

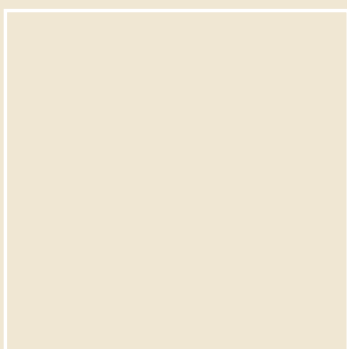
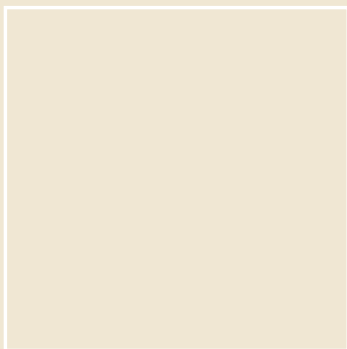
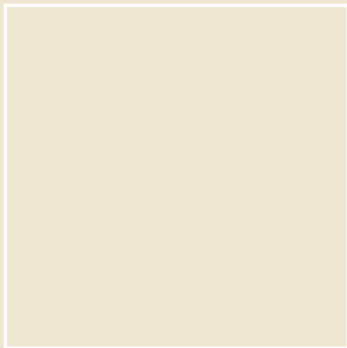


Analysis of giving through Gift Aid  
January 2006

CAF briefing paper

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# Foreword

The UK now has one of the most favourable tax regimes for charitable giving in the world. This is a result of a range of fiscal initiatives set under way in the late 1980s and accelerated since 2000.

If charitable legacies are included, total tax reliefs on charitable giving are worth well over £1 billion today. In spite of this significant bonus, however, there is huge scope for charities and their donors to gain much more benefit out of the current regime. Currently only about one in three donations is made tax efficiently. The good news is that Government has set no overall limit on the amount of charitable tax relief available on giving.

In order to take advantage of the Government's largesse in investing in the growth of civil society, it is vital that we fully understand the impact of the current tax regime on levels and patterns of giving. This paper will assess the impact of Gift Aid and its current use. Equally importantly, it will identify new initiatives that would bring the highest return in additional tax recovery.

CAF is committed to supporting the growth of tax-efficient giving within a society increasingly willing to give something back to its communities. Please get in touch with me if you would like to discuss any of the issues raised in this report.



Stephen Ainger  
Chief Executive  
CAF

# 1 Introduction

This report focuses on Gift Aid, and is part of a new series of CAF briefings which provide authoritative and detailed updates on current statistics, trends and policy issues in charitable giving and charities' income.

Gift Aid was first introduced in 1990 and is currently the most widely used tax-efficient giving scheme in the UK, accounting for over 90% of all tax-efficient donations by value (excluding legacies<sup>1</sup>). Gift Aid allows charities to claim back standard rate income tax on gifts made by a UK taxpayer. Higher-rate taxpayers can claim back the difference between standard and higher-rate tax for personal income tax relief.

This report covers:

## 1 Donations

an annual update on the value of gifts made using Gift Aid in 2004/05, and a general overview of the longer-term trends in value

## 2 Donors

an update on the proportion of givers using the scheme and an overview of the longer-term trends in use

## 3 Long-term trends and the impact of the Finance Act 2000 tax changes

an assessment of how the tax changes contained in the Finance Act 2000 impacted on the use of Gift Aid in the last five years

## 4 Key messages

commentary on a number of aspects of Gift Aid, on the key issues identified in the report and the policy implications relevant to future development of the scheme

An appendix provides details of the Gift Aid scheme and methodological details of the analyses presented in this report.

*The data presented in this report are derived from two main sources: HMRC statistics, and the annual surveys of individual giving carried out jointly by CAF and the NCVO, with additional analyses carried out by CAF.*

*Note: all figures which are adjusted for inflation are adjusted to 2004/05 prices using a mid-year figure for inflation in September 2004.*

<sup>1</sup>The main vehicles for tax-efficient giving during a person's lifetime are Gift Aid, payroll giving, and gifts of shares and property. In 2004/05 the total given through all these methods was just over £3 billion. Legacies add around another £1.5 billion.

