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Tapping the *Culturati*: An Underexploited Source of Private Finance for the Arts in Ireland

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Abstract: *The paper asks why cultural organizations in Ireland, in contrast to the UK, raise so little finance from private individuals, and in particular from those who go regularly to live performances or to galleries and museums. The rationale for cultural subsidies, including the offer of relief from income tax on the value of individual donations is reviewed and accepted. Income tax relief in Ireland has several unique features which probably explain why it has been such a limited source of finance. These include the high minimum value required for a donation to be eligible for tax relief, the administrative complexity of reclaiming tax on behalf of PAYE taxpayers, and the very restrictive interpretation of the tax legislation that is applied to determine a donation's eligibility. Ways of overcoming these obstacles, in the light of changes announced in the December 2012 budget, are suggested. In particular, cooperation among cultural organizations could both facilitate the reclamation of income tax on donations and carry out cost-effective fundraising campaigns.*

Keywords: cultural subsidy, tax relief, philanthropy

Even though private donations should not be considered as an alternative source of finance, but rather an additional one, cuts in public funding are likely to continue and it is therefore to private finance that cultural organizations must turn if they are to maintain their present levels of activity.

Introduction

In 2007, the UK's population was about fourteen times that of the Irish Republic, its GDP was about eleven times as large, its private donations to cultural organizations from all sources were about sixty times and those from individuals were over 200 times the Irish amount.[1] Ireland is probably unique in the extent to which private funding of cultural organizations comes from corporate sponsorship. A 2007 survey found that sponsorship provided five times the support that was given by individuals. In contrast, in the UK, individual giving was 2.5 times that of businesses. In the United States, where cultural organizations depend much more heavily on private finance, commercial sponsorship is even less important. This paper explores the reasons why so little use had been made of the provisions in the Irish income tax code designed to encourage individual giving to cultural organizations. In particular, why is not more done to raise money from the *culturati* – regular theatre, concert and gallery-goers – many of whom become Friends of various cultural organizations but do not consider making larger donations?

The case for public support of the arts

This paper is frankly normative. It is based on an assertion that taxpayer support for the arts is justified, rather than an analysis of this, which would require a separate paper.

In spite of the current economic recession in many parts of the world, there is no serious challenge anywhere to considering the operations of the market, more or less regulated, as the central feature of national economic organization. Economic analysis of public policies therefore normally begins by asking whether there is a rationale for departing from the market outcome. For many economists, the only justification for this is a demonstration that decisions by one economic actor affect the situation of other economic actors – in the jargon, they have 'external effects'. It is possible to make this case for arts support in 2012 in Ireland. There is massive underemployment of all types of potentially productive resources, with particularly

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serious consequences for young workers, and putting unemployed resources to work should be of the highest priority. Measures to stimulate the economy by increasing general public expenditure are ruled out by the fiscal crisis. In any case, in an economy that is so small and one of the most open in the world (in 2011, the value of exports was 5% larger than GDP), the effects of the stimulus would leak abroad. Even if it were not precluded by the adoption of the euro, currency devaluation would be unlikely to work for similar reasons. Membership of the EU and the WTO means that selective measures aimed at stimulating specific industries cannot be considered, and with costless internet communication many services that once had to be domestically supplied are equally subject to international competition under single market rules. There are, however, many cultural activities that cannot be internationally traded – for example the location of heritage sites, museums and performing arts festivals are fixed. Public subsidies to maintain the quality and diversity of Irish cultural offerings may be justified through their effects on employment and, via tourism, on foreign earnings.

This is an important argument that needs to be made. But there is nothing that is arts-specific about it, and it is vulnerable to the possibility that golfing enthusiasts or the hotel industry will publish findings showing that subsidizing golf-courses or hotels are more cost-effective ways of achieving the same economic benefits.

A second line of economic argument is more generally associated with local government support for the arts in the United States. Almost half the US government support for the arts comes from city and county governments, and nearly a further third is provided by State governments (National Endowment for the Arts, 2012). Cultural opportunities are among the things that make individual cities attractive as places to live, and help firms to attract or maintain people with the skills needed to be competitive. Since a key element in Ireland's economic strategy has been to persuade multinational firms from outside the EU to use the country as a productive base for supplying their EU markets, this is a relevant issue for Ireland.

