

# Gift Aid donor research

## Exploring options for reforming higher-rate relief

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# The research

- Commissioned by HMRC on behalf of HM Treasury to examine the effect on donations of possible changes to Gift Aid
- In particular – what is the effect on donations of removing the option for higher-rate taxpayers to reclaim additional higher rate relief and increasing the amount that the charity can reclaim?
- Alternative options:
  - Increase the amount that the charity can reclaim for donations from higher-rate taxpayers only (“Redirection”)
  - Increase the amount that the charity can reclaim for donations from all taxpayers (“Composite rate”)

# Headline findings

- For the particular options looked at, removing the higher-rate rebate and increasing the amount that the charity can reclaim is likely to result in an increase in total funding going to charities (i.e. donations plus tax relief)
- Why is this?
- Many higher-rate donors do not reclaim the rebate; the alternative options are more generous for them (and for basic-rate taxpayers)
- Overall, higher-rate reclaimers do not reduce their donations to compensate exactly for withdrawal of the rebate; charities benefit from the increase in tax relief directed at them
- Changes would have implications for Exchequer spending on tax relief
- Spending on tax relief is likely to increase under redirection and 37 pence composite rate; it is likely to be lower with a 30 pence composite rate
- The report did not consider implementation and compliance costs

# Headline findings

- Targeting tax relief at the charity (not the donor) is a more efficient way of increasing the total amount of funding going to the sector
- Most higher-rate taxpayers (including reclaimers) say they would prefer a system in which all the tax relief went to the charity to the current system (i.e. redirection option)
- Equity considerations
- Redirection keeps relief more generous for higher-rate taxpayers, while composite rates equalise the treatment between higher-rate and basic-rate taxpayers

# Caveats

- The higher-rate rebate is important for some donors
  - Giving is part of a tax-planning exercise
  - The tax return acts as a prompt to give
- A small minority of higher-rate donors have a strong preference for the rebate: They would prefer a system with a rebate to a system where the charity gets all the relief, even where the latter meant more funding going to the charity
- This does not affect the results for the sector as a whole
- But it does mean there are likely to be winners and losers within the sector

# Presentation overview

- Possible options for reform
- Understanding the possible effects of the options
- Research design
  - Quantitative survey
  - Qualitative interviews
- Estimating the effect on donations
- Conclusions

# Possible options for reform

- Gift Aid consists of two parts:
  - For every pound donated out of net-of-tax income, a charity can reclaim 25 pence (= tax relief at the basic rate of tax). Can think of this as a “match”.
  - For every pound donated out of net-of-tax income, higher-rate taxpayers can reclaim an additional 25 pence (= difference between the higher rate and the basic rate). “Rebate”.
- All options looked at involve removing the rebate element and increasing the amount that the charities can reclaim, i.e. increasing the match.

# Possible options for reform

## 1. “Redirection” of higher rate relief

- Charity can reclaim 25p per pound donated by basic-rate taxpayers and 50p per pound donated by higher-rate taxpayers
- No additional higher-rate rebate
- Directly affects higher-rate taxpayers

## 2. “Composite rate”

- Charity can reclaim Xp per pound donated (where Xp is more than 25p and less than 50p) by all taxpayers
- No additional higher-rate rebate
- Specific options considered here are 30 pence and 37 pence
- Directly affects all taxpayers



# Research questions

- What is the likely effect of such changes on donations?
  - On cash donations. i.e. the amount given by donors out of net-of-tax income
  - On gross donations received by charities, i.e. the total amount received by the charity, including the value of tax relief
- Why would donations respond to the possible changes in the way they do?
- Do responses vary across different sub-groups of donors?