## 2 Headline results

### Donations 2004/05

- the value of individuals' donations through Gift Aid (and covenants) reached £2.2 billion<sup>2</sup> in 2004/05, excluding the value of the tax reclaimed by charities
- if the reclaimed tax is included, the total gross amount received by charities from the Gift Aid scheme was £2.8 billion<sup>3</sup>
- the gross amount grew by £167 million between 2003/04 and 2004/05, representing a 3% growth (after adjusting for inflation)
- the amount paid back to charities in tax relief in 2004/05 was £625 million, an increase of £39 million on 2003/04, showing the added value of giving to charities tax-efficiently
- Gift Aid donations now account for around one third of total individual giving to charity by all methods

### Donors 2004/05

- around 10 million UK adults now use Gift Aid for one or more of their donations in an average month
- this represents around one third of donors in 2004/05<sup>4</sup>

### Long-term trends and the impact of the Finance Act 2000 tax changes

- the overall pattern of individual giving to charity shows a gradual long-term decline in the proportion of people giving but an increase in the average amount donated; by contrast, Gift Aid shows the opposite trend, with an expansion in the proportion of people using the scheme particularly since the tax changes, but a decline in the average amount donated through it

### Number of donors

- the proportion of donors using Gift Aid since the tax changes has increased from less than 1% in 1999/00, to around one third in 2004/05
- the tax changes to Gift Aid succeeded in 'democratising' or widening access to tax-efficient giving, and more female, younger and less wealthy donors now use Gift Aid

### Amounts given

- the value of Gift Aided donations has grown at around 11% on average every year since it was set up in 1990, however the average gift size has been falling since the tax changes
- in the five years since the tax changes, after adjusting for inflation,

<sup>2</sup>Following the April 2000 tax changes the published HMRC Gift Aid figures incorporated covenants in force at the time (see the Background Notes at the end of this report for further details). For the purposes of comparison in this report donations through Gift Aid and covenants have been combined for all years, and all corporate donations have been discounted.

<sup>3</sup>All 2004/05 figures are provisional (HMRC).

<sup>4</sup>"UK Giving 2004/05" CAF/NCVO new annual survey of individual giving.

## 2 Headline results

£9.5 billion of donations have been Gift Aided with an added £2.7 billion in tax reliefs (in 2004/05 money)

- three years after the tax changes, in 2002/03, the value of donations through Gift Aid showed the highest annual increase in the entire history of the scheme. This was probably due to charities catching up with investment in better donor information systems (including IT), and also due to clearing a backlog of Gift Aid claims. Growth subsequently slowed in 2003/04 and 2004/05
- the evidence suggests that the growth in Gift Aid since the tax changes is substantially due to the conversion of giving which was already taking place, and which had increased to a new level at the millennium, just before the tax changes came into effect

### Comments

- Gift Aid has come a long way in the last 15 years, however it should be noted that if current patterns of giving and fundraising continue unchanged, the limit to the growth of Gift Aid is in sight. It is probably at about double the current level. There are two reasons for this:
  - using CAF estimates, only a further one third of donors could be converted to Gift Aid because the final third of donors are not taxpayers
  - using CAF estimates, only about a further third of individual giving is donated through methods easily convertible to Gift Aid; the rest is given through purchases in charity shops and cash collections on the street/at work/in pubs etc
- this means that if charities seriously want to increase income through Gift Aid, they face challenges to attract more tax-paying donors, more regular gifts, and bigger gifts
- they also need to develop new methods for converting gifts to Gift Aid, particularly for one-off and cash gifts

