

Gift Aid Donor Research

IFS launch event, 15 December 2009

HM Treasury presentation

It is a great pleasure and privilege to be here today at the IFS, in front of such a distinguished audience of economists, tax professionals and charity sector leaders.

Although this is very much their event, Sarah and Kim invited the Treasury to give a short introductory talk today, explaining why we commissioned the research, and how it fits into the Government's thinking on Gift Aid going forward. I will try and be brief because I know you will be eager to move on to look at the research itself.

When the Government announced its consultation on Gift Aid in 2007, it asked for new and innovative ideas on how to improve the Gift Aid system. Specifically, we asked for workable suggestions on how Gift Aid might be improved in terms of its:

- profile;
- accessibility;
- ease of operation; and
- overall value in the hands of the charitable sector.

More than 500 different views from across the third sector were taken into account, and the Government gave its formal response at Budget 2008.

The Budget announced a package of simplifications and improvements as a direct result of suggestions made during the consultation. These included:

- major reform of the auditing process by HMRC;

- a comprehensive programme for encouraging more smaller charities to make Gift Aid claims;
- redesign of HMRC web-based guidance; and
- an outreach programme to 5,000 new charities through targeted marketing tools;

HMRC has made excellent progress in implementing these actions. For example, since last year, they have issued nearly 100,000 CD ROM based Gift Aid toolkits, helping smaller charities understand the rules and providing ready access to guidance and claim forms.

The consultation also raised more complex issues about the mechanics of the Gift Aid system, and how it might be changed to make it easier for some donors to give. The main proposals were:

- An accounts basis – where the entire current system of Gift Aid would be swept away, and charities would be paid a percentage of their voluntary income as declared in their accounts.
- A composite rate – where the current system would be largely retained, but the higher rate relief would be abolished and instead charities would claim at a rate set somewhere between the basic and higher rates.
- A higher rate tick-box – where higher rate donors choose whether to claim the higher rate relief themselves or allow the charity to claim it, or variations on this theme.
- An opt-out system, where gifts automatically come within Gift Aid unless the donor opts out.

At the same time, there were strong voices from within the sector that urged against rushing into radical change, with particularly concerns over the possible impact on donations of abolishing higher rate relief.

The Government listened carefully to these concerns, and said at the time that these complex issues required a better understanding of donor behaviour and a full assessment of the risks that could arise if changes were made to the currently successful system.

That is why we, working closely with economists in HMRC, commissioned the research we will be hearing about today. Following an open competition, the research contract was awarded to the team from Warwick and Bristol Universities, and work started early this year, with fieldwork carried out in May and June.

The research was unable to look at all the possible reform options, but focused on what we thought would be the most feasible, that is options that were more likely to retain the status of Gift Aid as a tax relief (I shall say more about that later) and, given the current fiscal position, that were likely to be broadly cost neutral to the Exchequer.

We are extremely pleased with the research and it provides very valuable evidence on a topic where robust UK data is surprisingly scarce. To the best of our knowledge, the last time a research project came up with estimated price elasticities of giving in the UK was in 1991.

But before Sarah and Kim present their findings to us, I'd like to say something about the historical policy aims for Gift Aid. This should help provide background and context to the panel discussion that will follow.

When Gift Aid was introduced in 1990, it was specifically aimed at encouraging sizable lump sum gifts, and was meant to operate alongside existing incentives to make regular donations such as payroll giving and deeds of covenant. The minimum qualifying gift of £600 was designed to start where payroll giving left off. The minimum qualifying gift was also justified as being necessary to avoid disturbing the existing deed of covenant scheme, which many charities relied on for regular income.

The aim was to design a tax relief for one-off donations that would have the following five characteristics:

- provide an incentive to donors to give more;
- be acceptable to the bulk of charities;
- be workable at a reasonable administrative cost;
- have an acceptable cost in terms of tax revenue foregone, and
- so far as possible, minimise the scope for fraud or abuse which could bring the scheme into disrepute.

These five policy design factors are all just as relevant today.

The last one particularly so – the Financial Secretary to the Treasury, Stephen Timms, has just this morning made a statement in the House of Commons closing down an especially offensive tax avoidance scheme involving relief for gifts of shares to charity.

Going back to 1990, there was a debate within Government about whether to give Gift Aid relief to the donor or to the charity. At the time, Ministers and their advisers felt that in general relief for the donor was a more obvious incentive than relief for the charity. I think you will find that the donor research published this morning sheds some very interesting light on this question.

