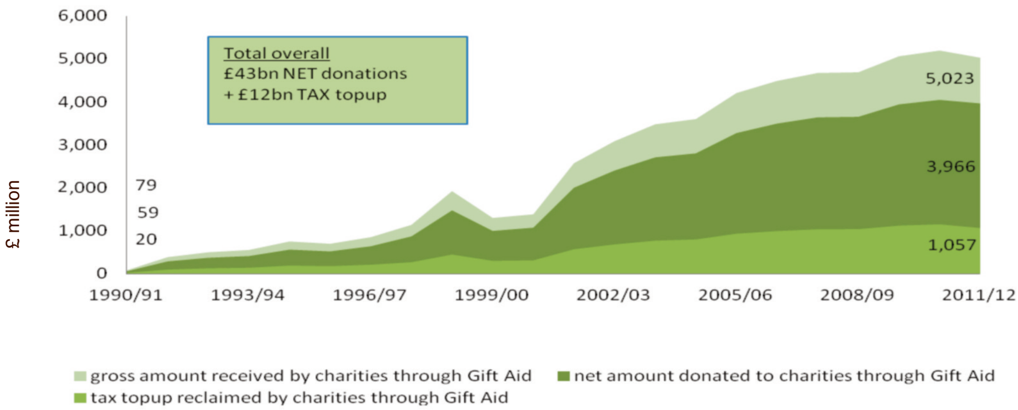
21 years of Gift Aid

Charity Fundraising Comes of Age

Research Report

The Gift Aid scheme has now been in operation for 21 years, between 1990/91 – 2011/12. During that time the scheme has added £12 billion in tax reclaims to charitable donations (in real-terms). Gift Aided donations make up around one third of total individual donations to charity, and this has remained constant for around the last decade. Despite strong growth at the beginning of the scheme, boosted by the millennium, growth in donations through the scheme has now fallen to around 3% per annum. In the last five years the number of individuals using Gift Aid has grown faster than either total donations or the number of charities[1] which points towards more smaller gifts being processed. Larger donations made by higher rate taxpayers account for around one third of all Gift Aided donations. Still, the Charities Aid Foundation (CAF) has estimated that £750 million of potential Gift Aid income goes unclaimed every year; and despite government tinkering, the scheme has arguably become more complex, proving a barrier to further take up of the scheme by charities.



Source: HMRC statistics. See technical note at end of report for further explanations.

Foreword

This excellent new report by the Directory of Social Change marks the 21st anniversary of one of the most undoubtedly successful and positive government initiatives in promoting giving that we have seen. The evidence and trends highlighted here demonstrate that Gift Aid has evolved into something of the highest relevance, to charities and donors alike. Its extension to cover even the smallest donations in 2000, a watershed moment in terms of its reach, is clear evidence of successive governments' commitment to supporting the whole sector and means that celebrating and rewarding giving to charity now extends to all donors. The significance of Gift Aid, like the organisations that benefit from it, cannot be underestimated.

But we should not rest on our laurels. The report shows areas where there is clearly opportunity for both Government and the sector to improve how we use this scheme and we should challenge ourselves to recognise there are places where we are falling short of the mark. Yes, we are good at getting big donations through the Gift Aid system, and we are increasingly getting the smaller ones through as well; but the drop in the average Gift Aided donation over the years demonstrates potential to increase the number of ways we promote generous giving among those somewhere 'in between'. The figures on company giving also offer a more concerning outlook on this area of funding than is often otherwise supposed. Engaging private firms and their employees may be even more integral to facing the current financial environment than perhaps anticipated; and Gift Aid should be an essential tool in this.

As we move further into the 21st century it is imperative that Gift Aid keeps up with developments elsewhere in giving. Gift Aid should not simply be viewed as an incentive for giving, but as something which can have a range of effects, including making giving more affordable at all points on the scale. Without enabling more charities to access Gift Aid, keeping it simple and ensuring it keeps up with technological developments, the scheme will not continue to flourish and growth will peter out. It needs to remain relevant for the next 21 years. It will not do that without radical thinking and strong support from charities and government, something I am confident can be achieved if we work together on this. Good data is, of course, key to that plan, which is why CFG welcomes this invaluable DSC report.

Caron Bradshaw
CEO, CFG

Introduction

The Gift Aid scheme for tax efficient giving was introduced in the tax year 1990/91. The scheme allows charities to claim back the income tax paid on donations given by standard-rate tax-payers, while higher-rate taxpayers may additionally claim back the difference between the standard rate and their tax rate. All donors have to confirm that they have paid enough income or capital gains tax in the relevant tax year to cover the tax relief.

So, for example, a standard-rate tax-payer (20% rate) making a donation of £100, by confirming their tax status to the charity they are donating to, allows the charity to reclaim a further £25 (being 20% of the gross gift including tax-£125).

A higher-rate taxpayer (40% rate) making a donation of £100, is able to claim back a reduction of £25 against their income tax liability (being the difference between the 20% of the gross gift including tax paid to the charity, and their own tax rate 40%-20%=20%. The charity still gets £125).

A higher-rate taxpayer (50% rate) making a donation of £100, is able to claim back a reduction of £37.50 against their income tax liability (being the difference between the 20% of the gross gift including tax paid to the charity, and their own tax rate 50%-20%=30%. The charity still gets £125).

Key results

- Total donations through Gift Aid in 2011/12 amounted to £5,023 million. Of this, £3,966 million was donations while £1,057 million was tax reclaimed from HMRC.
- The Gift Aid scheme has added a total of £12 billion in reclaimed tax to charities over the last 21 years.[2]
- Net donations of £43 billion have been made using the Gift Aid scheme over the last 21 years by individuals and companies.[2]
- Gross donations (donations plus tax refunded) by individuals through Gift Aid have grown by 255%[3] the last 21 years making a total of over £50 billion donated.[2]
- Companies donated just over £3 billion between 1990/91-1999/2000, with £971 million in corporation tax being reclaimed by charities[2]. Since 2000 there has been no way of tracking company donations made through Gift Aid as they are paid gross.
- Charities – just over 65,000 charities made claims for Gift Aid top-ups in 2011/12. This is estimated to represent a little over half of all registered fundraising charities, and around 20% of Gift Aid-eligible voluntary organisations. This number has increased by just 10% in the last 7 years.
- Donors – 42% of UK donors use Gift Aid, according to survey data. This has increased from 32% five years ago (2006/07)[1].
- Comparison with overall giving levels – Gift Aided donations currently make up around one third of the total of all individual donations to charity; this proportion continues to increase by an average of 1% per annum. The amount converted to Gift Aid tends overall to vary with levels of total giving.
- Growth – after strong growth at the beginning of the scheme in the early 1990s and again after the millennium, annual real-terms growth in total donations has now levelled out at around 3% per annum and shows signs of weakening still further.
- The number of donors using Gift Aid is currently increasing at a faster rate than either the number of charities reclaiming or the amount given through Gift Aid[1].
- Higher rate taxpayers tend to be much older than the average giver, something which may be of some concern given the trend, since the millennium, for younger givers to give in less regular ways.
- Directory of Social Change (DSC) estimates that around 25%, or one quarter, of all higher rate taxpayers could be giving through Gift Aid in 2011/12, and give nearly five times more on average than the average donor.
- As a percentage of pre-tax income, the same pattern holds true for higher rate taxpayers as for the general population – that those with a higher income give a lesser percentage to charity through Gift Aid.
- Higher rate taxpayers contribute one third of the total donations through Gift Aid. This is certainly an area to concentrate fundraising efforts on as higher rate taxpayers tend to give larger gifts on average.
- Effect of the Millennium tax changes – while the Finance Act 2000 opened up Gift Aid to smaller donations it is not at all clear whether this actually resulted in more donations overall or whether the "lowest common denominator" effect lowered the average gift size so much that overall levels remained similar.
- Covenants – the subsuming of covenants into Gift Aid at the millennium has made them effectively invisible; however, we estimate that had covenants continued to grow at the same strong rate of 1.6% per annum as they did for the five years leading up to the millennium, by 2011/12 they could have actually outstripped Gift Aid in gross value by 25%.
- Future of Gift Aid – subsequent government tinkering around the edges of Gift Aid has arguably left the scheme over-complicated to administer; more radical change may be needed to maximise the revenue to the sector through the scheme.

