the country have vast administrative overheads that unfortunately reduce the benefit of reaching the intended recipient. Also, some methods of collecting are more efficient than others.

Collection tins in the high street are often run by commercial organisations that take a cut from the money raised leaving only a small portion of your gift for the intended beneficiaries. Also, there is no gift aid on these donations.

Also, is the money actually going to be used in the way the donors intended? Once again, although many of the country's biggest and best known charities do excellent work, many potential donors are put off as they have little or no control over how their money will be used.

For the super wealthy it may be appropriate to set up a charitable foundation. For many, however, this can become an administrative headache and, unless the donation is substantial the fixed running costs can seriously reduce the amount of good the foundation can deliver. An alternative is to work with a Community Foundation. This can be seen as a half way house between the lack of involvement and control afforded by giving aimlessly to a major charity and the cost and hassle of setting up a personal foundation.

Foundations support many grassroots projects which offer services and opportunities for those with the most need. Community foundations allow donors to specify how, where and over what period of time their money is spent. Gifts of cash, shares, trusts,



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bequests and property are pooled in multipurpose endowment funds, creating a capital sum whose earnings address donors' specific interests. Donors can also establish their own named fund which we can continue to manage for them to ensure the assets achieve the level of growth required to meet the long term needs of your endowment.

The donor normally meets with the Community Foundation and explains how they want their donations to be used and the foundation then finds suitable projects and awards grants as required. One of the most exciting benefits of the CF option is that donors often become involved in the projects themselves possibly visiting and seeing how their money is being used or even getting their sleeves rolled up and actually helping out on a regular basis. For many donors who opt to get involved, this personal commitment is one of the biggest paybacks.

For more information log onto

www.communityfoundations.org.uk which also includes case studies of how some donors have benefited from their involvement with North West Community Foundations.

Volunteer work can also give philanthropists a real feeling of personal achievement. This doesn't need to be a major commitment such as becoming an aid worker in an African war zone. Small amounts of time locally can make a huge difference and can be very rewarding.

Ebenezer Scrooge may have started out as a miserable misanthropist but thanks to the ghosts of Christmas, past, present and future he underwent a total transformation into a model of generosity and kindness. Not only did everyone around him feel better for it – he did too.



Actionnaires, an Action for Blind People programme, and the largest sports project for visually impaired children and young people in the UK. © Action for Blind People.