



Response to the Gift Aid Consultation

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Contact: NCVO Policy Team

Tel: 020 7520 2473

E-mail: policy@ncvo-vol.org.uk

1 Introduction

1.1 NCVO is the largest general membership body for charities and voluntary organisations in England. NCVO has sister councils in Wales, Scotland and Northern Ireland. Established in 1919, NCVO gives voice to over 5200 organisations. Nearly three thousand of our members are local organisations, and over three thousand six hundred of our members have an income of less than £500,000. NCVO's vision is of a society in which people are inspired to make a positive difference to their communities. A vibrant voluntary and community sector deserves a strong voice and the best support. NCVO works to provide that support and voice.

1.2 NCVO welcomes the opportunity to respond to the Gift Aid consultation. The scheme remains the most well known and widely used method of tax-effective giving. However, research indicates that it is currently being applied to about one third of the total amount given in charitable donations¹. There clearly remains considerable scope for improving the take-up of Gift Aid and this consultation is therefore very welcome.

1.3 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. This is therefore the focus of our response.

1.4 If you require further information or clarification of any of the points raised in this response, please contact our Policy Team on 020 7520 2473 or email policy@ncvo-vol.org.uk

2 Small and local charities

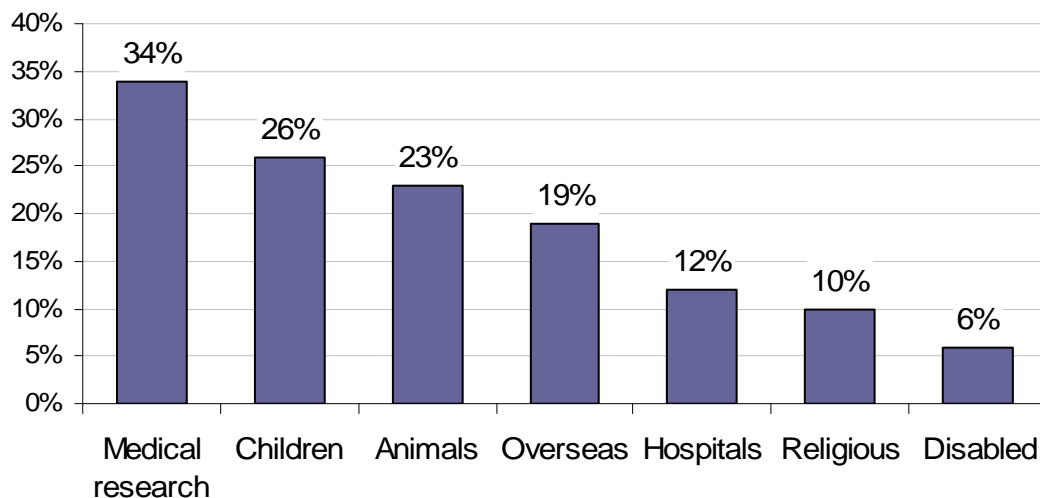
2.1 While some smaller charities may encounter particular difficulties with using the Gift Aid scheme, it is important to consider the diversity of the whole charitable sector and the barriers that may be experienced by a range of organisations. Other distinctions that could usefully be drawn are examining the needs of those charities that have never used Gift Aid with those that regularly use the scheme, or distinguishing between the needs of organisations with dedicated fundraising and finance staff with those that access such specialist support when needed. It is also important to remember that while donations from individuals comprise 12% of the sector's income², the amount that individual charities benefit varies enormously: some are dependent almost entirely on donated income, others receive little if any.

¹ 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

²Reichart et al (2007) *The UK Voluntary Sector Almanac 2007*, NCVO

2.2 In addition, evidence from the annual CAF/NCVO survey of individual giving suggests that 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 1 presents the data only for the larger sub sectors: these account for 80% of the total amount of charitable giving. Government could explore public attitudes and behaviours to giving between different causes and organisations including through the proposed charitable giving research centre.

Figure 1: Proportion of donors giving by Direct Debit who used Gift Aid for at least one gift, by cause³



2.3 The commitments that have already been made to increasing awareness of Gift Aid amongst both the charitable sector and the general public are welcome. However, if take-up is to be improved, there may be room for deeper engagement with charities. While organisations may be aware of the scheme, there may be knowledge gaps in terms of how to make claims and which types of donations are eligible as well as concerns about penalties for errors in administration. Her Majesty’s Revenue and Customs (HMRC) should consider working with sector support agencies, such as councils for voluntary services, to both build awareness of how the scheme operates and to provide support to correctly administer claims.

2.4 It is also important to ensure that all charities continue to be supported to make full use of the Gift Aid scheme over the longer term. There have been successive changes to the scheme through government statements, which have been largely welcomed by the sector, but more sustained dialogue is needed. HMRC should consider establishing mechanisms for regular dialogue about the operation of the scheme with charities. This could replicate the mechanisms that other government departments use to ensure that they are discussing relevant issues with the third sector.

³ 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.

3 The donors

3.1 While the research undertaken by NCVO and CAF does indicate that currently only one third of donors use Gift Aid for one or more of their donations in an average month, it is important to remember that Gift Aid is unlikely to be applied to small cash donations even where it is legally possible. Thus, a target of 100% use of Gift Aid on all donations is not realistic.

3.2 Awareness of the scheme amongst both charities and the general public could 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.

3.3 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 Wealthy donors and higher rate taxpayers

4.1 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 donors⁴ and where this is taken up, it is not the motivating force behind the decision to give.

4.2 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 anomalous given that wealthier people donate a smaller proportion of their income than the less well-off⁵.

5 The record-keeping and auditing process

5.1 While we recognise the importance of charities providing appropriate documentation for the tax they are seeking to reclaim from the exchequer, there

⁴ Taylor et al (2007) *Charitable Giving by Wealthy People*, HMRC, London

⁵ 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

remain a number of concerns about the current system. In particular, the auditing requirements and process can be so onerous and confusing as to prevent some charities from using Gift Aid altogether. 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. 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.

5.2 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.

5.3 The consultation seeks views on how to make better use of information technology. In the current system, each charity is required to keep records of each individual donor, and indeed, the donor must make a declaration with each separate donation. Consideration should be given to whether it is possible to create a passporting system whereby donors can confirm that they wish all their donations to be treated for Gift Aid in a given tax year, and this information is then made available to charities using the scheme. Government should explore whether this can be achieved while maintaining due regard to data protection issues and the wishes of donors.

5.4 Currently, the Gift Aid auditing process operates on the basis of looking at each individual claim. In order to reduce the burden on both charities and HMRC, consideration should be given to the potential for charities who wish to do so to agree a 'composite rate' of Gift Aid. This could replicate existing schemes such as the flat rate VAT scheme for small businesses which has been operating since 2002. Further research is needed into how many charities would be willing to make use of such a scheme and how it might be applied across the sector.

6 Conclusion

6.1 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. The Government has recently renewed its commitment to fostering a culture of philanthropy in the UK⁶,

⁶ 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/

and helping to ensure that this giving is tax efficient should be a part of that commitment.

NCVO Policy Team
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