A third justification draws on what economists call a 'merit' argument (Musgrave, 1959, p.13-14). This rests on a philosophical view that a proper function for a democratic government is to devote resources to preserving and improving the quality of life of its citizens in intangible ways, including the preservation of freedom of religious belief and political choice, providing universal access to the education system and a social safety net, and ensuring a diversity of opportunities for individual happiness. Public subsidy of the arts then has a merit rationale similar to the rationale for subsidising the preservation of other parts of our heritage, including our physical environment. The cultural heritage of each generation is a stock of items and practices that contains some of the highest achievements of mankind, and which greatly enriches the quality of life today. The preservation of this heritage cannot be taken for granted. In particular, some of the most valued performing arts were created under the patronage of European rulers and fellow aristocrats. In opera and some parts of the symphonic repertoire, this resulted in cost structures which have never been sustainable by markets, at least at prices which would make them accessible to the general public, even though the fees of even well-known performers are modest by the standards of sports or film stars. Although the historic role of the commercial theatre in developing new dramatic works has been quite different, in English-speaking countries nonprofit theatre companies, relying on finance from nonmarket sources, have for the past half century become the main nursery for new plays that may have a subsequent commercial life, as well as making such work much more widely accessible.[2] The survival of such art forms requires that successive generations of students and other young people develop an understanding and appreciation of them, in part through education but also through regular exposure to live performances at prices that they can afford. This requires subsidy. Without it, audiences will get older and smaller, artistic traditions may wither,

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and perhaps even perish beyond possible restoration.

The merit argument sees the need to preserve our cultural inheritance for the benefit of our descendants as a collective moral obligation to future generations (just as we have to take measures to protect our physical environment). Moreover the diversity of our artistic heritage gives us a respect for the ancestral generations that created it. We would like to be similarly respected by our descendants, which gives us a collective interest in supporting the creation of new work.

This is a philosophical rather than an economic line of reasoning. Economists may prefer to reach the same conclusion by referring to the widely accepted 'bequest motive' to explain private economic decisions that are clearly intended to benefit an individual's heirs rather than himself. It is, however, one thing to accept such a rationale for cultural subsidy, and quite another to compare the social value of cultural subsidies with alternative claims on public resources. Environmental economists have developed techniques of 'contingent valuation', using surveys and experiments to attempt to measure a public 'willingness to pay' to preserve a beauty spot or an endangered species, or, alternatively, the 'willingness to accept' – the amount that would be required to compensate the public for the irreversible loss of an environmental amenity (Carson and Czajkowski, 2012). This work has been extended to cultural policy issues, particularly with respect to heritage sites (Epstein, 2003; Noonan, 2003; Throsby, 2003). But in the performing arts a failure of ticket sales to cover costs is *prima facie* evidence of a public unwillingness to pay, and surveys that use contingent valuation to demonstrate the opposite are unlikely to convince sceptics.

Budgetary support versus tax expenditures

Irish taxpayers provide cultural support from the budget through a variety of channels. Some of this is allocated directly from the budget to state-run galleries and museums. Support to the performing and visual arts and to literary events is allocated by the Arts Council, a mechanism designed to minimise the possibility of political interference. Local authorities also provide finance to cultural events. The leading Irish orchestras and other performing groups are funded by the national broadcasting company, RTÉ, via a tax (licence fee) on television usage. Ireland is not generous in this regard by international standards. A 2006 comparative study estimated that Irish public expenditure for culture was 0.20% of GDP in 2001–3 (Klamer et al., 2006, p.81-3).[3] This was not only the lowest in the EU but the lowest by an enormous margin; in 2003, the next lowest country, was Portugal whose GDP share, 0.38%, was almost twice the Irish level, and was also rising rapidly. The share of culture in the Irish budget was also among the very lowest in the EU. Unsurprisingly the fiscal crisis has led to a fall in direct cultural support. Omitting expenditure on the Film Board, whose justification is an industrial one, quite different from the other cultural subsidies, total direct support in 2011 was about €190m, equivalent to about 0.12% of GDP. Expenditures on the 'built heritage' (including archaeological sites) are of the order of 0.04% of GDP (based on 2008 data; it is probably lower now).