[1] Although as we go to press new figures from the CAF/NCVO 'UK Giving 2012' report note the first decline in the proportion of donors using Gift Aid since this survey began in 2005/06.

[2] In real-terms

[3] This total includes individual giving through covenants which were phased out as a tax-efficient scheme in 2000 with any in force at the time being switched automatically to Gift Aid. Without including covenants, gross Gift Aid has increased by over 6000%. This is explored further later in this report.

Gift aid donations - individuals

In the first year of its operation £59 million (in today's prices[4]) was donated to charities by individuals using Gift Aid, adding an extra £12 million in reclaimed tax[5].

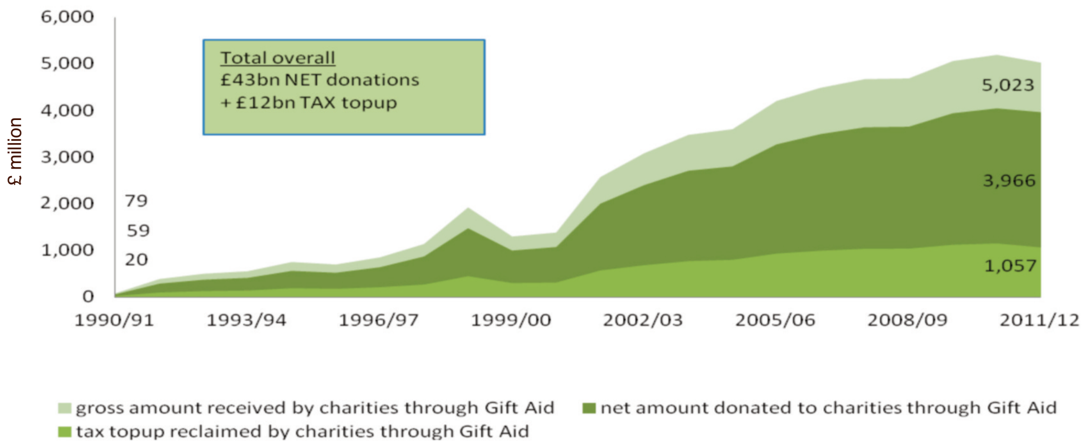


Figure 1: 21 years of net individual Gift Aid donations plus Gift Aid tax top-up (real-terms)

Following a spectacular start when the scheme was first in operation, Gift Aid maintained a steady growth rate averaging 19% per year between 1992/93 and 1999/2000. Following an uplift around the millennium when the Gift Aid scheme was opened up and simplified (see later section), the real-terms growth rate since then has been lower, averaging 3% per annum since 2006/07.

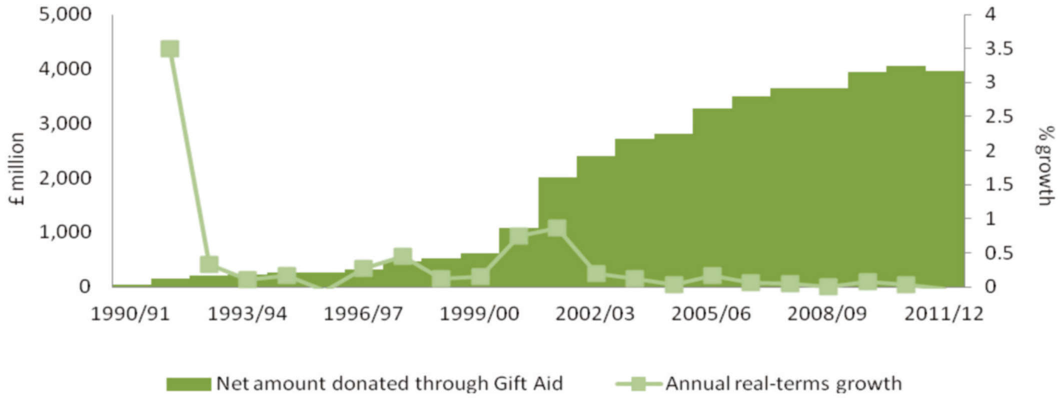


Figure 2: 21 years of net individual Gift Aid donations showing year-on-year growth (real-terms)

Gift Aid as a proportion of all individual giving

Gift Aided donations account for around one third of total individual donations. That equated to 5% of the total donations to the sector in 2009/10 (the latest figure available from NCVO's UK Civil Society Almanac, 2012).
As Figure 3 shows, this proportion has remained relatively stable, in real-terms, over the last half a dozen years, although it continues to rise very slowly, by 1% per annum, as more donations are converted to Gift Aid.

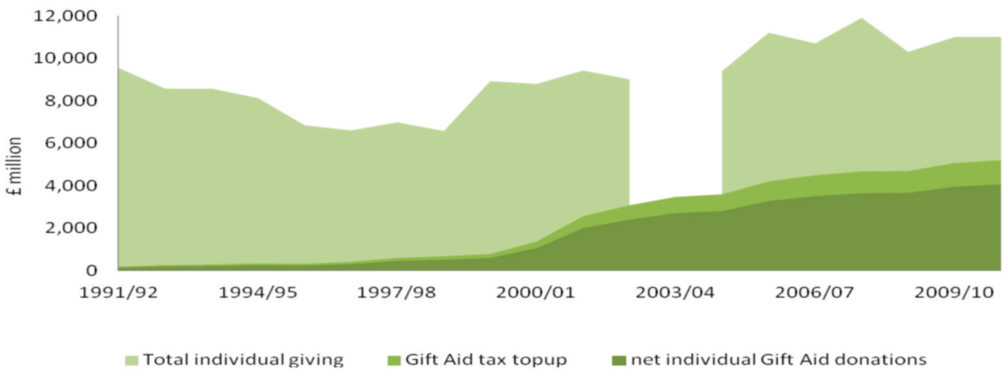


Figure 3: 21 years of total individual giving, showing net individual Gift Aid donations plus Gift Aid tax topup (real-terms)[6].

[4] *In 2011/12 prices; £39 million in 1990/91 prices.*
[5] *£7 million in 1990/91 prices.*
[6] *The gap in data between 2002/03 – 2004/05 is due to a change in the individual giving surveys run by CAF and NCVO to measure giving levels (1999 – 2003: CAF/NCVO/NOP surveys of individual giving; 2005/06 – 2010/11: CAF/NCVO UK Giving 2011). The change in surveys was not expected to artificially affect giving levels however some caution should be urged in using these figures in a continuous time series. It is done so here for illustration only.*

Figure 4 shows, however, that this was not always the case. The real turning point for Gift Aid came at the millennium when wide-reaching changes to the scheme were introduced.

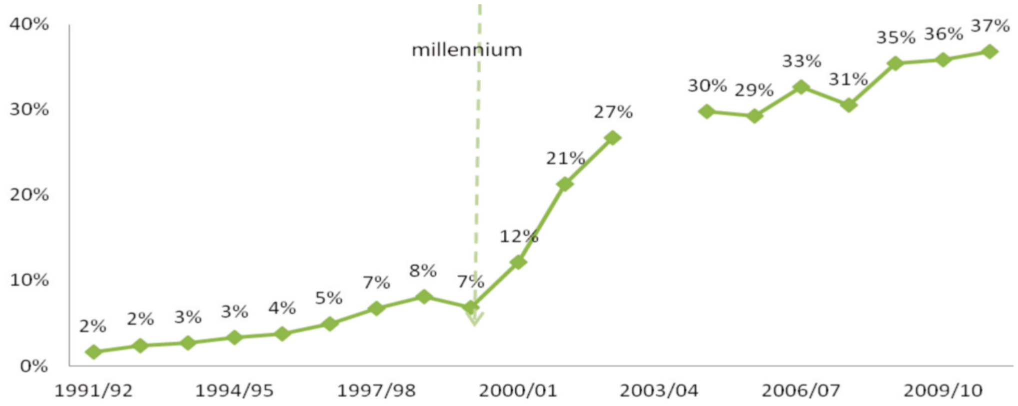


Figure 4: 21 years of net individual Gift Aid donations as a percentage of total individual giving (real-terms)

The level of Gift Aid is closely correlated with the level of overall individual giving (P=0.97) as Figure 5 shows.

