
CGAP Briefing Note 5

Gift Aid – reform or inform?

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This note was prepared for the EAPG Roundtable held at Cass Business School on 14 July 2010. We are grateful to EAPG for advice and comments.

How does Gift Aid work?

Under the Gift Aid scheme, UK charities may claim 25p from the government for every pound donated, provided the donor is a taxpayer who has paid sufficient tax. That is equivalent to the tax paid on the gross income from which the donation was made (£1.25), assuming the donor pays the basic rate of income tax (20 per cent). So, if the donor wanted the charity to receive £1 altogether, she would in fact only have to donate 80p. In addition to the Gift Aid that the recipient charity can claim, donors on a higher marginal rate of income tax of 40 per cent (50 per cent) are eligible to reclaim the difference between this and the basic rate back from government themselves, ie 20 per cent (30 per cent) of the gross amount the charity receives, or 25p (37.5p) per £1 donated.

How much Gift Aid do charities claim and could they be claiming more?

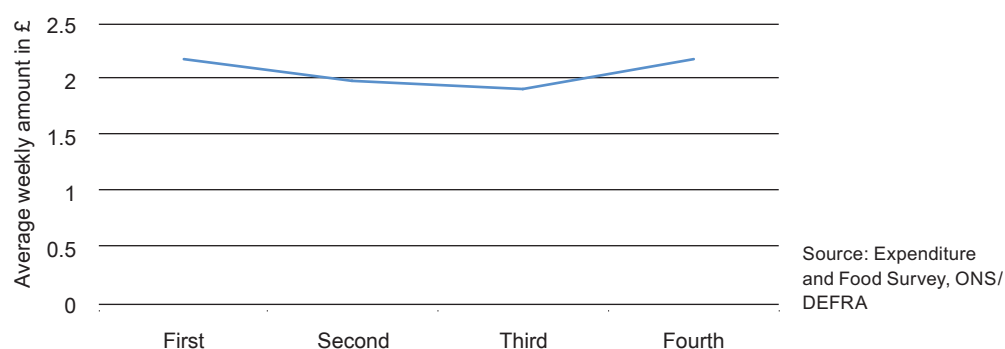
Gift Aid was worth over £1 billion to charities in the fiscal year 2009/10.¹ This amount corresponds to roughly £3.7 billion in donations before the tax is added in. However, because of differing estimates of the total value of charitable giving in the UK, there is some confusion as to the proportion of donations that are Gift-Aided and thus the slack left for charities to 'cash in'. According to the Charities Aid Foundation and the National Council for Voluntary Organisations, £9.9 billion was donated to charity in 2008/09.² That figure includes purchases of merchandise through charity shops and catalogues that do not generally qualify for Gift Aid.³ An estimate from the Living Costs

Examining data from the national Expenditure and Food Survey (EFS)¹, the paper looks at two questions:

- Are there quarterly and monthly patterns of in giving by households in the UK?
- Are patterns the same for different types of households?

Results from the analysis are set out in the chart below, which does indeed show a quarterly 'shape' to donating, with considerable variation by season. The average weekly² value of donations follows a U-shaped trend across the calendar year, showing a high point in the first quarter of the calendar year, then falling between the first and second quarters, and rising in the fourth quarter. The average amount given in the spring and summer is 11 per cent lower than in the autumn and winter.

Donations by quarter



The data show two peaks in giving, one in the first quarter, and another in the final quarter. The peak towards the end of the year is likely due to charities' fundraising appeals in the run-up to Christmas. It may also be due to people's incomes rising at that time through factors such as increases in temporary employment and end-of-year bonuses, as there is a strong link between amounts given to charity and level of income.