In addition, taxpayers provide cultural support via what economists call 'tax expenditures', tax exemptions or reductions designed to encourage the production and/or consumption of goods or services whose social value is thought to exceed their market value. More colloquially, these are called 'tax breaks' but the use of the term 'tax expenditures' emphasises that they reduce the public finance available for other public expenditures, and are consequently a similar burden on the taxpayer. In Ireland cultural tax expenditures include at least partial exemption from tax on incomes received by writers, painters and sculptors from the sale of their work, and exemption from VAT on tickets to live theatrical and musical events. Relief from

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income tax on the value of some donations to eligible cultural organizations, or the recovery of income tax already paid, is granted by Irish tax legislation but has been little used.[4]

The main object of this paper is to consider the obstacles to making greater use of the donor income tax relief (the Donations Scheme) and how they might be overcome. This is based on the view that such tax expenditures are a socially justifiable way of subsidising the arts. This is not obvious. Economists generally disapprove of tax expenditures. Compared with direct expenditures designed to achieve the same goal, they have adverse effects on economic efficiency and, being politically less conspicuous, are less likely to receive legislative scrutiny (Netzer, 2006, p.1242; Callan et al., 2005, p.47-49). The fiscal cost of direct expenditures is more transparent, and is in most cases easier to calculate in advance, and the fact that the expenditures must be periodically reauthorized in budgets keeps them under political review. In contrast, a tax expenditure may appear to be very limited in scope when it is first put into the tax code, but since it is presumably intended as an incentive, its fiscal cost will rise in proportion to its success. It may have side effects on non-subsidised activities that were not anticipated. It does not need continual reauthorization, and as it becomes more established, the political cost of reducing or eliminating it will also increase. Legislated exemptions from particular taxes make for complexity in the tax code and tax auditing, as the boundaries to their applicability in practical situations may be contested, and perhaps require judicial determination.

In the United States, income tax expenditures are the predominant way of providing public support to the arts and culture. The seminal work on supporting the arts through tax expenditures was Feld, O'Hare and Schuster (1983), which, believing that the true cost to the taxpayer of such a system and some of its other drawbacks were not well understood, stressed its disadvantages compared with direct budgetary support. Using data from a 1973 National Study of Philanthropy, a time when marginal income tax rates were very much higher than they are today, the authors found that most donations came from the very wealthy, who therefore exerted a vastly disproportionate influence on the cultural offerings available to the taxpayers who carried the major part of the subsidy. Tax laws that encouraged the donation of a work of art to a museum rather than its cash equivalent (by allowing its owner both to claim its market value against income tax, and to escape any capital gains tax on its appreciation while in his possession) were particularly problematic, since they meant that the taxpayer contributed most of the cost of a donation that often did not accord with the acquisition priorities of the director. Moreover exemptions from property tax encouraged museums to build extensions rather than acquire more art.

One of the difficulties of relying on private donations is a concern that changes in taxation – such as a shift in marginal rates of income tax – can make a significant impact on the aggregate of cultural donations, and upset the plans of cultural organizations. When the British basic tax rate was reduced in 2008, for example, charities were granted the previous proportion of the donation for a further three years to enable them to adjust. But there is nothing a charity can do about the fact that if rates fall, donors using self-assessment (as all US taxpayers do) will perceive a smaller benefit to their tax bill, and may give less, even though they have more disposable income. List (2011) reviews a large number of studies of the relationship between US income tax rates and charitable donations using a wide variety of methodologies and data sources, some of which made a distinction between high-income and average taxpayers. No very clear conclusion emerges, although on balance List thinks that charitable giving is responsive to taxpayer incentives – i.e. the loss or gain of tax revenue resulting from a change in tax rates would be at least matched by a corresponding change in the volume of charitable giving, especially by high income taxpayers, from whom donors to cultural organizations tend

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to come. A recent review in *The Economist* (9 June 2012) however, which included some UK studies, concluded that reducing the tax incentive to donate reduced the amount donated.