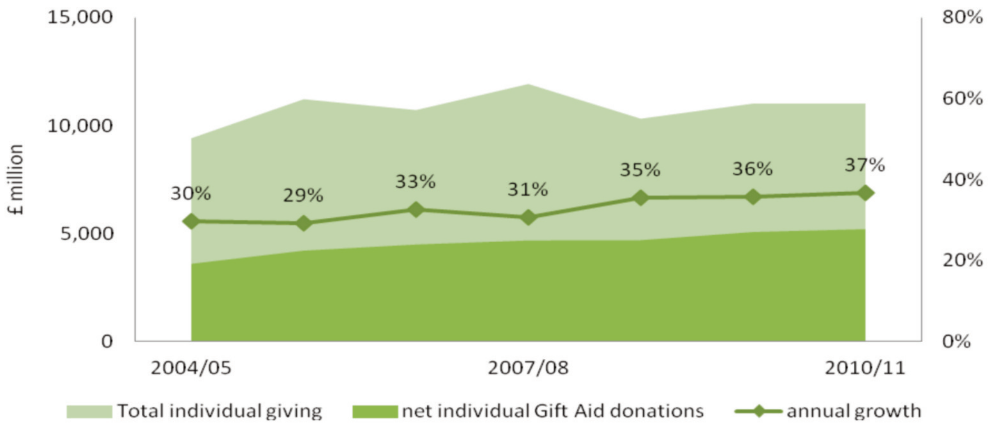


Figure 5: Net individual Gift Aid donations as a percentage of total individual giving over the last 7 years (real-terms)

Source: Figures for total individual giving taken from CAF/NCVO annual survey of giving.

Number of donors using Gift Aid

The proportion of donors using Gift Aid to give extra value to charities increased to 42% in 2010/11, a massive increase of nearly 3800% from 1999 when less than 1% of the population used Gift Aid.

The massive growth in the numbers of donors using Gift Aid mainly came after the millennium changes came into force. This growth has not been so dramatic in more recent years, although overall there has been a 31% overall increase in the proportion of donors using Gift Aid over the last 5 years.

As noted previously however, the latest UK Giving Survey has shown a downturn in the proportion of donors to 39% in 2011/12 - the first fall seen since this survey began in 2005/06 – highlighting even more urgent need for something to be done.

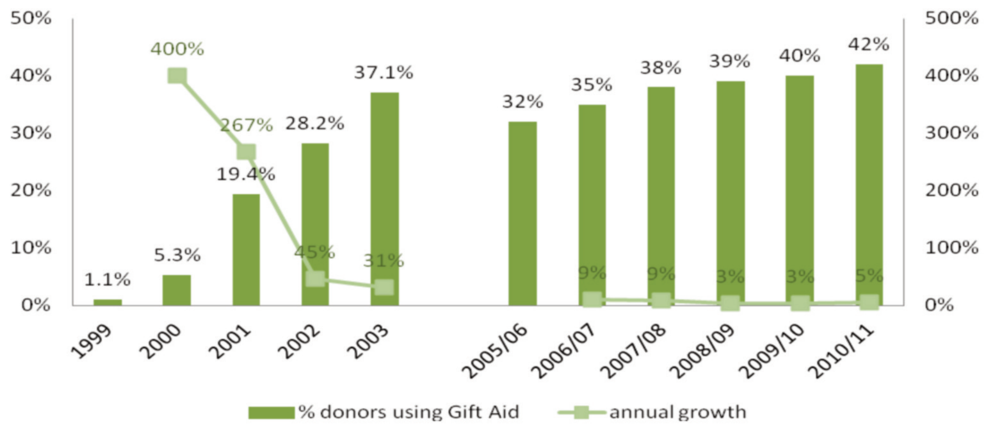


Figure 6: Proportion of charitable donors using Gift Aid (1999 – 2010/11) showing year on year growth[7].

[7] *Sources: 1999 – 2003: CAF/NCVO/NOP surveys of individual giving; 2005/06 – 2010/11: CAF/NCVO UK Giving 2011. The donor percentages in the first series have been recalculated using an average donor:population figure of 56%. See footnote 6 for further information.*

Size of donations made through Gift Aid

The size of the average donation made through Gift Aid can be estimated by dividing the total net donations by the number of people giving[8]. By 2003 the average donation had dropped from £350 in 1999 to less than £25 (Walker & Pharoah, 2006). The increase in numbers of donors and qualifying donations, however, made up for this in terms of total amount given[9].

Clearly at this level, there would have had to be enormous numbers of such low-level gifts in order to maintain the growth in Gift Aid over the years, and initially there was concern that at these gift sizes the scheme would become too bureaucratic to administer unless donors were encouraged to make larger gifts.

It is a relief therefore that, as Figure 7 (below) shows, the average gift given through Gift Aid in the last few years has risen back up to pre-2000 levels of well over £250. However, in real-terms, the average gift size is falling as the number of donors using the scheme continues to rise. In conjunction with stagnant (or even falling) overall levels of Gift Aid the reality is that more, and preferably bigger, gifts are needed to ensure the continued growth of the scheme.
The average gift is, unfortunately, less meaningful without being able to also look at the median and modal gift sizes, but unless HMRC collects such data this is an impossible task, and the average remains the best guide we have to gift sizes through Gift Aid.

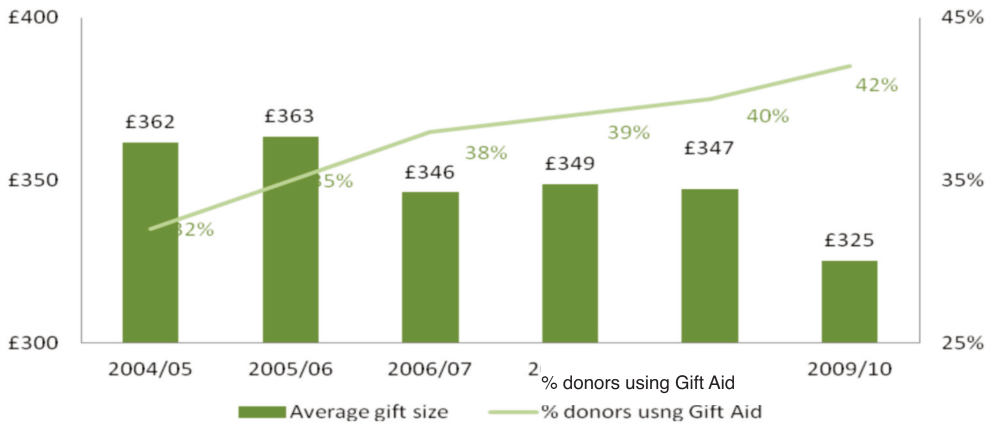


Figure 7: Average donation size given through Gift Aid and percentage of donors using Gift Aid (2005/06 - 2009/10)(real-terms)

It is currently more efficient for charities to process larger gifts through Gift Aid[10], and this approach is borne out in the UK Giving surveys' data which shows that 70% of donors giving over £100 reported using Gift Aid[11]. But, since we know that representative surveys are notoriously poor at picking up big gifts, how many people actually give big gifts through Gift Aid? The best data we have on this is HMRC's snapshot of higher rate taxpayers (HRTPs).