# Possible effects on donations

- Changes to Gift Aid may affect donations because:
- Donations respond to changes in the “price of giving” i.e. how much it costs the donor (net of tax relief) to give £1 of funding
- Donations respond to changes in the form of incentive, i.e. a match and a rebate of equivalent value may not have the same effect on donations

# Price effects

- One possible reason for granting tax relief is to increase donations by lowering the “price” of giving
- The “price” of giving is how much it costs the donor (net of any tax relief) to give £1 of funding to the charity
- Under Gift Aid, the “price” of giving £1.00 is
  - 80 pence for basic-rate taxpayers ( $=1.00/1.25$ )
  - 60 pence for higher-rate taxpayers who reclaim ( $=0.75/1.25$ )
- NB – expect gross donations received by the charity to increase in response to a fall in the price, but cash donations may go up or down; donors may take advantage of more money being provided by the government to reduce their contribution

# Price effects

- The possible reform options change the “price” of giving, which may affect donations
- Price is higher under redirection and composite rates for higher-rate taxpayers who reclaim
- Price is lower under redirection and composite rates for higher-rate taxpayers who do not reclaim
- Price is lower under composite rates for basic-rate taxpayers

## The price of giving

	Higher-rate taxpayers who reclaim	Higher-rate taxpayers who don't reclaim	Basic-rate taxpayers
Current system	60 pence	80 pence	80 pence
Redirection	67 pence	67 pence	80 pence
37 pence composite rate	73 pence	73 pence	73 pence
30 pence composite rate	77 pence	77 pence	77 pence

# “Behavioural” effects

- Even if the price remains the same, changing the form of tax relief (match/rebate) may have an effect on total funding received by the charity
- Possible reasons
  - Donors do not reclaim the rebate (and so respond more to the match)
  - Donors do not adjust their cash donations (out of net-of-tax income) in response to changes in tax relief, in which case the charity will benefit fully from increases in the match and not at all from increases in the rebate
  - Donors prefer one type of tax relief and respond accordingly
- Previous US research (lab experiment and field experiment involving single charity) has shown that offering a match results in more money going to the charity than offering an equivalent-value rebate

# Research design

- Quantitative element
- On-line survey of recent Gift Aid donors designed to explore how donations are likely to respond to the possible options
- Sample of
  - Charities Aid Foundation (CAF) Charity Account holders
  - Justgiving donors
- Qualitative element
- In-depth interviews to explore attitudes to tax and giving in more detail
- Twenty major donors (given more than £100,000 in the last year) selected from a database held by New Philanthropy Capital of former, current and prospective clients; twelve interviews were conducted

## Quantitative sample

	Population	Invites	Responses
<b>CAF</b>	32,339 live account holders with an e-mail address	20,000	1,972 (9.86%)
<b>Justgiving</b>	2.56 million distinct donors who had given in the last 6 months	20,000	1,837 (9.19%)



# Quantitative sample

- Ideally the sample should be representative of the population of Gift Aid donors
- We over-sampled larger donors (often not captured by general surveys); also those who are well-informed about tax issues
- We applied weights when estimating population effects:
  - Based on analysis of the Individual Giving Survey and HMRC statistics on the value of tax relief claimed, we assume that among the population:
  - 80% of Gift Aid donors are basic rate taxpayers. They account for an estimated 66% of Gift Aid donations
  - 35% of higher-rate taxpayers reclaim higher-rate relief. They account for an estimated 80% of Gift Aid donations from higher-rate donors.
  - We tested the sensitivity of the main results to these assumptions

# Estimating the likely effect on donations




- We used a series of hypothetical scenarios to estimate the likely effect of changes to Gift Aid on donations
- Step 1: Donors were asked
  - Are you likely to make a donation via Gift Aid in the next 6 months?
  - If so, how much are you likely to give?
- Step 2: Donors were asked
  - Thinking about this donation of £X, how much would you give under
  - Hypothetical scenario 1?
  - Hypothetical scenario 2?
- For each hypothetical scenario, donors were asked:
  - Would you give the same, more or less?
  - If more or less, how much would you give?

HMRC Charitable Giving Survey - Microsoft Internet Explorer provided by Ipsos MORI

File Edit View Favorites Tools Help

Back Forward Stop Home Search Favorites Refresh Print Mail New Tab

Address <http://surveys.glopanel.com/wix/p361240783.aspx> Go Links



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### Scenario 1

Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate. As a higher rate taxpayer you can also claim back higher rate relief, worth an additional 25 pence for every £1 you donate. This means that it "costs" a higher rate taxpayer 75 pence for the charity to receive £1.25.

Suppose instead that the charity received 30 pence for every £1 you donate, but that you could no longer claim back any additional higher rate relief.