Feld et al. (1983) argued that the cultural preferences of most regular donors are conservative, and that there might be less creativity under a financing system dependent on private donations. For example, there can be little doubt that the reliance of American regional opera companies on private donors has led to a narrow repertoire and very traditional productions compared with their European counterparts. Boards of these companies are mainly composed of larger donors. Board members are selected because they can bring to the company money, or accounting or legal skills, rather than knowledge of opera. Service on the board of an artistic or heritage organization is, for many, a mark of social standing in a local community (Ostrower, 1995). The appeal to snobbery may be effective but is likely to encourage the view that classical art forms are something for elites, frustrating attempts to compete effectively with other, especially new, media in attracting younger audiences at a time of life when their cultural habits are being formed.

It is, however, difficult to generalize about donor priorities. The controversial exhibition *Sensation* at the Royal Academy of Art in London in 1997, featuring work from a private collection, demonstrated that very wealthy patrons of the visual arts may have remarkably radical tastes, and there may well be their equivalents for the performing arts. Moreover, although it may in principle be desirable that the representatives of the taxpayers (i.e. the government) can review the use of taxpayer funds, this can have the effect of fostering caution in those who allocated money for the arts. A controversial 1989 exhibition in Philadelphia using funds from the National Endowment for the Arts gave rise to the so-called 'culture wars' in which conservative Members of Congress threatened to abolish the agency (Netzer, 2006, p.1232-3). The NEA, like the UK Arts Council on which it was modelled, was supposed to be out of reach of government influence in its allocation decisions – the so-called 'arms-length' principle – but there is nothing to compel demagogic politicians to comply. Insofar as the principle is honoured, then one of the objections to the tax expenditure approach – that taxpayers have no control over how exactly how their funds are being used – is equally true for money channelled through Arts Councils.

What these examples stress is the desirability of a system of public support that does not rely on a single mode of allocation, whether this is either direct subsidies based on expert assessment of relative merit or private donors (Weil, 1991). Even where there are generous tax expenditures for private donations, there is still a case for direct subsidies.

A practical problem with a reliance on private funds is that the necessary fundraising can be hugely expensive and reduces the amount of each donation that actually serves the intention of the donor. The Metropolitan Opera, which has a development department with forty-one staff, spent $12.4 million on fundraising in FY2011.[5] Of course the Met's total income – $362 million (about €290m) in FY2011 (58% of which was private donations) – is so massive by Irish standards that it might appear irrelevant. But the Shakespeare Theatre Company, Washington DC, whose mainstage seating capacity and annual turnover (451 and $17 million in 2010) make it comparable in size to the Abbey Theatre (498 and €11.5m, average 2006-8), has a development department of thirteen (and also uses 1050 volunteers) and spent $1.4 million on fundraising in FY2009.[6] For comparison, in 2009, the development department of the Abbey Theatre employed two full-time and one part-time staff members.[7]

After 2000, when UK Gift Aid took its present form (see below) and individual giving rose 2.6 times in seven years (Arts and Business, 2009) fundraising became increasingly important in the UK. For example, the Royal Opera House now employs twenty-nine people in its develop-

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ment department. London's National Gallery spent £1.2m. (€1.9m.) on fundraising in its 2011-12 financial year.[8] On a smaller scale, perhaps more relevant to Ireland, the Royal Exchange Theatre, Manchester, with a total income of £7.2m. (€8.4m.) in its FY 2011, spent £270,000 on fundraising, and had four staff members in its development department; Nottingham Playhouse, with an income of £3.6 m. (€4.2m.) in its FY 2012, had a development staff of three.[9]

Direct comparison with Irish organizations is difficult, because there appears to be no comparable obligation on charities to make financial data easily accessible, but it is clear that most Irish organizations make little effort to raise private funds, especially beyond seeking commercial sponsorship. The 2007 survey of Irish cultural institutions cited above found that only 45% of them devoted any staff time to fundraising and development, and only 21% had staff employed full-time on this.

Fundraising is almost inevitably competitive. Each organization may believe that its fundraising increases the volume of donations by more than its cost, but competition for donations among charities may mean that the main effect of fundraising is to redistribute donor funds – probably favouring larger rather than smaller charities – rather than increase total donations, and that the net charitable effect is negative. Moreover repeated requests to the same donors can destroy the impact of fundraising, and may even be counterproductive by irritating regular donors rather than reaching new ones.