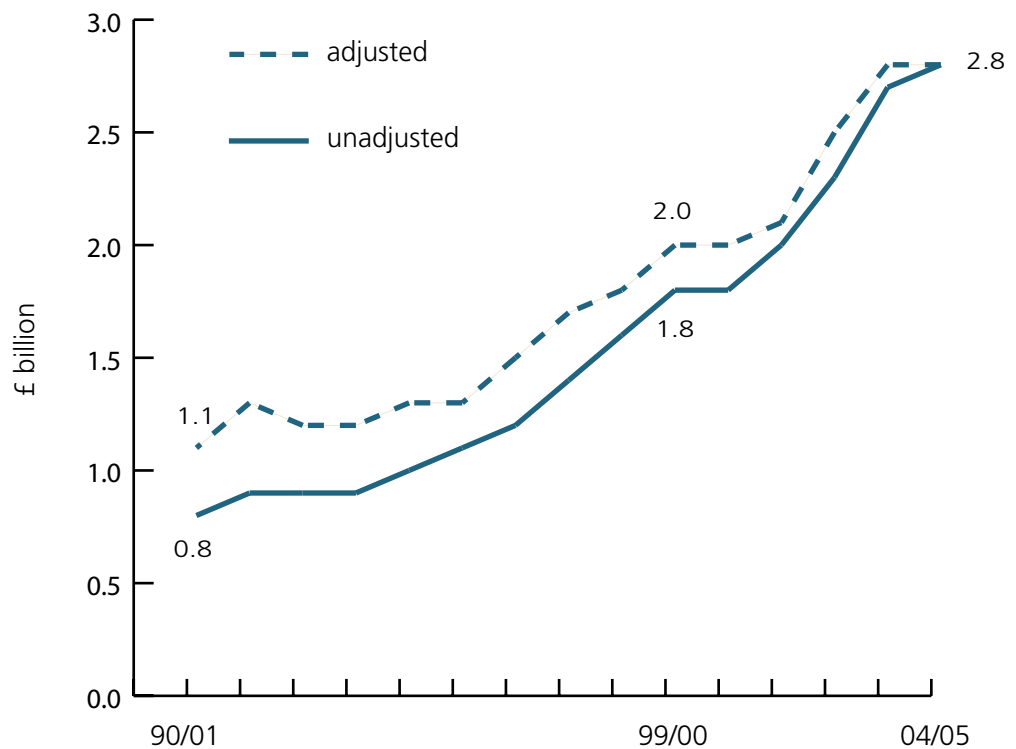
### 3 Gift Aid donations

Figure 1 tracks the total value of annual gross donations to charities through Gift Aid since the beginning of the scheme in April 1990.

The figures show that in the first ten years of Gift Aid, the annual amount raised increased from £0.8 billion in 1990/91 to £1.8 billion in 1999/00. The scheme's potential for growth was unknown, and in an effort to stimulate even further uptake, the Finance Act 2000 made Gift Aid more widely available. It removed the £250 minimum donations threshold making donations of any size eligible for the scheme, and simplified the administration of the scheme.

After these changes, it took only 5 years to increase the annual amount given through Gift Aid by another billion, as Figure 1 reveals. This resulted in a total of £2.8 billion gross through Gift Aid in 2004/05.

Figure 1: Value of gross individual donations through Gift Aid<sup>5</sup>, 1990/91 to 2004/05, £ billion, (unadjusted and adjusted for inflation)



Source: HMRC statistics and CAF calculations based on discussions with HMRC on levels of individual and corporate giving through the scheme.

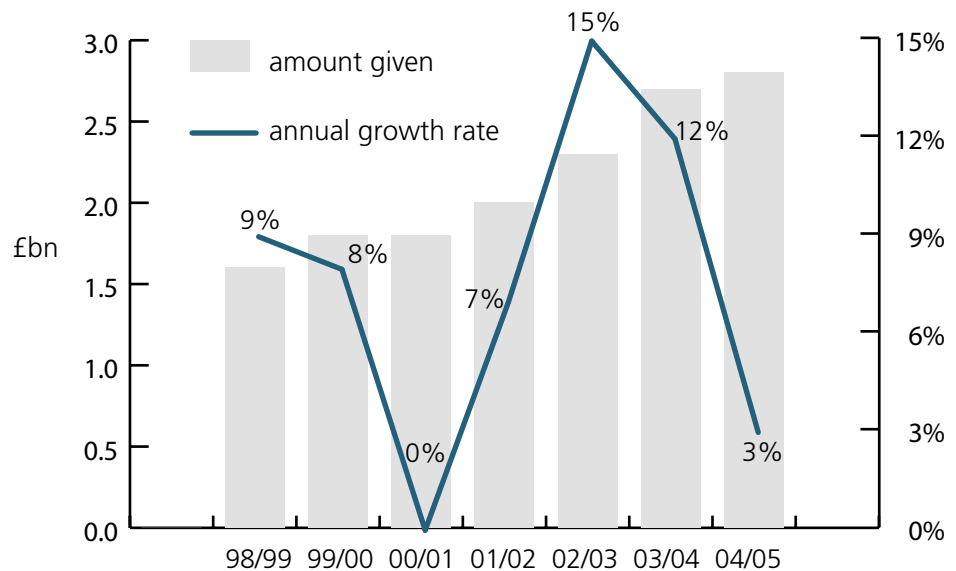
<sup>5</sup> Up to April 2000 HMRC did not record separate totals for individual and corporate covenant donations, and estimates for the amount of covenanted donations from individuals have had to be used; following discussion with HMRC, an average of 90% of all covenanted donations before April 2000 are assumed to have come from individuals.

### 3 Gift Aid donations

After a slow start following the tax changes, the annual rate of increase in the value of donations through Gift Aid peaked strongly in 2002/03 and 2003/04 before falling again. This is illustrated in Figure 2 which tracks the annual rates of increase in the value of individual donations made through Gift Aid over the last 5 years since April 2000.