Thinking about your donation of £60 would this change affect the amount you are likely to give?

*Please choose one answer.*

- ☐ Yes - I would give more than £60
- ☐ Yes - I would give less than £60
- ☐ No - I would give the same amount
- ☐ Don't know

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Higher rate taxpayers randomly faced one of the following pairs of scenarios

OPTION	Match	Rebate	OPTION	Match	Rebate
Current	0.25	0.25			
<b>Changes in <i>either</i> match <i>or</i> rebate</b>					
<b>A1</b>	0.30	0.25	<b>A2</b>	0.25	0.30
<b>B1</b>	0.20	0.25	<b>B2</b>	0.25	0.20
<b>Changes in <i>both</i> match <i>and</i> rebate – redirection and composite rate</b>					
<b>C1</b>	0.50	0	<b>C2</b>	0.30	0
<b>D1</b>	0.30	0	<b>D2</b>	0.37	0
<b>E1</b>	0.66	0	<b>E2</b>	0.50	0

Notes:

Match = how much the charity can reclaim per £1 donated out of net-of-tax income

Rebate = how much the donor can reclaim per £1 donated out of net-of-tax income

Basic rate taxpayers randomly faced one of the following pairs of scenarios

OPTION	Match	Rebate	OPTION	Match	Rebate
<b>Current</b>	0.25	0			
<b>A1</b>	0.30	0	<b>A2</b>	0.37	0
<b>B1</b>	0.37	0	<b>B2</b>	0.30	0

Notes:

Match = how much the charity can reclaim per £1 donated out of net-of-tax income

Rebate = how much the donor can reclaim per £1 donated out of net-of-tax income

# Hypothetical bias?

- Can we believe the results of a purely hypothetical survey?
- Respondents were asked to answer carefully and honestly “to help ensure that any changes in the tax treatment of donations are designed to help both donors and charities”
- Respondents were asked to answer in relation to a specific donation
- Responses satisfied a number of consistency checks
  - Responses to the same option were not affected by the order the options were asked
  - Responses varied across options for the same donor

# Responses to changes in Gift Aid

- Most donors said that they would not adjust their cash donation (i.e. out of net-of-tax income) in response to a change in Gift Aid:
  - 84% higher-rate non-reclaimers
  - 72% higher-rate reclaimers
  - 88% basic-rate taxpayers
- Is this an artefact of the hypothetical nature of the survey?
  - Donors did respond differently to the two scenarios
  - The proportion adjusting varied significantly across options
  - The proportion adjusting also increased with the size of donations (suggesting “rational inattention”)

## Main reason for not adjusting cash donations

	Basic-rate taxpayers	Higher-rate Non-reclaimers	Higher-rate Reclaimers
I make my decision about how much to give before considering the tax relief	51%	56%	49%
The tax relief has no effect on my decision about how much to give	24%	20%	19%
I have a regular commitment to giving money that I don't want to change	17%	11%	20%
I prefer to give a rounded amount and not make small adjustments	4%	6%	6%
The change in tax is so small, it is not worth bothering about	1%	5%	4%
Other/ don't know	4%	3%	3%
Number of observations	1,556	583	647



## Estimated effect on donations, by taxpayer group

	Higher-rate Non-reclaimers		Higher-rate Reclaimers		Basic-rate Taxpayers	
Option	Cash donations	Gross donations	Cash donations	Gross donations	Cash donations	Gross donations
M = 0.66; R = 0	0%	34%	-10%	20%		
M = 0.50; R = 0	-2%	18%	-12%	5%		
M = 0.37; R = 0	2%	13%	-9%	-0%	4%	14%
M = 0.30; R = 0	0%	4%	-12%	-9%	2%	6%

### Notes:

M = match = how much the charity can reclaim per £1 donated out of net-of-tax income

R = rebate = how much the donor can reclaim per £1 donated out of net-of-tax income

Cash donations = how much someone gives out of net-of-tax income

Gross donations = how much the charity receives, including tax relief

# Estimating effects for the population

- By re-weighting the effects for each taxpayer group, we obtained estimates of the overall effect for the population of Gift Aid donors
- These take into account the response by each taxpayer group and the total amount donated by each taxpayer group
- The estimated population effects are intended to be indicative rather than predictive
- We tested the sensitivity of the estimated effects to changing assumptions about the proportion of Gift Aid donors who are higher-rate taxpayers and the proportion of higher-rate Gift Aid donors who reclaim