However, in spite of requiring expensive fundraising, income tax expenditures for cultural purposes have a special merit. Taxpayer support is triggered only where individuals are prepared to use their own money for the same purpose (and at today's marginal rates, normally in larger amounts). €100 of nonmarket support to a performing arts organization via private donations has been costing Irish taxpayers at most €41 (and in future will, under changes introduced in the December 2013 budget cost only €31), whereas channelled through the budget to an Arts Council it costs €100, plus administrative costs. Even though private donations should not be considered as an alternative source of finance, but rather an additional one, cuts in public funding are likely to continue and it is therefore to private finance that cultural organizations must turn if they are to maintain their present levels of activity.

Income tax relief in Ireland and the UK

Both the Irish and the British systems of income tax relief on charitable donations originated with the nineteenth-century practice of recognizing Deeds of Covenant whereby if an income tax payer made a binding legal agreement to make an unrequited gift to an individual out of his net-of-tax income on a regular basis over a minimum period of years, this could be treated by the recipient as part of his gross income on which tax at the basic rate had been paid (Schuster, 1989). Normally the recipient would have a lower tax liability than the donor (there would be little point in the arrangement otherwise) and he could therefore claim a repayment. In the 1920's, charities (including eligible educational and cultural organizations) which were exempt from income tax, began to reclaim tax on all covenanted donations at the basic rate.

Beginning in 1980 in the UK, when higher rate taxpayers began to be able to reclaim tax at the difference between their own marginal rate and the basic rate, tax relief on charitable donations was made more generous in a number of steps. Especially important was the establishment of Gift Aid in 1990, at first requiring a minimum donation of £600, but progressively reduced until, in 2000, the minimum was abolished altogether. All Gift Aid donations by UK taxpayers are eligible for relief at the basic rate. This has to be reclaimed by charities. The 'grossing up' principle inherent in covenants has been retained (and also in Ireland), so that at a 20% basic rate a donation of an after-tax £1 is treated as a donation of £1.25, so that

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£0.25 can be reclaimed. The considerable paperwork required is no doubt routine for larger charities but a potential burden for smaller ones. A recent estimate is that around £750m of Gift Aid goes unclaimed each year (Charities Aid Foundation 2011, p.2). Higher rate taxpayers can also claim back the difference between higher rate and basic rate of tax on the value of the donation.

The Irish tax system has also replaced Deeds of Covenant with a system of income tax relief on the value of donations to charitable and cultural organizations.[10] Unlike the UK, it continues to require that a donation be of minimum size (which has been €250 since 2001). From 2000–2012, the scheme of income tax relief on donations to charitable and cultural organizations was a complicated one. Where the taxpayer's income taxes were all collected under PAYE (i.e. withheld by an employer) the tax was collected in the normal way and then reclaimed by the charity at the taxpayer's marginal rate. Where there was income not subject to PAYE (for example from self-employment or property) the taxpayer had to submit a return on a self-assessment basis and eligible charitable donations could be directly claimed to reduce taxable income. The latter were a distinct minority among all income taxpayers, probably not more than 20%, but I have not been able to find an exact percentage.

Not only was this system complex, it also required the charity to ascertain the tax status of a donor – not merely whether he was self-assessed but, if all his income tax was PAYE, whether he paid tax at a basic or higher rate. A donor might well be unwilling to reveal his tax status to the organizer of a charity, who may be a social friend or neighbour. This probably meant that a considerable amount of income tax relief went unclaimed.

In his December 2012 budget speech, the Minister of Finance, Michael Noonan, announced a major change in the Donations Scheme. Beginning in January 2013, eligible charities can reclaim the income taxes that would have been paid on income used to make an eligible donation at the same rate, irrespective of the tax status of the donor, provided he paid as much tax as the value of the donation. The rate has been set at 31%, approximately half way between the lower tax rate of 20% and the upper one of 41%.[11] This change is believed to be revenue-neutral. The new system will simplify the process of reclaiming taxes, but it means that no taxpayer will observe any direct link between a donation and his own tax liability. Self-assessed taxpayers will lose the psychological incentive to donate that comes from seeing how an eligible donation actually reduces the tax bill, and, since their donations come now from after-tax income, are likely to make smaller donations.