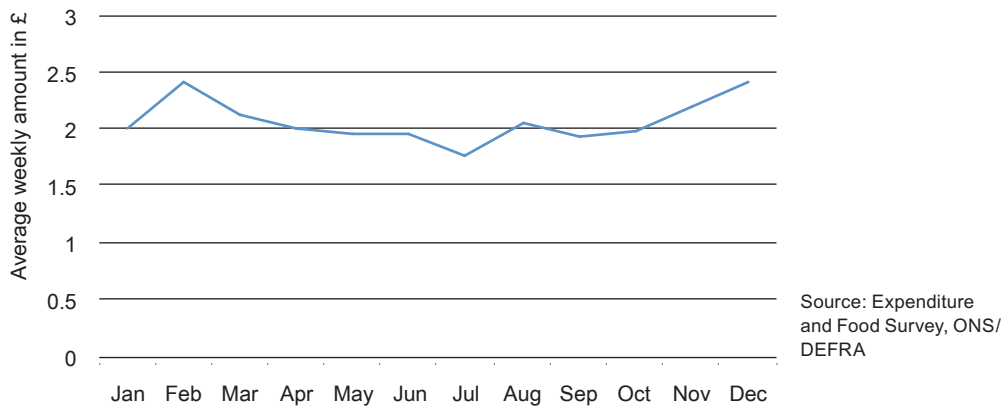
In the next chart we consider the same data by month and this shows that there is a continuous increase in giving throughout the final quarter.

The peak in first-quarter giving

One important reason why donations are high in the first quarter relative to the second and third quarters may be the end of the tax year in early April. This could prompt some people to increase their donations at that time in order to make use of available tax reliefs. Some charities run specific campaigns to remind donors about the value of making their gifts before the end of the tax year, and financial advisors will also be encouraging clients to make use of tax relief options as they complete their tax returns.

It should be noted that particularly high donations were observed in February 2007. This may be due to the high level of growth generally reached in the economy in 2007, just before the signs of the impending credit crunch began to emerge.

Donations by month

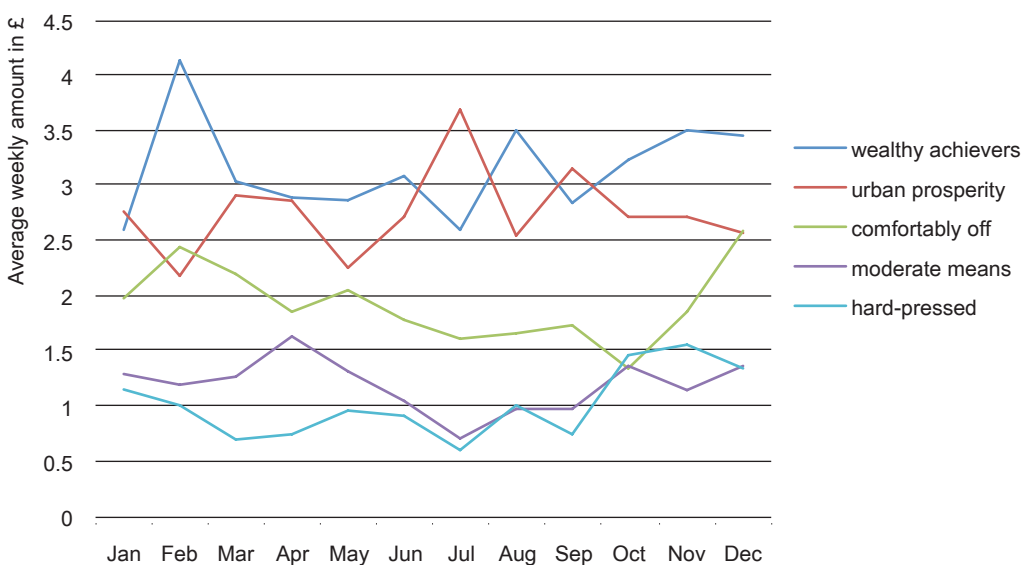


Seasonal giving patterns by socio-economic group

More detailed comparison of monthly trends by socio-economic group supports this idea too as the data show that wealthier households, which are best positioned to take advantage of tax reliefs, give more in February and March. The following chart compares trend-lines for average giving across the year amongst five different household types, as defined by the 'Acorn' classification used in much social and market research. In descending order of affluence, the groups are 'wealthy achievers', 'urban prosperity', 'comfortably off', 'moderate means' and 'hard-pressed'.

