



# **Proposals for the future of Gift Aid**

A discussion paper

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## 1 Introduction

1.1 The Gift Aid scheme, enabling charities to reclaim basic rate tax on donations from individuals and companies, was introduced in 1990. It was broadened out in 2000 by the current government to cover all donations irrespective of size assuming that the taxpayer pays enough tax to cover the amount being reclaimed by charities in any tax year. Some simplification measures were also introduced at this time.

1.2 Gift Aid remains the most well known and widely used method for tax-effective giving. However, research indicates that it is being applied to about one third of the total amount given in charitable donations<sup>1</sup>. There clearly remains considerable scope for improving the take-up of Gift Aid. The government consultation on increasing awareness and take-up of the Gift Aid scheme launched on 19<sup>th</sup> June 2007<sup>2</sup> presents a timely opportunity to take stock of the scheme.

1.3 This paper:

- provides a snapshot of the current take-up of Gift Aid;
- offers suggestions for where reform should be targeted;
- considers what role the sector and its umbrella bodies should be playing in maximising income from tax-effective giving; and
- seeks views about the issues raised by the current consultation.

While corporate donations remain an important income source for the charitable sector<sup>3</sup>, this paper is solely concerned with donations from individuals.

1.4 NCVO will be working with other umbrella bodies to take a co-ordinated approach to the Gift Aid consultation where possible<sup>4</sup>. A summary of questions, on which we are seeking your views to help inform our response to the consultation, is at Annex A. To contribute to our response or for further information, please contact Mubeen Bhutta at [mubeen.bhutta@ncvo-vol.org.uk](mailto:mubeen.bhutta@ncvo-vol.org.uk) or call 020 7520 2475.

## 2 How is Gift Aid currently being used?

2.1 Gift Aid is the most widely used mechanism for tax-effective giving, accounting for 90% of all tax-efficient giving in the UK.

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<sup>1</sup> NCVO's Research Team has been tracking individual giving habits since 1995 and since 2002 has been doing this jointly with the Charities Aid Foundation (CAF). Three times a year, the Office for National Statistics runs a module of questions as part of their ONS Omnibus survey. The questions ask about individuals' charitable donations, the causes they give to, the ways in which they give and whether they give tax-efficiently. Further information is at [www.ncvo-vol.org.uk/giving](http://www.ncvo-vol.org.uk/giving)

<sup>2</sup> Further information is at [http://www.hm-treasury.gov.uk/documents/public\\_spending\\_reporting/charity\\_third\\_sector\\_finance/psr\\_charity\\_thirds\\_ector\\_giftaid.cfm](http://www.hm-treasury.gov.uk/documents/public_spending_reporting/charity_third_sector_finance/psr_charity_thirds_ector_giftaid.cfm)

<sup>3</sup> Corporate donations in 2004/05 accounted for £370.7m or 1.3% of total income, as reported in NCVO's *UK Voluntary Sector Almanac 2007*.

<sup>4</sup> NCVO will be working with of acevo (Association of Chief Executives of Voluntary Organisations), Charities Aid Foundation, Charity Finance Directors Group, Charity Law Association, Charity Tax Group, the Institute of Fundraising and Philanthropy UK.

2.2 Evidence from the annual CAF/NCVO survey of individual giving suggests that there is considerable scope for improvement under the current policy. The share of giving that falls under the Gift Aid definition was consistent from 2004/05 to 2005/06, reinforcing our confidence in the data. We have presented two figures because the rules on whether event giving can be Gift Aided remain unclear.

**Table 1. Individual giving in the UK**

	<b>2004/05</b>	<b>2005/06</b>
Total amount of charitable giving	£8.2 bn	£8.9 bn
Total amount for which Gift Aid is applicable <sup>5</sup>	£5.1bn	£5.5 bn
Total amount for which Gift Aid is applicable, including events	£6.3 bn	£7.1 bn

**Table 2. Estimate of Gift Aid income and potential income, 2005/06**

	<b>Gift Aid amount</b>
Under current system <sup>6</sup>	£750 m
Maximum possible under current scheme <sup>7</sup> , including membership fees	£1.5 bn
Maximum possible under current scheme, including events <sup>8</sup>	£1.9 bn

2.3 Note that under the current system, it is not realistic to expect Gift Aid on very small cash donations even if it is legally possible. Thus, the suggested maximum amount is not a reasonable target.