Ending the association between the tax relief on a particular donation and the marginal tax rate of the donor is something that has often been recommended. Feld et al. (1983) proposed that the American system give tax credits in fixed proportion to the donation, rather than tax relief at the marginal rate, in order to reduce the influence of the preferences of wealthy donors, who favour some types of charitable activity rather than others. Canada has such a system. In the US, cultural organizations, which are disproportionately favoured by the wealthy, would lose relatively to churches if such a reform were adopted. It is not possible to make a similar statement about Ireland. As far as I know, there is no way to disaggregate the €54m given in 2009 by 155,000 taxpayers under the Donations Scheme either by the type of charity or by the income or other classification of the donor. Moreover, the retention of a minimum size of donation to be eligible for tax relief has probably meant that most such taxpayers are relatively affluent, and there is no *a priori* reason for expecting the change in the tax regime to affect one type of charity more than another.

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Implications of the new scheme for cultural organizations

Even if the new Irish scheme will mean relatively smaller charitable donations, the 2007 survey, cited above, showed Irish cultural institutions get only a very small amount of private finance from individuals so the damage to cultural financing will not be very large. The private funding of participating organizations responding to the survey was €16.2m., equivalent to an average of 12% of participant's total annual turnover. Only 16% of this (about €2.6m.) was provided by individuals. Gifts described as 'donations' were only about €365,000. 'Major gifts' (undefined, but amounting to nearly €1m.) were in a separate category. About €200,000 of individual giving was from 'other' sources, which were not identified. The Finance Bill published in February 2013 reflects no changes other than those announced in the Budget. The minimum size of eligible donation is to be retained. This is unfortunate.

Under the previous system, it could be argued that a minimum size of eligible donation was desirable to deter self-assessed taxpayers from overstating their total donations in circumstances where it would probably have been impossible to carry out effective auditing of very large numbers of small claims. Under the new system, auditing of claims by individual taxpayers will no longer be necessary, except to ascertain that they have paid at least as much tax as can be reclaimed on their donation. Eliminating the minimum would increase the number of claims to be handled by the Irish Revenue, but UK charities can reclaim tax at the standard rate on all donations from qualified taxpayers, so it does not seem that the administrative obstacles need be insuperable. Since the purpose of the Donation Scheme is to encourage all taxpayers to donate, this should include donations by those who cannot afford to give as much as €250, so the minimum is in principle undesirable. I am not aware of any other country that still has one. One might note that the UK has recently moved in the opposite direction, with the recent passage of the Small Charitable Donations Act, which enables charities to collect Gift Aid repayments on very small donations (up to £20) without a full Gift Aid Declaration.

There has also been no proposed change in the other criteria that determine the eligibility of a donation for tax relief – in particular 'benefits' received by donors in return for their contribution – which Ireland defines much more strictly than comparable countries. Deeds of Covenant required that the transfer of income convey no benefit to the giver, and this has been a feature of the Donation Schemes that have replaced them. The requirement of the 2001 Finance Act that 'neither the donor nor any person connected with the donor receives a benefit in consequence of making the donation, either directly or indirectly' remains in effect.

This raises no issue for donations to, say, Oxfam. But donations to non-profit cultural organizations are less obviously altruistic, because at a minimum the donor is seeking to ensure the survival of an organization whose work he appreciates. Roughly 40% of individual funding in Ireland (€1.1 million) in 2007 was given through friends/membership schemes. This is the way in which the *culturati* typically support the arts (although of course there are many other members of individual schemes whose own interests are narrower than those I have defined as *culturati*). Members of Friends' societies usually get some 'benefit' as a result of their subscriptions.