## Estimated effect on donations, population (weighted)

	Cash donations	Gross donations	Exchequer spending on tax relief
<b>Redirection: Main estimate</b>	<b>-3.8%</b>	<b>4.2%</b>	<b>5.9%</b>
Assume 10% higher-rate donors	-2.2%	2.4%	3.8%
Assume 30% higher-rate donors	-4.9%	5.5%	7.3%
Assume 25% higher-rate donors reclaim	-3.0%	4.4%	10.3%
Assume 45% higher-rate donors reclaim	-4.4%	4.0%	2.4%
<b>37 pence composite rate: Main estimate</b>	<b>0.7%</b>	<b>10.3%</b>	<b>21.5%</b>
Assume 10% higher-rate donors	2.0%	11.8%	34.5%
Assume 30% higher-rate donors	-0.5%	9.0%	11.9%
Assume 25% higher-rate donors reclaim	1.3%	11.1%	28.2%
Assume 45% higher rate donors reclaim	0.0%	9.6%	15.9%
<b>30 pence composite rate: Main estimate</b>	<b>-1.5%</b>	<b>2.4%</b>	<b>-4.3%</b>
Assume 10% higher-rate donors	0.1%	4.1%	6.6%
Assume 30% higher-rate donors	-2.9%	1.0%	-12.2%
Assume 25% higher-rate donors reclaim	-0.7%	3.2%	1.2%
Assume 45% higher-rate donors reclaim	-2.2%	1.7%	-8.8%

# Preference for match versus rebate

- Most higher-rate donors would prefer a tax system where all relief goes to the charity to the current system

Which of the following would you prefer?

	I give £80 to a charity The charity reclaims £20 I can claim back £20		I give £60 to a charity The charity reclaims £40 I cannot claim anything back		I genuinely don't mind between the two	
	%	Mean donation	% sample	Mean donation	%	Mean donation
Non-reclaimers	7%	£820	79%	£516	12%	£491
Reclaimers	24%	£5091	45%	£2750	29%	£4136

# Preferences for match versus rebate

- But some would prefer a tax system with a rebate to an alternative match-only system where the charity gets more

Which of the following would you prefer?

	I give £100 to a charity The charity cannot reclaim anything I can claim back £40		I give £60 to a charity The charity reclaims £50 I cannot claim anything back		I genuinely don't mind between the two	
	%	Mean donation	% sample	Mean donation	%	Mean donation
Non-reclaimers	5%	£887	88%	£513	5%	£517
Reclaimers	14%	£3679	76%	£3879	8%	£3459

# Qualitative research

- Qualitative interviews with twelve “major” donors (>£100,000)
- Support for tax incentives, not primarily as a motive for giving but as a way of increasing support for charities
- Most respondents were favourable towards re-directing tax relief to charity (compared to the current system)
  - Simpler than the current system
  - Charities better equipped to process tax relief
  - Way of acknowledging what charities do
- But two respondents spontaneously said that they would prefer a rebate at the marginal rate
  - A powerful incentive
  - A logical trade-off for the 50 pence higher rate
  - A belief that the relief was safer in their hands

# Qualitative research

- In line with the findings from the quantitative research, most of the respondents felt that the change would make little difference to their level of giving
- For some, this meant that their level of gross donations would remain the same but they would adjust their cash donation
  - “if they give more to charity straight away I would reduce my giving downwards to take that into account”
- For some, the change would not affect their cash donations
  - “I don’t think it would madly affect what I would give, frankly, which means the charities would get more money”

# Overall conclusions

- For the particular options looked at, removing the higher-rate rebate and increasing the amount that the charity can reclaim results in an increase in total funding going to charities (i.e. donations plus tax relief)
- In general, targeting tax relief at the charity is more efficient than targeting it at the donors
- Particular options would have implications for Exchequer spending on tax relief. Implementation and compliance costs were not considered
- Caveats
- We already know that within the sector there could be winners and losers
- We did not consider practical, implementation issues
- We do not know how charities will respond to the changes