2.4 The likelihood of using Gift Aid varies depending on the amount given. For smaller-sized gifts, the uptake was relatively unchanged from 2004/05 to 2005/06. While it may seem that there has been a fall in the proportion of high-level donors using tax-effective methods of giving, this is likely to reflect an unusually high take-up of Gift Aid in 2004/05, rather than a genuine trend. This temporary increase in Gift Aid take-up is partly due to the effects of a well-coordinated fundraising campaign following the 2005 tsunami in Asia.

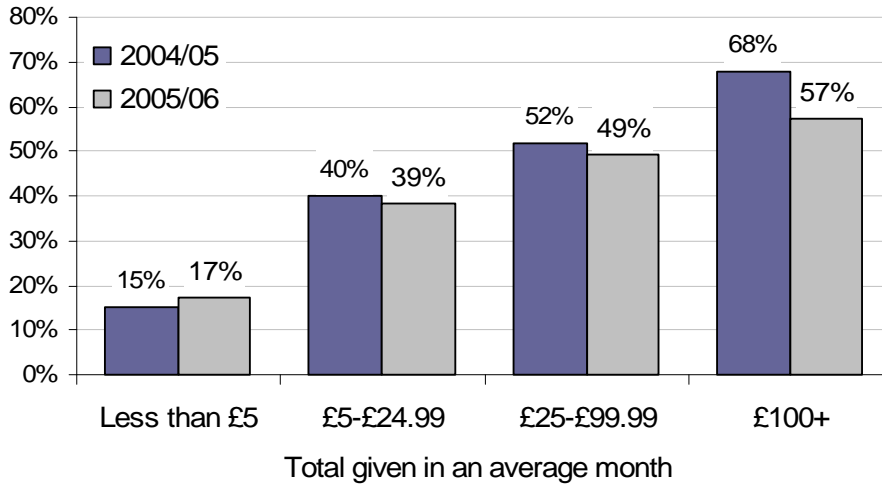
<sup>5</sup> This estimate includes giving by cash, cheque, card, direct debit and fees and excludes giving "giving" classified as events, purchases, raffle tickets and payroll. It also excludes all giving by people earning under £2080 per year. This is not an exact match to the lower bound of the lowest tax band since we are limited by the income bands used in the ONS Omnibus survey.

<sup>6</sup> From HMRC figures; see <http://www.hmrc.gov.uk/stats/charities/table10-3.pdf>.

<sup>7</sup> Calculated by multiplying £5.3bn by 0.28, based on current income tax rates.

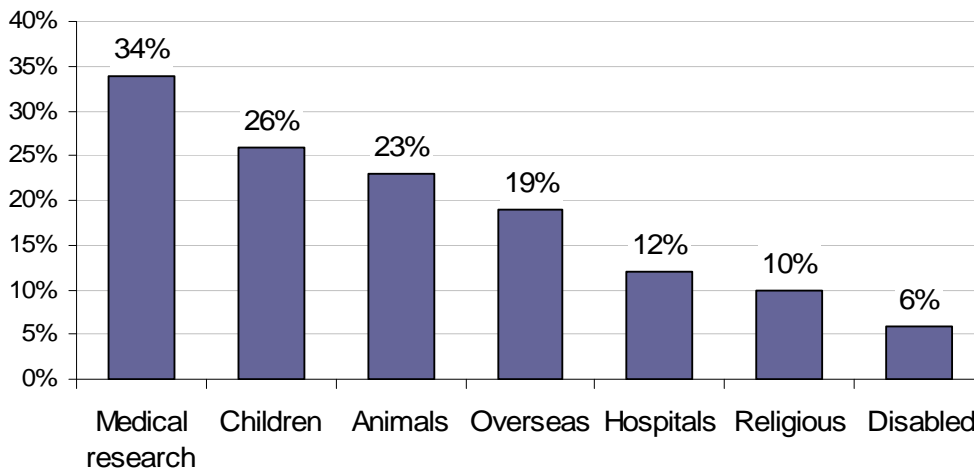
<sup>8</sup> Calculated by multiplying £7.1bn by 0.28.