In the UK and Australia, careful attention has been paid to permissible and impermissible benefits. The Australian regulations are quite explicit.[12] They make it clear that the benefits that disqualify a donation from eligibility for tax relief have to be 'of a material nature.' If they are formally offered as part of a published scheme, they are ruled out. If, however, they were unanticipated and serve as a token of gratitude they might be acceptable. Both Australia and the UK allow for acknowledgements in theatre programmes. The UK also recognizes that organizations may want to make other token gestures of gratitude for a donation, but severely

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limits their permitted cost to 25% of donations of less than £100, £25 for donations of £101-£1000, and 5% above that.[13]

The Irish guidelines for charities emphasise that 'donations must be at arm's length and no benefit whatsoever may attach in order to attract tax relief.' This appears to rule out membership of Friends' societies as a route for donor finance. Since the purpose of the Donation Scheme is to benefit recipient organizations, this is counterproductive. The purpose of such societies is not only to provide an organization with financial and other support, but also to foster some long-term 'family loyalty'. Among other things, this loyalty will be reflected in a willingness to buy tickets and interest their friends in the performances, exhibitions and other events that the organization puts on. Friends' societies also provide management with a useful feedback from a knowledgeable and well-disposed group of consumers of their products, which can be useful to any manager in determining future plans.

Since all donations will in future be made out of income net of taxes, there need no longer be the suspicion that donors are somehow buying benefits at the expense of other taxpayers. Of course charities that provide benefits in return for donations cannot reclaim taxes on the full value of the donation. The simplest way to handle this is for organizations to regard the cost of providing benefits as a fundraising expense to obtain a donation, and to deduct this cost from the amount donated before reclaiming taxes on the remainder. *Mutatis mutandis*, this would be similar to the treatment of benefits in the US and Canada, where the market value of benefits is deducted from a donation before a charitable deduction is claimed.

If this is regarded as a step too far, then the Australian inclusion of the word 'material' before the word 'benefits' would be a very simple legislative change that would make a substantial improvement. It would presumably rule out discounts on tickets, and possibly even a free programme, if not available to every member of the audience. But it would permit priority booking, which in my personal view is the most valuable benefit of Friends' membership. This is not material, in that it does not provide Friends with cheaper seats than the general public, but merely a wider choice. In the UK, priority booking does not disqualify subscriptions Friends' societies from eligibility for Gift Aid.

What can be done if there are no further changes to the Donation Scheme?

1. Organizations could organize their membership into a two-tier system, concentrating all their 'benefits' on members for a relatively small subscription, and strongly encouraging donations above this amount. By 'strongly encouraging' I envisage the sort of appeal routinely made by non-profit cultural organizations in America, pointing out the fact that ticket revenue covers only a limited proportion of costs. If a €250 minimum persists, it can be pointed out that a donation of this size would enable the organization to reclaim an additional €112.[14]

2. Cultural organizations could cooperate in pooling their Friends' programmes so that where a taxpayer's donations to a number of cultural organizations aggregated to more than the minimum threshold for tax relief, the tax could be reclaimed on behalf of the organizations, even though no single donation reached the threshold. For example, there could be a Friends of Dublin Opera, that would entitle subscribers to a minimal level of benefits from each of four Dublin-based opera companies – Lyric Opera, the Opera Theatre Company, Glasthule Opera, and Wide Open Opera – but which would also have a higher level of Friends, carrying no additional benefits, but amounting to an additional donation of €250.

3. Even if no effort is made to pool donations, a cooperative association of cultural organizations might still be of great help to its smaller members who may find that the paperwork

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required to reclaim tax is more trouble than it is worth. In the UK, the Charities Aid Foundation helps charities to reclaim income taxes declared on Gift Aid donations (and also other assistance with fundraising).[15] It should be possible for a cooperative organization to perform similar services in Ireland.

4. Such a cooperative organization could also run fundraising campaigns on behalf of its members, which as noted, has been neglected by Irish cultural organizations. This could overcome some of the problems with competitive fundraising, which are bound to be acute in a small country with a limited number of potential donors. This might be particularly useful in raising money for smaller companies and it might also offset the current tendency for wealthy donors to favour particular art forms such as opera, and to neglect others, such as dance, which appeal to a more diverse and scattered audience. In many American communities, charities have decided to join together in an annual fundraising drive, usually known as the United Way. The United Way publicizes charitable needs, provides information about the work of organizations trying to meet these needs, receives donations and, where these have been earmarked by the donor, channels these to the designated organizations. A cooperative fundraising drive once or twice a year – Culture Night is an obvious occasion for one such attempt – might be a much more efficient way to raise funding for arts and heritage than separate competitive efforts by each organization.