Bigger giving – Higher Rate Tax Payers

Larger donations attract larger tax reclaims, and since the Gift Aid scheme also has a built-in tax deduction for higher rate taxpayers who tend to give larger amounts, these donors should be the top target for charities wishing to maximise their tax-efficient income[12]. Although relatively little is still known about how tax reliefs incentivise greater giving, the fact that they do remains the backbone of the philosophy behind schemes such as Gift Aid. As DSC pointed out in our in-depth report around the proposed cap on charitable tax reliefs (Walker, 2012) the higher the income bracket, the more incentivised a donor is by tax reliefs:

In a round-up of tax theory to date, the Boston Globe recently put it like this:

> *"philanthropic decisions are also driven by tax breaks, especially at the upper registers of the income scale. People with enough money to hire estate planners know about something called the "discount effect" — the higher their tax bracket, the bigger their break for making tax-deductible contributions."*

[8] *This was calculated using ONS mid-year adult population estimates for the years in which there was corresponding donor data available from the CAF/NCVO 'UK Giving' surveys. While not entirely accurate due to the survey methodology, this gives us the best estimate currently available since HMRC do not record donations (they are estimated from tax reclaims through Gift Aid).*

[9] *See section on the impact of the Finance Act 2000 for a more in-depth look at this.*

[10] *See the section on the Small Donations Bill for further discussion on this.*

[11] *This has hardly changed since 2004/05 when it was 68% (Charity Trends, 2005).*

[12] *While UK Giving 2011 reports that 70% of gifts over £100 are currently Gift Aided it is recognised that random population surveys of giving will not pick up larger gifts and CAF & NCVO have calculated that at least £1 billion should be added to their total to account for bigger gifts of over £1 million (Breeze, 2011).*

As Clotfelter (2012) concludes, given these two effects:

> *"Another clear implication is that eliminating the deduction altogether, as has been suggested [in the US] in numerous proposals in the past couple of decades, would raise the price of giving....implying (in the absence of large changes in total taxes) a long-run level of contributions lower than what would [otherwise] have been the case"*

A JP Morgan survey of 100 ultra high net worth individuals (UHNWI) last year (with a combined wealth of £6 billion) found that nearly 30% said they would be more charitable if they were provided with better tax incentives. Indeed some commentators believe that the main reason giving by UHNWIs in the US is so much higher than in the UK is because of the more flexible tax measures in the US[13]. Meanwhile, in the UK Jones & Posnett (1991) found that charity income increases by 50% of any additional tax relief; while research by CAF/NCVO/IR (2000) into Gift Aid found that givers would give up to 25% extra on top of their original gift as a result of tax incentives (quoted in A Lot of Give, 2002).

Once almost entirely the preserve of higher rate taxpayers (HRTPs) due to the minimum donation level up to the year 2000, Gift Aid now attracts a higher percentage of ordinary tax payers. In 2011/12 HMRC paid back £360 million in higher rate tax reliefs, from which we can calculate that HRTPs contribute £1.8 billion gross[14], or 36% of the gross total for Gift Aid[15].

HMRC has published a study of a number of HRTP donations via self-assessment tax forms between 2000/01 - 2003/04. From this a more complete picture of higher level donors can be built up[16].

The proportion of HRTPs making donations to charity through Gift Aid increased by an average of 1% per annum between 2000/01 - 2003/04 from 13.8% to 16.8%. If this increase continued at the same rate in the following years the proportion of HRTPs giving through Gift Aid in 2011/12 could be around 24.8% or one quarter.

The average donation by HRTPs stood at £1,440 in 2003/04 (having increased by 6% over the 4 years since 2000/01[17]). If the donation were to increase by the same proportion in the years following that then the average donation would now stand at £1,600 – nearly five times that of the average donor. In 2003/04 the majority of HRTPs (62%) gave donations of up to £500 (20% gave up to £100), while 21% gave between £1,000 and £10,000 and 2% gave over £10,000.

On average HRTPs give less than half a percent (0.48% in 2003/04[18]) of their pre-tax income to charity via Gift Aid. Over half (51%) give less than 0.5% of their pre-tax income while 7% give 5% plus (although they may be giving more through other means (tax-efficient or not)). As Figure 8 shows, the higher a person's income, the less (as a proportion of pre-tax income) they tend to give.

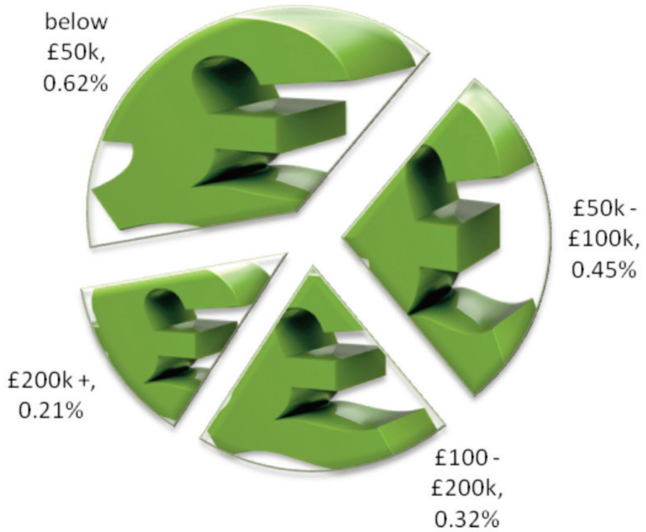


Figure 8: Income range of HRTP Gift Aid donors (£k) and the median value of their donations expressed as a percentage of their pre-tax income (%)

[13] *There are of course more complex differences between the US and the UK: the different relationships with the state and view of charity/benevolence/public services. There is something to be said also for the feeling in the UK that people should not pay tax on money they have given away which for many is a key argument for Gift Aid as well as that around the 'incentive to give' argument.*

[14] *Calculation based on HMRC statistics (table 2).*

[15] *We have to bear in mind however that anecdotally we know that there may be a significant number of HRTPs who do not claim back their part of the tax relief, so this number is probably too low.*

[16] *Source: HMRC tables 10.5, 10.6, 10.7 based on data from 2003/04.*

[17] *This compares to a £31 average gift by all donors. The median donation for HRTPs is £300. This compares with a median donation for all donors of £11 (according to UK Giving, 2011)*

[18] *This percentage appears from the HMRC figures to remain relatively constant over the four years under study.*

Who are HRTP donors?

HRTP donors tend to be much older, with 78.5% being over 60. This is older than the average giver (people aged between 45-64 tend to be the most likely to give and to give more in general terms[19])

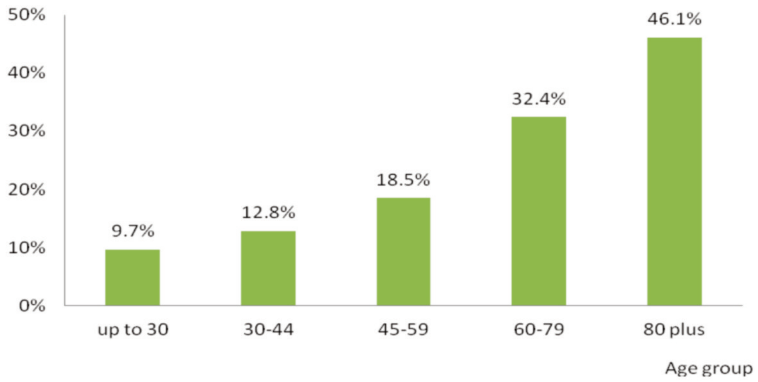


Figure 9: Age profile of HRTP Gift Aid donors

The median gift size increases with the age of the donor as Figure 10 shows.

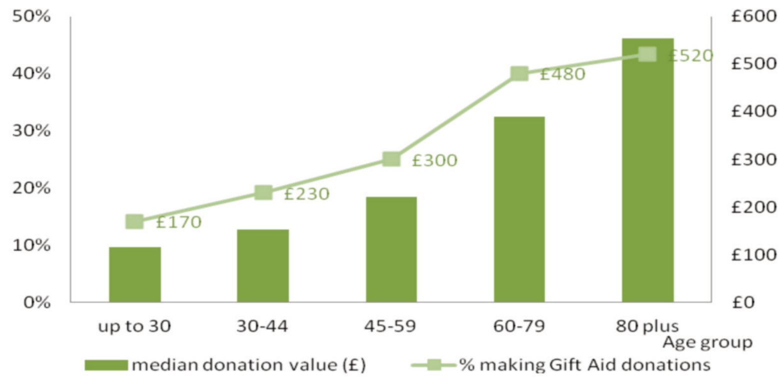


Figure 10: Median gift size as a function of the age profile of HRTP Gift Aid donors

For 44% of HRTP donors their main source of income is their pension.
Female HRTPs are slightly more likely to give via Gift Aid (18.3% vs 16.5%), and to give a marginal fraction more of their pre-tax income (0.49% vs 0.47%). This mirrors the state of affairs for all donors[20].