**Figure 1. Use of Gift Aid in 2005/06, by size of average monthly gift (% of donors)**



2.5 The use of Gift Aid varies substantially between different sub sectors. This is likely to be at least partly due to the sizes of the organisations in each sub sector. For example, medical research is serviced by large national charities that may be relatively well equipped to manage the bureaucratic burden of Gift Aid. Figure 2 presents the data only for the larger sub sectors: these account for 80% of the total amount of charitable giving.

**Figure 2. Proportion of donors giving by Direct Debit who used Gift Aid for at least one gift, by cause<sup>9</sup>**



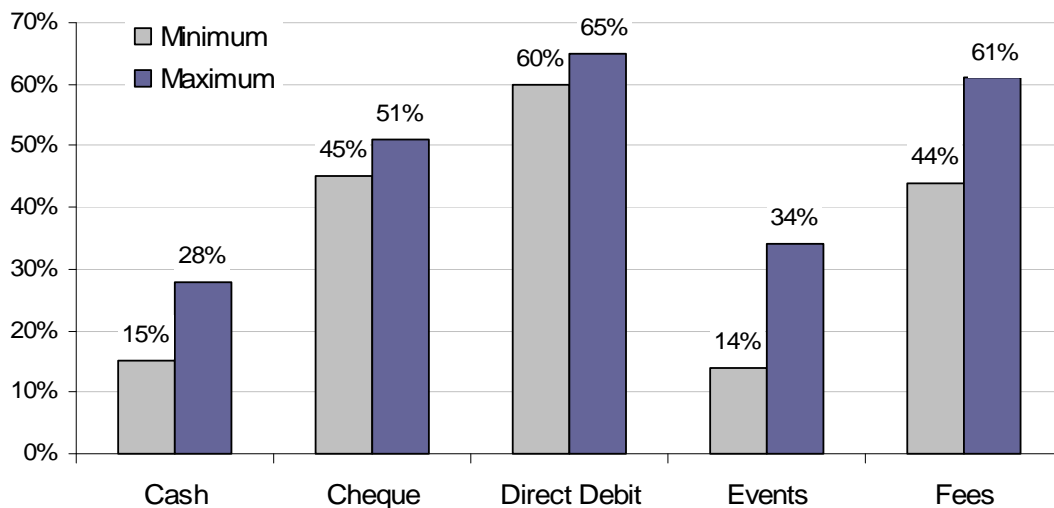
2.6 The variation in application of Gift Aid between different parts of the charitable sector raises some interesting questions for organisations working within those sub

<sup>9</sup> Note that the survey asks about giving by method and by cause but includes only a single question on whether or not Gift Aid was used. Where the respondent has made more than one gift in the preceding month, we do not know which gift was Gift Aided.

sectors. The differences may be due to the different approaches to fundraising used by each sub sector. Nevertheless, further consideration should be given to the factors influencing the differences in the number of donors using Gift Aid, particularly whether there are lessons that organisations can learn from each other about how to increase take-up.

2.7 Although it is difficult to be precise, we can identify approximate upper and lower bounds on the take-up of Gift Aid on different giving methods. The level of take-up is related to the amounts given by each method (explaining the relatively low level of Gift Aid on cash donations) and to bureaucratic complications (for example for event giving). For each method, the actual proportion of donations made using Gift Aid will be between the upper and lower bounds presented in Figure 3. Note that the figures refer to the proportion of donors, not of the total amount donated.

**Figure 3. Upper and lower bounds on the proportion of donors who used Gift Aid, by method<sup>10</sup>**



### 3 How could the Gift Aid scheme be developed?

3.1 While the government's consultation on improving take-up and awareness of Gift Aid is welcome, it is important to remember that the onus remains with individual charities to make the most effective use of the tax reliefs that are currently available on donations from individuals (and indeed from private institutions). The role of government is to create an environment that is conducive to maximising income from charitable giving, not to collect or increase donations. Gift Aid is not a mechanism to drive up giving; it is only a mechanism to drive up the amount raised through donations.

<sup>10</sup> The survey asks about giving by method and by cause but includes only a single question on whether or not Gift Aid was used. Where the respondent has made more than one gift in the preceding month, we do not know which gift was Gift Aided. The lower bound estimates are identified by restricting attention to those survey respondents giving by only one method.