Giving relief to large numbers of donors was predicted to carry heavy administrative costs – one initial estimate was that the Inland Revenue would need 4,000 extra staff to operate a scheme with up to 10 million qualifying donors, which might be the case with a minimum qualifying gift of, say, £30.

So in the end a compromise decision was taken to split the relief between charities and donors, following the model for deeds of covenant, with a minimum gift of £600.

The current Government introduced major simplifications to Gift Aid in 2000, removing the minimum qualifying gift requirement completely, with the intention of widening the base of people who give to charity. In his 1999 Budget speech, Gordon Brown anticipated these changes, saying that:

“Instead of charity seen in the old way, the rich bestowing favours on the poor, I want a democracy of giving, where all those who can, help all those who can't.”

In terms of take up, Gift Aid has been a great success and continues to be so, even through the recession. The annual statistics published by HMRC show that the gross amount given by individuals using Gift Aid or deeds of covenant increased from £2.2 billion in 1999/00 to £4.3 billion in 2008/9. And encouragingly, despite the recession, the 2008/9 figure is an increase of 5.5% on 2007/8, in a period when CAF estimates that individual giving has decreased by 11%.

So given this, it is vitally important that we think through any changes very carefully if we are not to endanger that success. Government are absolutely committed to improving Gift Aid so that it provides the best support possible to charities. But it does not want to damage what is a very successful tax relief.

Before I go on to consider how we shall be taking the debate over Gift Aid forward, I should mention two important constraints.

First, there are limits to what you can do if you want to keep Gift Aid's status as a tax relief rather than as Government spending. Those who have met me to discuss Gift Aid will know I keep going on about this rather technical area, but it is absolutely critical to the debate. To be classed as a tax relief there are three rules of Government accounting:

- the amount of tax relief claimed by or on behalf of an individual must not exceed the amount of tax paid by them, and
- the relief must be made as a matter of economic policy, and
- it must be an integral part of the tax system.

This last criterion means the relief should fall naturally out of the normal rules for calculating tax payable.

If a refund or allowance can be calculated independently of the procedure for calculating tax payable, uses different criteria, and does not depend on the actual amount of tax to be paid, or the marginal rate of tax, then it is not integral to the tax assessment.

The second major constraint on any reform of Gift Aid is of course the tight fiscal climate. As the Financial Secretary to the Treasury, Stephen Timms said at the ACEVO summit in June, Governments have to live within their means. For Gift Aid, this means that we need to be realistic about the prospects for any changes that would substantially increase the overall cost of the relief.

The Chancellor would need to weigh up the benefits of such a change against the likelihood of real reductions in public services elsewhere, if we are to remain within our broad fiscal target of halving public sector net borrowing as a share of GDP over four years.

So how does Government propose to take the debate over Gift Aid reform forward?

The short statement in the PBR document sums up the Government's plans very clearly:

“The Government continues to explore how best to support the third sector through the Gift Aid system. The Government is considering the findings and hopes the research will stimulate and move forward the discussion of the options for reforming Gift Aid.”

We will continue to explore very carefully the options for reform, and Ministers have not closed the door on any of them. The research has been enormously helpful in providing analytical information to help explore the various proposals and their likely impacts on donor behaviour. But it is clear that each option for major reform carries significant risks and uncertainties, and would impact on different parts of the third sector in different ways.

We want to carry forward the constructive and positive dialogue over reform options for Gift Aid, building on the findings of the donor research.

We propose to set up a regular and open discussion forum where sector representatives can discuss their proposals to improve Gift Aid with senior HMRC and HM Treasury officials. We are drawing up terms of reference for this group, and hope the first meeting will be in January or early February next year, with minutes to be published.

Ministers want the forum to look initially at the major reform options for Gift Aid, informed by the donor research. But the forum will also look at proposals to improve the Gift Aid process. For example, there must be ways to make better use of technology and bring the paper based Gift Aid declaration system into the 21st century.

So to summarise: The Government is very proud of the success of Gift Aid and the support it provides to charities, worth nearly £1 billion a year. We do not want to damage what is a very successful tax relief. And we are absolutely committed to improving Gift Aid so that it provides the best support possible to charities. We want to carry forward the debate in a constructive and open manner, informed by the research findings you are about to hear.

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