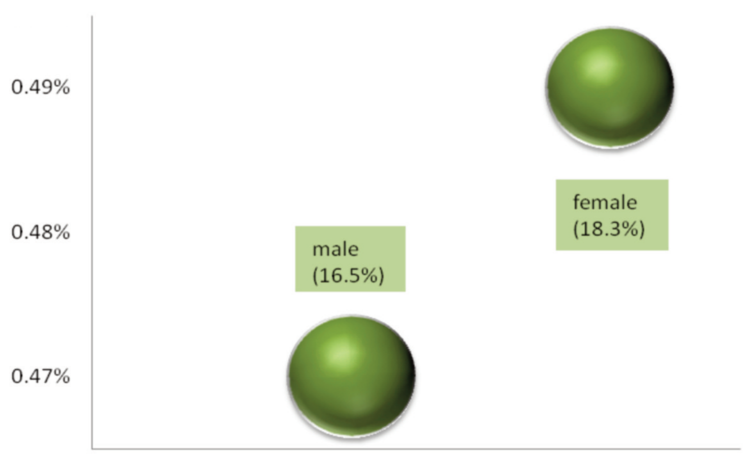


Figure 11: Percentage of pre-tax income given by male and female HRTP Gift Aid donors

[19] *Source: UK Giving 2011 (although the survey likely does not sample many people 'over 65' which is its highest age bracket). There is currently some debate about the apparent ageing donor profile in the UK with some warning of a looming generation gap while others hotly debate this (Walker, 2012b)*

[20] *Source: UK Giving 2011.*

The super-rich?

For 15% of HRTP donors investment income is their main source of pre-tax income. These are the highest-level Gift Aid donors by source of income giving an average gift of £4,490 (over 3 times more than the overall average for HRTPs of £1,440).

However, it is those (27%[21]) with pre-tax incomes of over £200,000 per annum (of which the investment income group likely make up a part) who give most in cash terms, with an average gift of £9,200 – over twice that of the investment income group and over six times that of the overall average.

Interestingly however, across all these groups, as a percentage of pre-tax income, the same pattern holds true for HRTPs as for the general population – that those with a higher income give a lesser percentage.

HRTPs contribute one third of the total donations through Gift Aid. This is certainly an area to concentrate fundraising efforts on as HRTPs tend to give larger gifts on average.

Impact of the Finance Act 2000 on Gift Aid

The principal change to Gift Aid in 2000 was the removal of the minimum limit for donations (originally £600 in 1990, reduced to £250 by 1999), making gifts of any size eligible for the scheme. The tax relief for covenants was eliminated in a bid to make Gift Aid the main vehicle for tax-efficient gifts of money. As an interim measure, HMRC transferred all covenants in force at April 2000 to Gift Aid[22]. The third change was to company giving via Gift Aid. Post 2000, in order to save charities from having to reclaim the tax relief, all company gifts were to be paid gross[23]. Companies can still reclaim Corporation Tax reliefs on gifts made gross to charities.

Tracking the changes

While the Finance Act 2000 opened up Gift Aid to smaller donations it is not at all clear whether this actually resulted in more donations of all sizes or whether the "lowest common denominator" effect lowered the average gift size so much that overall levels remained the same. Since HMRC do not keep records of actual donations this is impossible to answer accurately and we can only speculate; however, other changes are slightly easier to measure:

Covenants

A covenant (also called a deed of covenant) is where an individual or a company promises to pay a fixed sum to a specific charity each year. Prior to April 2000, as long as the covenant ran for at least 3 years, covenanters can get relief from income or corporation tax on their donations. The charity claimed back basic rate tax on the gift; higher rate taxpayers claimed the difference between the basic rate and the higher rate. There was no upper limit on the size of covenanted gifts and they consequently used to be big business for charities.

When Gift Aid was upgraded at the millennium, covenants lost their tax-efficient status and those still in force were automatically transferred to the Gift Aid scheme. Figure 12 shows the two schemes combined over the last 21 years (with the arrow indicating when covenants were phased out).

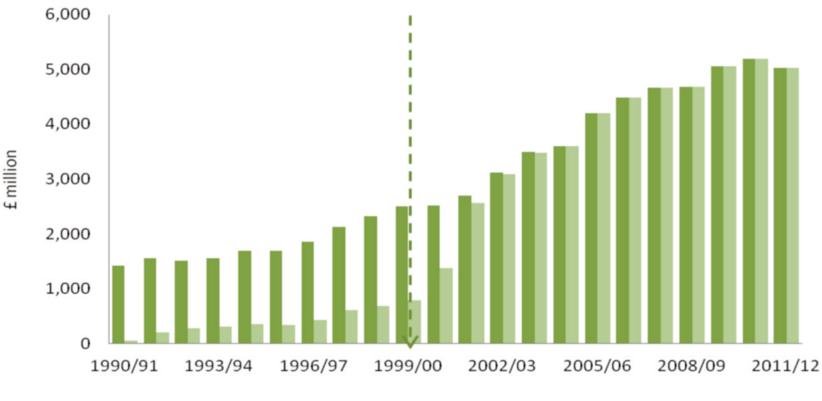


Figure 12: 21 years of Gift Aid and covenants[24]

21 *27% of higher rate taxpayers making Gift Aid donations having incomes of over £200,000 per annum.*

22 *This had the effect of merging the two schemes in HMRC figures, making it more difficult to measure the effect of the changes on Gift Aid. The covenant scheme continues to exist in its own right as a non tax-efficient regular method of giving to charity, but can be Gift Aided in order to become tax efficient.*

23 *This had the effect of removing company giving from HMRC figures, again making it hard to track the impact of the Finance Act 2000 on Gift Aid.*

24 *Estimates of residual company giving made in discussions with HMRC have been taken into account so that the figures only represent individual donations.*

Covenants are still in use, although without the tax deductibility they can now be of any duration. Without the HMRC tracking figures it is extremely difficult to estimate how many are currently in operation.

As can be seen from the combined figures of the two schemes shown above in Figure 12, the massive rise in Gift Aid in the wake of the Finance Act 2000 seems likely to be largely due to the automatic transfer of covenants into the scheme[25]. Figure 13 shows the combined growth over the last 21 years in real-terms, and demonstrates clearly that while Gift Aid enjoyed a peak of growth around the millennium (in fact between 1997/98 - 2005/06) this growth curve has now declined to its lowest levels since the beginning of the scheme[26].

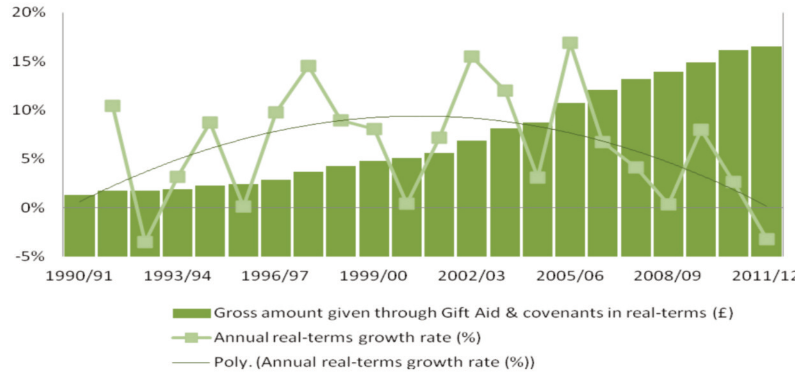


Figure 13: 21 years of Gift Aid and covenants showing year on year growth and overall growth trend[27]

Company giving through Gift Aid

Up to the year 2000 companies were also using Gift Aid, and in total gave just over £3 billion through the scheme, with HMRC adding an extra £971 million in reclaimed corporation tax to charities in real-terms, making the total to charities worth £4,069 million.

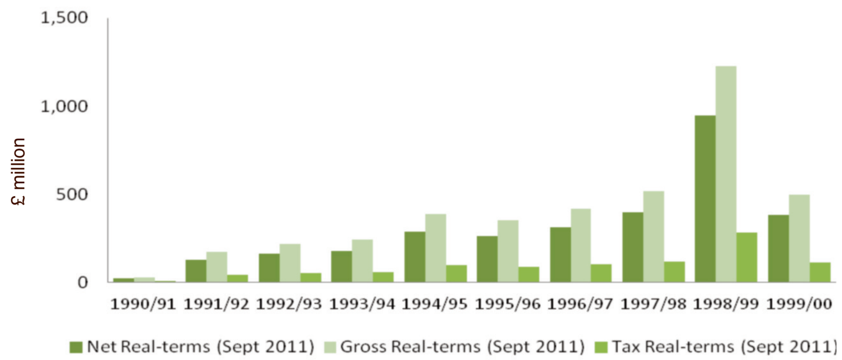


Figure 14: Company giving through Gift Aid (1990/91 - 1999/2000)(in 2011 prices)

Donations grew erratically at an average of 74% per year in real terms, with some one-off large donations skewing the figures (Figure 15).