3.2 Charities should therefore be considering their own processes and approach during the current consultation and beyond. While there are a number of areas where government could alter the scheme to ease the process for those charities already making use of the scheme and to increase take-up from other charities, organisations must also take responsibility for generating their own income

### *Calculating Gift Aid*

3.3 There has been some concern in the charitable sector about impending changes to personal taxation levels and the impact that this could have on future income from charitable giving<sup>11</sup>. It is, however, to be expected that the amount of income generated through tax rebates will vary in line with changes to taxation levels. In accordance with good financial management, charities should be planning their expenditure accordingly.

3.4 Gift Aid is not part of public expenditure, it is income foregone by the exchequer. To put it more simply, the exchequer is returning the money that would be raised through taxation as an acknowledgement that it is not legally correct to tax charitable donations. The scheme is not a rebate on charitable activity.

3.5 Crucially, the nature of the Gift Aid scheme means income from tax rebates is unrestricted. If the scheme were altered, for example through introduction of a 'flat Gift Aid rate' the nature of this funding would alter from a tax rebate to government funding. This would bring the scheme into public expenditure and public spending totals controlled by the Chancellor. Thus, the exchequer would then specify the purposes of these monies. In addition, the rate that Gift Aid would be calculated at would then also be placed directly under ministerial control, rather than being altered in line with the wider taxation regime. Such changes could also have potentially detrimental implications for the relationship between charities and donors.

3.6 It is vital that the link between Gift Aid and taxation is properly understood. The forthcoming consultation is a good opportunity for government to restate this link and their commitment to supporting charitable giving. Consideration should also be given to how charities can be supported to manage any future changes in the taxation structure. Whilst it is important to retain the link with taxation, Her Majesty's Revenue and Customs (HMRC) should consider establishing mechanisms for regular dialogue about the operation of the scheme with charities.

3.7 There may however be some scope for simplification in the way that Gift Aid is currently calculated. Under present arrangements, all taxpayers are able to Gift Aid donations at the basic rate of income tax. In addition, higher rate taxpayers are able to claim an individual tax relief for the tax they have paid above basic rate. There is some evidence to suggest that while the basic principle of Gift Aid - tax foregone - is understood by donors, little use is made of the additional relief for higher rate donors<sup>12</sup> and where this is taken up, it is not the motivating force behind the decision to give.

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<sup>11</sup> The Chancellor confirmed that there will be changes in personal taxation levels in his Budget statement on 21<sup>st</sup> March 2007. See [http://www.hm-treasury.gov.uk/budget/budget\\_07/bud\\_bud07\\_index.cfm](http://www.hm-treasury.gov.uk/budget/budget_07/bud_bud07_index.cfm) for further details.

<sup>12</sup> Taylor et al (2007) *Charitable Giving by Wealthy People*, HMRC, London

3.8 Given that there is little use of the individual tax rebate available to higher rate taxpayers, government should explore mechanisms to enable these individuals to make Gift Aid donations at the higher tax rate at the time of making a donation as well as at the end of the tax year. Consideration should also be given to the anomalies in the current system, which provides an individual incentive for charitable giving to higher rate taxpayers but not to other taxpayers. This is particularly incongruous given that wealthier people donate a smaller proportion of their income than the less well-off<sup>13</sup>.

#### *Administering Gift Aid*

3.9 Any discussion of the future of Gift Aid must include consideration of the administrative burden that it is placed on charities under the current regime. While it is vital that charities provide appropriate documentation for the tax they are seeking to reclaim from the exchequer, there remain a number of concerns about the current system.

3.10 In particular, the auditing requirements and process can be onerous and confusing, with some anecdotal evidence that this may prevent some smaller charities from using Gift Aid. There are also perverse outcomes for charities that have a large number of Gift Aid claims to make, with the reporting requirements requiring so much administration as not to be worth claiming on smaller donations. This undermines the government's policy objective of broadening the scheme in 2000, and may also explain the relatively low rate of Gift Aid take-up. Consideration should therefore be given to how the administrative burden can be reduced, while retaining accountability for Gift Aided donations. In particular, it may be more appropriate to take an incremental approach to reporting, dependent on the size of the donation.