Such campaigns would provide a periodic opportunity to remind audiences and gallery-goers that they cannot rely solely on taxpayers and/or corporate sponsors to continue to subsidize their cultural enrichment. In the performing arts, audience members, particularly the *culturati*, need to understand the difference between the cost of putting on a performance and the amount that can be raised through ticket sales. They should be urged to cover at least their own share of total cost. The message need not be strident – its aim should be to jog the conscience of those who can afford to give without discomforting those who cannot. In some ways this should be an easier message to deliver in an era of public expenditure cutbacks than in boom times.

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NOTES

1. This estimate is derived from comparable surveys carried out by Deloitte for Business to Arts in Ireland and by Arts & Business in the UK. The Irish survey is the latest available but the UK survey is an annual one. It is likely that the disparity in individual giving between the countries has widened even further, since in 2010/11 the UK figure had returned to its 2007 level (after an intermediate fall) whereas anecdotal information suggests that it has continued to fall in Ireland. (Business to Arts in Ireland, 2008; Arts & Business, 2009)

2. There may also be other reasons that nonprofits have become such an important part of the theatrical scene in English-speaking countries. Paul DiMaggio offers a useful review of the different reasons that have been advanced to explain the dominance of the nonprofit form of organization in many branches of the performing arts in the US (DiMaggio, 2006).

3. The study uses the Eurostat definition of culture, which includes creative arts, museums and archives, the performing arts, libraries, and film and video, without broadcasting and art education.

4. The Irish system of tax expenditures designed to benefit charities (and other "approved organizations") has been changed in 2013 in the manner described below. It is important to keep separate "tax exemptions" which exempt charitable organizations from certain taxes that other companies or individuals would have to pay, and "tax relief

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on donations" which either reduce the income tax liability of the donor, or allow charities to reclaim income taxes that the donor has already paid. The Irish Revenue uses the term "tax relief" in both cases, although it also refers to Donations Schemes. This is especially important in the Irish context because only about 25% of tax-exempt charities have been approved for tax relief on donations.

5. The income tax returns for US nonprofits are in the public domain. For the Met, they are available at: http://www.metoperafamily.org/metopera/about/form990.aspx.

6. See Shakespeare Theatre, income tax return (Form 990) 2010: http://207.153.189.83/EINS/521405988/521405988_2010_085f7f86.PDF

7. Advertised Abbey Theatre vacancy for part-time development officer: http://www.abbeytheatre.ie/images/uploads/user/resources/28854b97016c183f4071fd9fc38f8ec6.pdf

8. The National Gallery Annual Report and Accounts for the year ended 31 March 2012, http://www.nationalgallery.org.uk/content/ConMediaFile/19818 [Accessed March 2013].

9. UK charities have to provide accounts to the Charities Commission and the respective income data was obtained from its website http://www.charity-commission.gov.uk in March 2013. The size of their respective development departments were obtained from http://www.royalexchange.co.uk/page.aspx?page=573 and http://www.nottinghamplayhouse.co.uk/about-us/resources [Accessed March 2013]

10. In Ireland, cultural organizations are registered for tax relief as "bodies approved for education in the arts" although some of these are also registered as charities. To my knowledge, the eligibility conditions for income tax relief for donations are identical, so the distinction is ignored here.

11. Since grossing up will apply this means that a charity can reclaim almost 45% of each eligible donation. On receipt of €250 from an eligible taxpayer, the charity can reclaim €112.

12. See Australian Taxation Office, Taxation Ruling TR 2005/13: http://law.ato.gov.au/pdf/pbr/tr2005-013.pdf

13. See HM Revenue and Customs, Charities > Detailed Guidance Notes > Chapter 3, "Benefits received by donors", http://www.hmrc.gov.uk/charities/guidance-notes/chapter3/sectiond.htm#ab

14. An early draft of this paper proposed the establishment of a separate organization whose main function would be pooling donations made by Friends of cultural organizations, and reclaiming taxes back on their behalf. In private email correspondence with the head of the Charities Section of the Irish Revenue, however, I was warned that if donations to this organization were contingent on Friends 'membership in any organization, this would make the donation reliant on the other donation and it would therefore carry an "indirect benefit".

15. See Charities Aid Foundation, "Making multi-channel fundraising easy": https://www.cafonline.org/charity-finance--fundraising/charity-fundraising--support/fundraising-support.aspx

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