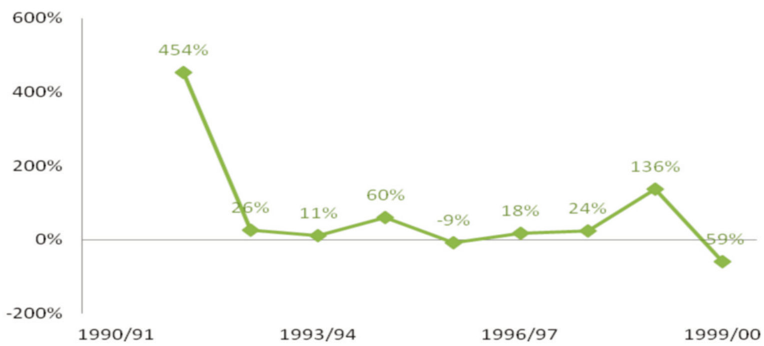


Figure 15: Year on year growth rates in company giving through Gift Aid (1990/91 - 1999/2000)

25 *These covenanted donations would have continued under Gift Aid for the duration of the covenants for a good few years after the millennium. Had covenants continued to grow at the same strong rate of +1.6% per annum as they did for the five years leading up to the millennium, by 2011/12 they would have actually outstripped Gift Aid in gross value by 25%.*

26 *Having been involved with the research team working with The Giving Campaign 2001-2004 we concur with another former member who commented in Civil Society recently on its failure to raise giving in a "major, sustainable" way. Furthermore, 'Gift Aid', the major branding exercise presided over by The Giving Campaign, despite nominal success, is now thought to be levelling off and in need of a new digital overhaul.*

27 *Estimates of company giving made in discussions with HMRC have been taken into account so that the figures only represent individual donations.*

In the year 2000, the government decided to change the way companies used Gift Aid in order to lift the administrative burden from the charities having to claim back the tax on both individual and corporate donations. After 2000 companies can still Gift Aid their donations and claim relief against Corporation Tax but there is no extra tax relief for the charity to claim. The theory was that companies would increase the size of their donations to offset the loss of the tax recliamed via Gift Aid.

As HMRC stopped recording company donations after 2000 it is impossible to calculate the actual effect of this change and there is very little in the way of other evidence to substantiate what happened around company giving. CAF's annual 'Charity Trends' survey of the top 500 corporate donors noted in 2003 that: "levels of cash donations in the UK fell in 2001-02, as companies failed to compensate for the shift from net to gross giving introduced in April 2000." In fact the level of giving of the top 500 corporates failed to rise for the next 3 years, while NCVO's Almanac shows this income barely rising over the last 10 years[28].

The millennium effect

As DSC pointed out in its response to the 2011 Giving Green Paper (Walker, 2011) the millennium provided a step change in the participation rates for overall individual giving which has since been sustained, and a spike in giving amounts which has not had a long-lasting effect. However, it also seemed to usher in an age of greater volatility and uncertainty in giving participation:

> *"Since 2000 participation also seems to have become more volatile. This is in spite of an increase in the use of "pre-committed" methods of giving (sometimes called 'planned giving'), including standing order, direct debit, payroll giving schemes and other direct deductions from pay."*
> Source: The New State of Donation, 2011.

Part of this volatility may be due to younger donors who may prefer to give in different ways – dipping in and out of giving in a more sporadic way than older donors. This may signal the need to approach giving participation in more enlightened ways, acknowledging that regular giving may not be the best vehicle for all givers. This could have a major impact on Gift Aid which is most effective for larger and regular gifts in its current form[29].

The future for Gift Aid

Does the low growth rate in Gift Aid mean that it has hit a wall?
Figure 16 shows very clearly the year-on-year growth trend in the amounts donated through Gift Aid over the last 11 years since the millennium.

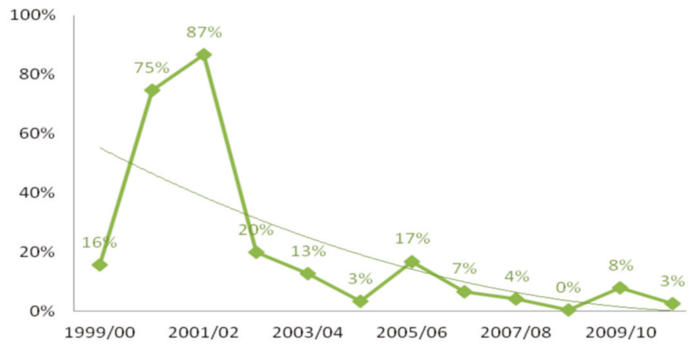


Figure 16: Year on year growth in net amounts donated through Gift Aid showing overall growth trend (19999/00-2010/11)

Figure 17 (below) shows the average growth over the last five years in the amounts donated, number of donors, size of the average donation and the number of charities making claims under Gift Aid. The low growth in donations and the negative growth in the average size of donations over the last five years probably reflects the recent economic climate, but while it is encouraging to see that the number of donors using Gift Aid was increasing strongly (until 2011/12), it is worrying to see that the number of charities claiming Gift Aid is very low.

	5-year growth (%)
N donors	20%[1]
Net individual donations	13%
Size of donations	-10%
N charities reclaiming tax	2%

Figure 17: Average growth figures over the last five years for the Gift Aid scheme (2006/07 - 2011/12)

[28] *http://data.ncvo-vol.org.uk/almanac/voluntary-sector/income-streams/what-is-the-sectors-most-dominant-source-of-income/*
[29] *Since it requires confirmation of tax status from the giver for each charity making a claim within the tax year.*

Charities

In 2011/12 just over 65,000 charities made claims under Gift Aid. This is estimated to represent a little over half of all registered fundraising charities, and around 20% of Gift Aid-eligible voluntary organisations. This number has increased by just 10% in the last 7 years. What is striking is the concentration of Gift Aid repayments to a small handful of charities: just over 1,000 charities (1.6% of all charities claiming Gift Aid) reclaim 64% of the total tax reclaimed (some £646 million, on donations of over £100,000)[31]. The majority of charities (just over 47,000, 72%) claiming tax relief under Gift Aid make claims on donations of less than £5,000 (worth £63 million or 6% of the total reclaimed). What is going on here? Are some gifts resistant to Gift Aid conversion or is the scheme itself too burdensome to administer?

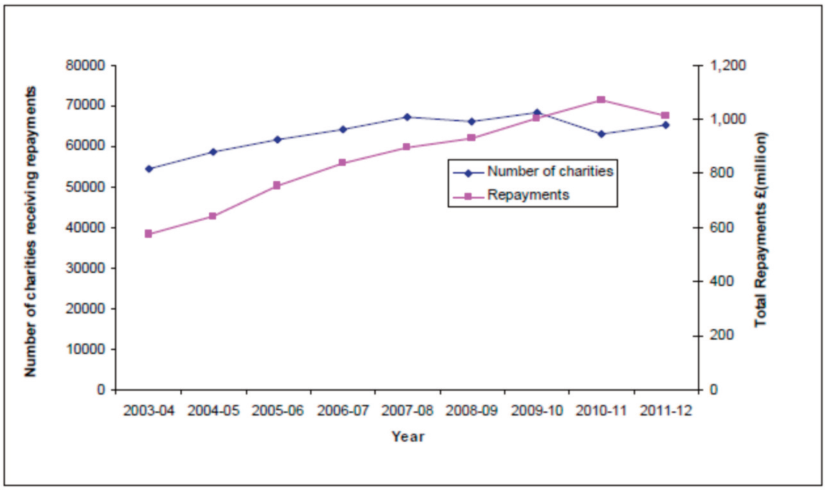


Figure 18: Number of charities reclaiming Gift Aid tax top-ups and the total repayment (£m) reproduced from HMRC

Source: Reproduced from HMRC[32]

Convertibility

Not all donations are Gift Aidable due to the nature of the scheme and the requirement for proof of the donor's tax status. The figures above show that around one third of all individual donations are currently Gift Aided. The most easily Gift Aidable donations are regular gifts (e.g. direct debits, deeds of covenant), and donations requiring paperwork, an online form, or an over-the-phone donation (e.g. sponsorship, credit card donations, doorstep or face-to-face fundraising). Some methods remain ineligible for Gift Aid, including purchasing, raffles, most events admission fees (unless a 10% donation on top of the fee is made) and anything from which the donor receives something in return (up to a maximum of £2,500 on a donation of over £50,000 or more).