3.11 Charities have also expressed concern about the penalties for any errors in administration. While it is important to ensure that Gift Aid records are accurate and that an audit trail can be followed, faulty paperwork relating to one claim should not necessarily have implications for all the claims that a charity has made. Consideration should also be given to the most efficient use of HMRC resources in processing Gift Aid errors through a cost-benefit analysis of the costs of administering the scheme in relation to the risks of non-compliance.

3.12 Some commentators have suggested that there could be a centrally held register of 'Gift Aid donors' that charities are able to check donations against. While this may help to decrease the administrative burden, consideration must be given to data protection issues and the extent to which donors would be willing to have their details held in this way. Ultimately, the onus remains with individual charities, not givers, to ensure that they are maximising income from charitable donations.

3.12 There has also been discussion in recent years about moving from an 'opt in' system to an 'opt out' system for Gift Aid. While this would reduce the administrative

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<sup>13</sup> The total amount given to charitable causes by all individuals represents 1.2% of their total monthly income but for higher income people the figure is only 0.8%. Figures taken from NCVO/CAF *UK Giving 2005/06*, NCVO/CAF London

burden, it is unclear how the tax status of those people who did not opt out of the scheme could be assured. Similarly, there has been some support for application of a 'blanket' Gift Aid system, where a proportion of tax would be repaid to charities on the basis of a calculation of the proportion of the constituency of donors likely to be UK taxpayers. Such proposals would have clear benefits in terms of improving the proportion of donations treated for Gift Aid and subsequently increase income to charities, but would sever the link with personal taxation and bring the scheme within the scope of public expenditure (see paragraph 3.5). This would also raise some difficult questions about how monies from the Gift Aid scheme would be allocated across the charitable sector.

3.13 At present, Gift Aid is largely applied to regular giving, including Direct Debits, sponsorship and membership fees. Consideration should be given to how Gift Aid could be more broadly applied including to spontaneous giving. This could be enabled through simplification of the way the scheme is administered, but also perhaps greater flexibility in the way that spontaneous donations are recorded for Gift Aid purposes.

## **4 Promoting Gift Aid**

4.1 The Government's commitment to improving awareness and take-up of Gift Aid is very welcome<sup>14</sup>. Any proposals should consider whether the differences we have identified between sub-sectors (see paragraph 2.5) correspond to levels of awareness amongst certain donors<sup>15</sup>. While it is appropriate for the sector to research how effectively charities are making use of Gift Aid, government could explore public attitudes and behaviours to giving including through the proposed charitable giving research centre.

4.2 While there are a number of suggestions for how the Gift Aid scheme could be more easily administered, these have largely come from those charities who are currently making use of Gift Aid: there remain a number of organisations who are not aware of the scheme or do not see how it is relevant to their organisation. Particular attention should therefore also be focused on those charities that are currently less well represented amongst those organisations that are making use of the scheme.

4.3 Awareness of the scheme amongst both charities and the general public could also be improved by establishing a common branding for all the tax-effective measures offered on charitable donations. This would help to associate the act of giving with the taxation regime and to increase awareness of the full range of mechanisms to donate money tax-effectively. The scheme could also be better promoted through general administration of personal taxation, particularly self assessment returns.

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<sup>14</sup> This commitment was most recently reiterated in the 2007 Budget, further information at [www.ncvo-vol.org.uk/budget07](http://www.ncvo-vol.org.uk/budget07)

<sup>15</sup> For example, the annual research on charitable giving carried out by NCVO and CAF indicates that nearly half of all high-level donors giving £100 per month are not giving tax-efficiently. For further information see NCVO/CAF (2007) *UK Giving 2005/06*, NCVO/CAF, London

## 5 Conclusion

5.1 Gift Aid is a mechanism for charities to maximise the income they receive through donations from individuals and companies. The onus for making use of this mechanism remains with individual charities. However, there may be a role for government in promoting the principles of the scheme more broadly and reiterating the commitment to forgoing taxation on charitable donations.

5.2 The government has recently renewed its commitment to fostering a culture of philanthropy in the UK<sup>16</sup>, and helping to ensure that this giving is tax efficient should be a part of that commitment. Ultimately, charitable giving is an act of citizenship as are contributions to collective provision through personal taxation.