The highest annual increases in the growth of Gift Aid were 15% in 2002/03 and 12% in 2003/04. Reasons for this pattern in the rates of annual increase are explored below in section 3.

Figure 2: Trends in the percentage annual rates of increase in the value of individual donations through Gift Aid 1998/99 – 2004/05 (growth adjusted for inflation)



Source: HMRC statistics and CAF calculations based on discussions with HMRC on levels of individual and corporate giving through the scheme.

# 4 Gift Aid donors

## Numbers

The number of donors using Gift Aid saw enormous growth after the tax changes of 2000, as shown below. Although numbers of Gift Aid donors are not directly reported by charities, the analysis estimates figures from data in the CAF/NCVO/NOP national omnibus surveys of giving by the general public<sup>6</sup>.

The results in Table 1 show that there has been a very substantial increase in the proportion of the population using Gift Aid since the tax changes, from less than 1% in 1999 to over one fifth (21%) in 2003.

Since not everyone in the population gives to charity, the population figure translates into about one third of all givers using Gift Aid in 2003.

Table 1: Proportion (%) of adult population using Gift Aid 1999-2003

	1999	2000	2001	2002	2003
% population using Gift Aid	0.6	3	11	16	21

Source: CAF/NCVO/NOP surveys of individual giving.

## The democratisation of tax relief on giving

One of the aims of the tax changes was to extend access to Gift Aid to tax-paying donors of all ages and incomes by making it available on all sizes of gift and to create a new culture of tax-efficient giving among the wider population. Was the aim of democratisation achieved?

The results of a 1999 CAF/NCVO/HMRC survey of donors, carried out just before the tax changes, showed that Gift Aid users were predominantly male, higher-income and older.

Evidence from further CAF/NCVO surveys carried out since the tax changes shows that the changes have been successful in getting more women, lower social groups and younger donors to use the scheme than before. The male:female ratio of donors using Gift Aid is now 40%:60%, compared with 60%:40%; the proportion of donors in the lower socio-economic groups DE using Gift Aid has increased from 1% to 10%; and the proportion of under 35 year old donors using Gift Aid has increased from 7% to 40%<sup>7</sup>.

<sup>6</sup>It is no longer possible to get an estimate for this figure from HMRC who discontinued recording the number of donations in 1997/98 due to increased volumes.

<sup>7</sup>CAF/NCVO surveys of individual giving, figures from July 2000 compared with July 2003.

## 4 Gift Aid donors

### Donor tax benefits

Higher rate tax-payers gain a special benefit from giving tax-efficiently, because they can claim a personal income tax relief on the amount they give, and received £150 million<sup>8</sup> in personal tax relief from gifts made through Gift Aid in 2004/05.

CAF estimates from this figure that higher-rate tax-payers obtained personal tax relief on about £830 million gross donations in 2004/05. This means that they donated around one third (30%) of the £2.8 billion gross which charities received from Gift Aid.

Since higher-rate taxpayers represent only about 11% of all taxpayers, the results show the important contribution which higher-rate taxpayers make to giving through Gift Aid.

In spite of the particular advantages of tax-efficient giving to higher-rate taxpayers, a proportion of them still do not ensure that all of their giving is tax efficient. They should become a particular target for charity fundraising, particularly because higher-rate tax payers have the capacity to make bigger gifts.

A particular challenge is the situation where one partner in a couple is a tax payer, but it is the other non-tax paying partner who is doing most of the household giving.

<sup>8</sup>Provisional HMRC figures for 2004/05 (revised December 05).

# 5 Impact of the Finance Act 2000 tax changes

## Details of tax changes 2000

The principal change to Gift Aid in 2000 was the removal of the minimum qualifying gift level of £250, making gifts of any size eligible for Gift Aid.

Another significant change was the removal of the tax relief for covenant donations in a bid to make Gift Aid the main vehicle for tax-efficient gifts of money<sup>9</sup>. As an interim measure, HMRC transferred all covenants which were in force at April 2000 to Gift Aid, effectively merging the two schemes in their figures. The covenant scheme continues to exist in its own right, however, as a non tax-efficient but regular method of giving to charity; in order to become tax efficient any covenant taken out after April 2000 would have to be Gift Aided.

Company gifts under Gift Aid were also changed – instead of the charity having to reclaim the tax relief, all company gifts are now made gross, effectively removing company giving from the Gift Aid figures shown here. Companies can still reclaim tax reliefs on gifts made gross to charities.

For the purposes of future policy-making, it is important to understand what impact the tax changes had on giving through Gift Aid. What has been particularly successful and what remains for future policy to tackle?