The most affluent 'wealthy achievers' group shows a distinctive high peak in giving in the early part of the year, higher than their giving at Christmas. A similar peak in giving is also shown amongst the 'comfortably off' households.³

Donations by socio-economic group



Interestingly, households on lower incomes appear to be particularly charitable towards the end of the year. The only socio-economic group where donations are significantly higher in the fourth quarter than the rest of the year is the 'hard-pressed' group. At £1.46 the average weekly donations from this group remain considerably lower than the

for the reactions of higher-rate taxpayers who donate large sums of money, would suggest that any policy change that removes the tax rebate could lead to a substantial reduction in the amount these donors give to charity. Higher-rate-taxpaying donors currently account for at least one third of Gift-Aided donations.⁷ This proportion is set to rise when the basic-rate tax band is reduced by £2,500 in accordance with the government's recent emergency Budget.⁸

Last week, Nick Hurd, the Minister for Civil Society, made a speech at the Institute of Fundraising's national convention, stating, 'The prospect of more taxpayers' money to prop up Gift Aid is, I think, unlikely. [. . .] We want to try to nudge this country to play its part in the big society' (reported in Third Sector Online, 2010). It may be that the new government has already made up its mind not to pursue any major reform of Gift Aid and to focus on simplification of its administration. This could usefully include, for example, reducing the complications of claiming Gift Aid where donors receive member benefits and simpler rules for claiming Gift Aid on small gifts.

References

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¹ See www.hmrc.gov.uk/stats/charities/table10-2.pdf

² See www.cafonline.org/pdf/UK_Giving_2009.pdf

³ Examples of charities that have successfully combined sales of goods with Gift Aid include Sue Ryder Care and the British Heart Foundation.

⁴ See www.hmrc.gov.uk/stats/charities/table10-4.pdf

⁵ The UK Giving figures are adjusted for inflation. The nominal fall in donations from 2007/08 to 2008/09 will have been less than 11 per cent.

⁶ This is because the rebate is based on the value of a donation including Gift Aid, which is calculated at the basic

rate of tax, and not on the larger gross amount that the higher-rate taxpaying donor earned in order to make the donation.

⁷ Last fiscal year, £310 million was paid back in relief to higher-rate-taxpaying donors. Assuming 40 per cent tax was paid on all money donated, the figure relates to £1.24 billion net donations from HRT-payers, or roughly one third of £3.664 billion nominal donations that were Gift-Aided.

⁸ Grant Thornton has estimated that 700,000 basic-rate taxpayers will start paying higher-rate tax as a result of the emergency budget (*Financial Times*, 2010).

About the authors

Tom McKenzie is a research officer specialising in economic analysis. At CGAP he focuses on patterns of giving in the UK using national household survey data. Tom graduated with a degree in economics from the University of Bonn and taught personnel economics at the University of Cologne before joining Cass Business School in 2009.

Cathy Pharoah is professor of charity funding at Cass Business School and co-director of CGAP Hub. Research work includes an annual report on family foundation giving, supported by the Pears Foundation, as well as the Charity Market Monitor published by CaritasData, an annual update on the finances of the UK's major fundraising charities. Cathy has published many other reports on aspects of charity funding. She is treasurer of the Voluntary Sector Studies Network (VSSN), and a member of the editorial board of *Voluntary Sector Review*.

About CGAP

The ESRC Centre for Charitable Giving and Philanthropy (CGAP) is the first academic centre in the UK dedicated to research on charitable giving and philanthropy. Three main research strands focus on individual and business giving, social redistribution and charitable activity, and the institutions of giving. CGAP is a consortium comprising Cass Business School, University of Edinburgh Business School, University of Kent, University of Southampton, University of Strathclyde Business School and NCVO. CGAP's coordinating 'hub' is based at Cass Business School. CGAP is funded by the ESRC, the Office for Civil Society, the Scottish Government and Carnegie UK Trust.

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