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## 6 Further information

### *Guidance and background*

- Her Majesty's Revenue and Customs (HMRC):  
[www.hmrc.gov.uk/charities/guidance-notes/chapter3/index.htm](http://www.hmrc.gov.uk/charities/guidance-notes/chapter3/index.htm)
- Institute of Fundraising (IoF):  
[www.institute-of-fundraising.org.uk/teg\\_giftaid.shtml](http://www.institute-of-fundraising.org.uk/teg_giftaid.shtml)
- Institute for Philanthropy (IfP):  
[www.hmrc.gov.uk/charities/giving-to-charities-indiv.htm#2](http://www.hmrc.gov.uk/charities/giving-to-charities-indiv.htm#2)

### *Research*

- The Charities Aid Foundation (CAF):  
[www.cafonline.org/pdf/GiftAidResearch2006.pdf](http://www.cafonline.org/pdf/GiftAidResearch2006.pdf)
- Her Majesty's Revenue and Customs (HMRC):  
<http://www.hmrc.gov.uk/stats/charities/table10-3.pdf>
- National Council for Voluntary Organisations (NCVO):  
<http://www.ncvo-vol.org.uk/giving>

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<sup>16</sup> The Government published *A Generous Society* in November 2005, outlining a charitable giving strategy. Further information is at  
[http://www.cabinetoffice.gov.uk/third\\_sector/community\\_participation/charitable\\_giving/](http://www.cabinetoffice.gov.uk/third_sector/community_participation/charitable_giving/)

## **Annex A: Key consultation questions**

1. Do you use Gift-Aid?
  - a. If not, why not?
2. Do you think the current Gift-Aid system works well? If not, what would you like to see improved?

### Gift Aid audits

3. Have you had a Gift-Aid audit? (if no, please continue to question 7)
4. If yes:
  - a. How often do you get an audit?
  - b. Is the audit process helpful?
  - c. Were you aware of the change of practice in August 2004, changing the basis on which extrapolations are drawn from the error-rate?
  - d. How much in tax reclaimed have you had to pay back following an audit?
  - e. Would you prefer an audit of all Gift-Aid claims rather than the current basis whereby HMRC looks at a sample?
  - f. How feasible is that for you from an administrative point of view?
  - g. Do you use oral declarations?
  - h. Have you had any problems with oral declarations during a Gift-Aid audit?

### Higher rate taxpayers

5. Do you promote Gift-Aid to higher-rate taxpayers? (if no, please continue to question 11)
6. Do you know what percentage of your donors are higher-rate taxpayers?
  - a. Do any of them donate the additional relief to the charity?
7. Would you support switching the higher-rate tax relief from the donor to the charity?
8. Do you work with financial advisers to encourage donations to your charity?

### The wider Gift Aid scheme

9. Do you use Gift-Aid on donated goods (ie by acting as an agent for the donor and selling the goods, the proceeds of which are then Gift-Aided to you)? If so, please give details.
10. Do you use Gift-Aid on admissions? If so, please give details of your views on the current system.

11. Do you believe that there should be a central databank where donors could register a “universal Gift-Aid declaration” which would be accessible by charities?
12. For corporate giving, should the previous system of allowing the charity to claim the Gift-Aid relief be reinstated?

#### Donors

13. What do you feel would encourage donors to use Gift-Aid more regularly?
14. What deters donors from Gift-Aiding donations?
15. Is there a role for government in promoting giving?

#### Other forms of tax-effective giving

17. Do you promote other forms of tax-effective giving? If so, please give details
16. Do you promote giving via the self-assessment return? If so, please give details.
17. Do you think a scheme to allow “volunteers’ time” to be Gift-Aided would help? If so, do you have any suggestions on how to value the contribution?
18. Do you think an “opt-out” system would work well (ie: the donor has to declare when they do **not** pay tax rather than vice versa)?
19. Are there any other mechanisms to promote giving that would work particularly well for your charity that you would like to see qualify for tax relief?

#### Other issues

20. The Chancellor announced changes to personal taxation levels in Budget 2007? How are you adjusting to this change?
21. Are there any other comments you would like to make?