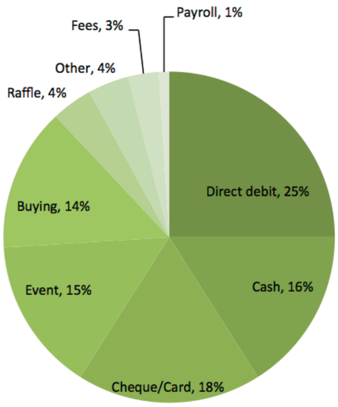


Figure 19: Most common methods of giving to charity in the UK (2010/11)

Source: UK Giving 2011

Figure 19 shows the current pattern of giving method use in the UK. Direct debits and cheque/card donations make up around 43% of all donations which could be relatively easily converted. Cash collections vary in their degree of ease of conversion to Gift Aid. However, since purchases make up a large proportion of individual giving to charity these have to be taken out of the equation straight away. Estimates vary for how much this represents, but the Centre for Giving & Philanthropy (CGAP) estimates, using the Living Costs and Food Survey, would make purchases worth nearly half of all giving[33]. Based on these estimates around two-thirds of all eligible individual donations are currently being Gift Aided, which the CGAP report speculates may be reaching saturation level. However the Charities Aid Foundation estimates that, based on current donation levels, around £750 million of Gift Aid goes unclaimed every year (CAF, 2011).

Charities themselves find some methods of giving easier and holding greater potential rewards than others. Figure 20 shows this.

[31] *Calculated from HMRC statistics (www.hmrc.gov.uk/stats/charities/table10-4.pdf).*
[32] *(http://www.hmrc.gov.uk/stats/charities/introduction.pdf)*
[33] *Estimates from the Living Costs and Food Survey (2008), which excludes all purchases of charity goods and services, put total household giving at less than £5 billion compared with the NCVO/CAF Survey of Individual Giving for 2008/09 which puts total individual giving at £9.9 billion. (McKenzie & Pharoah, 2010).*

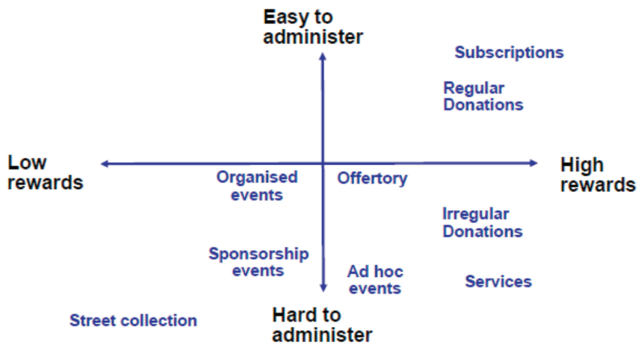


Figure 20: The ease of administration versus reward level of converting different methods of giving to Gift Aid

Source: Reproduced from Hall, Pettigrew & Sweet, 2008

The impact of policy changes

Transitional relief

In April 2008 the income tax rate fell from 22% to 20%. In order to compensate charities for the potential loss of Gift Aid relief the Treasury introduced compensation, referred to as transitional relief, to run for three years to 5 April 2011. So far HMRC has made transitional relief payments of £333 million over four years[34]. Figure 21 shows the effect of the transitional payments on gross donations through Gift Aid.

The withdrawal of the transitional relief may account for some of the drop in Gift Aid income in 2011/12 in real-terms, although clearly not all of it.

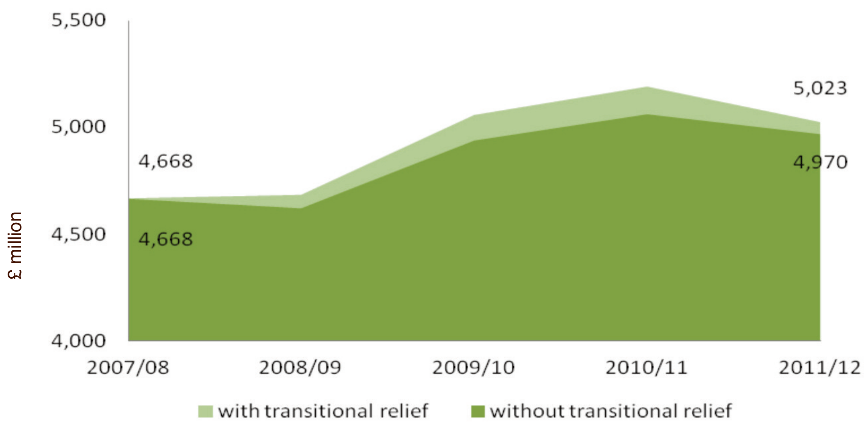


Figure 21: Gross individual donations via Gift Aid with and without transitional relief (real-terms)

Tinkering around the edges of Gift Aid

Since the millennium revolution of the Gift Aid scheme a number of smaller innovations have been brought in to try to maximise the donations attracting top-ups via the tax system. For example, the income from the sale of charity shop donated goods is, in certain circumstances, now Gift Aidable; as are certain purchases in charity shops under 'Retail Gift Aid' systems. It is only in recent years however that more radical changes have been suggested – although not always the changes the sector (or parts of the sector) might want.

The Government's 2011 Giving White Paper promised "better support for those providing and managing opportunities to give" including "Changes to Gift Aid – enabling online filing to reduce paperwork, allowing charities to thank major donors more generously, and enabling a Gift Aid-style payment on small cash donations." They also promised to "explore with HM Treasury opportunities to apply the new Gift Aid on small donations to ATM giving in the coming months."

In April 2011 the limit for Gift Aid "thank you" gifts was raised from £500 to £2,500 for donors of substantial gifts in a bid to encourage further giving. Plus a number of measures were announced in Budget 2012.

[34] *Since Gift Aid payments may be claimed up to 4 years after they are made, there may still be some payments to come in the next few years.*

Budget 2012

> *2.84 Charity Shop Donations – The Government will work with the charity sector to simplify the administration of Gift Aid in the context of charity shops.*
>
> *2.86 In-year repayments of tax to charities – The Government will legislate to amend CASC and Gift Aid legislation to ensure it operates as originally intended and to put on a statutory footing the practice by certain charities and CASCs of making claims for repayment of income tax including Gift Aid outside a tax return. (Finance Bill 2012)*
>
> *2.87 Gifts of pre-eminent objects – As announced at Budget 2011, from April 2012 where taxpayers donate a pre-eminent object or collection of objects to the nation and that object is accepted, the taxpayer will receive a reduction in their tax liability based on a set percentage of the value of the object they are donating. For individuals the tax reduction will be 30% and for companies 20%. (Finance Bill 2012)*
>
> *2.88 Gift Aid Small Donations Scheme – As announced at Budget 2011, the Government will introduce a new Gift Aid small donations scheme from April 2013 to enable charities to claim a Gift Aid style top-up payment on up to £5,000 of small donations, without the need to collect Gift Aid declarations. Charities will be able to claim the new payment on donations of £20 or less.*

This last is a radical departure for HMRC as it severs the sacred link between Gift Aid payments and tax paid – it presumes enough tax will have been paid by enough of the donors to cover the relief. The small donations would be worth up to £1,250 extra to charities every year, and the Government estimates that overall the scheme could be worth an extra £100 million to charities by 2015/16.
However, matching restrictions in the proposed scheme mean that in order to qualify for the maximum amount, charities must have claimed at least £625 in Gift Aid in the same year, and must have claimed Gift Aid for 3 out of the last 7 years, amongst other restrictions. These, claim several charities, will make it very difficult for many small charities to benefit from it.
The shadow Minister for civil society, Gareth Thomas, explains:

> *'Some of the briefing for this bill suggested that this small grants scheme was needed to help charities that were not claiming Gift Aid. We are now in the daft position whereby charities that do not claim Gift Aid cannot benefit from the bill.'*

At the time of publication many charities and umbrella groups are lobbying for changes to the proposed Small Charitable Donations Bill which is going through parliament to be implemented in April 2013. Meanwhile, reports say that small change donations are going down due to the more cashless society we live in (The Pennies Foundation, 2012). Charities are right to challenge the legislation following the fiasco that was the proposal for a cap on unlimited reliefs:

> *2.40 Cap on unlimited reliefs – The Government will, from 6 April 2013, introduce a new cap on income tax reliefs to ensure that those on higher incomes cannot use income tax reliefs excessively. For anyone seeking to claim more than £50,000 of relief, a cap will be set at 25% of income (or £50,000, whichever is greater). The Government will explore with philanthropists ways to ensure this new limit of uncapped reliefs will not impact significantly on charities that depend on large donations.* (Finance Bill 2013)

This proposal caused huge furore in the sector and prompted the largest and most successful sector-wide campaign of recent years in the shape of "Give It Back George", which ultimately led to it being abandoned entirely as far as it pertained to charitable donations[35].
However, with all the tinkering, there are those who believe that the Gift Aid system has now become excessively complex and unwieldy, placing a considerable administrative and bureaucratic burden on charities (and HMRC), preventing optimum and maximal use of the scheme:

> *'It can cost more to administer a Gift Aid scheme than the amount that can be recovered…charity funds are being diverted to lawyers, VAT advisors and audit firms to work their way through the red tape involved in Gift Aid.'*
> Source: Respublica, 2010.

It has been estimated that by the time the Gift Aid Small Donations Scheme guidance is added there will be around 100 pages of guidance for those wishing to use the Gift Aid scheme (Third Sector, 2012). A report for HMRC and CAF on the barriers to Gift Aid found a number of hurdles which charities have to surmount before being able to claim Gift Aid. Figure 22 shows these.

[35] *http://giveitbackgeorge.org/.*

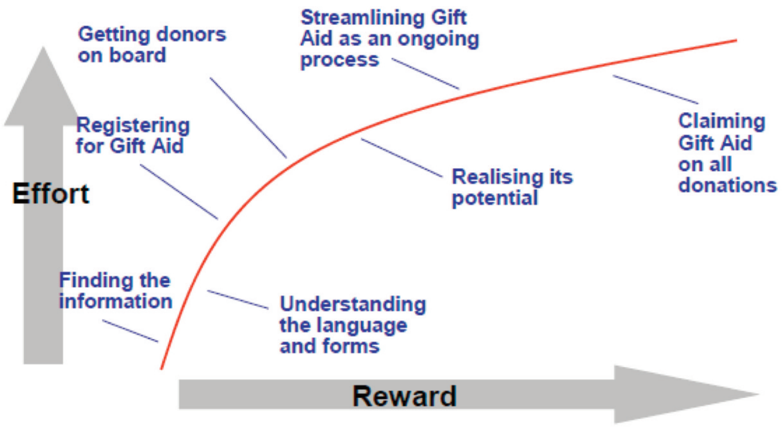


Figure 22: Effort versus reward in becoming a Gift Aid eligible charity

Source: Reproduced from Hall, Pettigrew & Sweet, 2008

The critics are pushing for an easy version of the small donations bill accessible to all alongside online filing to reduce the administrative burden. As we go to press Parliament is still considering changes to the legislation in light of the issues raised by the sector. Additionally online filing, it has been claimed, could boost Gift Aid giving by £15 million in text donations alone by 2014, and significantly reduce the estimated £5-£7 per transaction which it costs HMRC to administer Gift Aid at present (Respublica, 2010). As this report goes to print the new Economic Secretary to the Treasury, Sajid Javid, has requested £250,000 from the Treasury to allow HMRC to set up the system for online filing alongside the small donations bill so that it could be in place by the time the bill comes into force in April 2013. This in turn has prompted the raising again of the old idea of a universal Gift Aid database which voluntary sector infrastructure bodies have been pushing for years. This would allow taxpayers to register just once as a Gift Aid donor online, thus allowing charities to reclaim tax on their donations almost automatically. Currently HMRC are discussing the idea with the sector but have no plans to fund the estimated £1 million it might take to build the system.

Conclusions

The Give It Back George Campaign highlighted the paucity of evidence in the area of tax efficient giving and the role of tax incentives in the UK. The fact that higher rate tax payers' donations make up only one third of all donations is not necessarily a negative finding, as it may mean that more charities are benefitting from smaller donations; and since we know that higher rate tax payers/bigger donors tend to give to a relatively small subset of causes, for a vibrant and diverse voluntary sector, the proliferation of smaller donations is more democratic. It does however, indicate a potential growth area, especially if some HRTPs would give more if they realised that they could claim back the higher rate amount.

Growth in the overall number of charities claiming Gift Aid on donations is stagnant and even in decline, standing at around 20% of all Gift Aid-eligible voluntary organisations. This is also heavily concentrated on larger organisations suggesting that Gift Aid income is not making it to the smallest 'grass roots' community groups. It is our belief that Gift Aid is a good and successful system. Yet it is in need of reform to make it easier for donors and charities to apply it to donations more broadly and to engrain it even more fully in the UK giving culture. Gift Aid should be considered an essential tool in the fundraising tool box and charities should consider how it may aid them to fill some of the gaps this report highlights.

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Technical notes about the data

Data in this report are taken from HMRC website, and the UK Giving reports carried out by CAF and NCVO. All trend figures are adjusted for inflation to 2011/12 prices using a mid-year point of September 2011 unless otherwise stated.

HMRC notes:

1. The basic rate of income tax dropped from 22 per cent to 20 per cent on 6 April 2008. Charities receive compensation, through public expenditure, for the associated reduction in Gift Aid repayments. This compensation, referred to as transitional relief, runs for three years and applies to all donations made between 6 April 2008 and 5 April 2011. The amount quoted in tax repayments to charities on donations includes this transitional relief, whereas in table 10.1 the two components are presented separately.

2. Statistics for company donations reflect a single exceptionally large donation in 1998-99.

3. Statistics on amounts donated are calculated from the repayments of tax to charities. Following Budget 2000 the system for obtaining tax relief altered, avoiding the need for charities to reclaim tax on corporate donations. We do not have information on corporate donations made since that time. Furthermore, since some of the repayments made to charities in years 2000-01 and 2001-02 will have included an unknown element in respect of company donations made in earlier years, we are unable to provide an accurate total for individual donations for those two years. Following discussions with HMRC at the time, estimates for these two years have been used.

4. 2011/12 figures are provisional. These figures are unlikely to undergo any significant change.

5. The total under 'Gross amounts donated' is the sum of the 'Tax repayments to charities on donations' plus the original donations that are imputed from these in 'Amounts donated'.

…The evidence and trends highlighted in this excellent report by DSC demonstrate that Gift Aid has evolved into something of the highest relevance, to charities and donors alike.

– Caron Bradshaw CEO, CFG

About the Directory of Social Change

The Directory of Social Change has a vision of an independent voluntary sector at the heart of social change. We believe that the activities of charities and other voluntary organisations are crucial to the health of our society.

Through our publications, courses and conferences, we come into contact with thousands of organisations each year. The majority are small to medium-sized, rely on volunteers and are struggling constantly to maintain and improve the services that they provide.

We are not a membership body. Our public commentary and the policy positions we take are based on clear principles, and are informed by the contact that we have with these organisations. We also undertake campaigns on issues that affect them or which evolve out of our research.

We view our role as that of a 'concerned citizen', acting as a champion on behalf of those smaller organisations whose needs may not be accounted for in public policy. We ask critical questions, often challenge the prevailing view, and try to promote debate on issues that we consider to be important.

For more on DSC's policy principles see
www.dsc.org.uk/NewsandInformation/PolicyandCampaigning