This section of the paper, therefore, tries to illuminate the sources of growth in Gift Aid, and considers:

- why were the tax changes initially slow to take effect?
- how far can the increased amount given through Gift Aid be explained by:
  - new charity donors?
  - new money or conversion of existing giving (including covenants)?
  - more bigger gifts
- is growth in Gift Aid now going to plateau at a lower level?

Unfortunately, there has been little direct tracking of the impact of the new Gift Aid, so CAF has made an attempt to estimate the answers indirectly from the related data available.

## The time-lag in the impact of the changes

The analysis in this paper shows that there was a slow start before the tax changes of 2000 began to have considerable success in increasing growth rates in gross Gift Aid income (see Figure 2).

<sup>9</sup>Payroll giving is available only to those employees whose employers offer the scheme, while legacies remain a specific scheme for gifts after death.

## 5 Impact of the Finance Act 2000 tax changes

Why was there a slow start? There are several possible reasons. One is the time which charities took to convert gifts to Gift Aid, to invest in new systems and to build up the capacity to fundraise in new ways.

Another possible factor which could also have slowed the initial growth of the scheme was donors reducing the size of their gifts once the April 2000 tax changes removed the necessity to give a minimum of £250 to get a tax break.

These were initially very worrying factors. The number of donors using Gift Aid after the tax changes 2000 however, began to grow rapidly as charity systems geared up. This bolstered the overall amount donated through Gift Aid with the result that, as noted, the third year after the changes (2002/03) showed the strongest annual growth rate in the value of donations in the whole history of the scheme, at just over 15%.

### *Have all charities caught up with the Gift Aid scheme now?*

In 2004/05 HMRC estimated that around 59,000 charities reclaimed tax reliefs from Gift Aid donations. CAF estimates that this is unlikely to represent much more than half of all charities involved in fundraising, which indicates that many fundraising charities are not using Gift Aid.

In addition to this, there is some evidence that those charities already using Gift Aid have not yet converted all their donors to it. Small-scale surveys carried out by nfpSynergy in 2002 and 2003<sup>10</sup> found that on average the charities in their sample had converted less than half of their donor base to using Gift Aid, but that this proportion was increasing year by year.

The average proportion of donor base converted to Gift Aid grew from 40% in 2002 to 45% in October 2003. A very few (8) charities in the survey had achieved conversion rates of over 80% by 2003. The survey report concludes that charities are not promoting the use of Gift Aid, or using it, as effectively as they could.

### *What are the sources of the increased amount of money going through Gift Aid?*

As noted above, some of the late upsurge in the amount of money going through Gift Aid was undoubtedly due to charities clearing their backlog of Gift Aid mandates, getting more efficient database systems in place, and/or increasing fundraising drives aimed at converting donors to Gift Aid.

<sup>10</sup>"Looking a Gift Aid Horse in the mouth", (Alexandra Denye, Elisha Evans & Joe Saxton, July 2003) and "You can take a Gift Aid horse to water..." (Joe Saxton & Alexandra Denye, report prepared for the Giving Campaign, February 2004) sample = 139 charities.

## 5 Impact of the Finance Act 2000 tax changes

There are a number of other possible explanations for the increase in the donations through Gift Aid, and these are explored below. Lack of evidence on this means that answers can only be estimated from secondary data.

### *Have there been new charitable donors since April 2000?*

This is difficult to assess. Evidence from the CAF/NCVO individual giving surveys shows that, after a decline throughout the '90s, the proportion of the population giving to charity went up slightly around the millennium but has not increased since that point (see Figure 3).

This suggests that a large proportion of donors who came into Gift Aid after 2000 were already giving by other methods.

Figure 3: Long-term trend in the proportion of GB adult population giving to charity by all methods (1995-2003)



Source: "Inside Research" individual giving update 2003 based on omnibus surveys of the general population produced by CAF/NCVO.

### *Converting existing donations or promoting extra donations?*

How far was the growth in Gift Aid due to charities and their donors increasingly converting existing donations or due to new additional donations? There is no direct evidence on this, and conclusions have been drawn by CAF from looking at other relevant data.

First we have to take into account the phasing out of the covenant as a tax-efficient giving vehicle in its own right. Prior to the

## 5 Impact of the Finance Act 2000 tax changes

tax-changes, covenants provided a considerable proportion of tax-efficient giving to charity. Much of the early growth in Gift Aid after the tax changes was likely due to the conversion of regular covenant giving to Gift Aid. It is not known what the precise level of giving through covenants now is. CAF/NCVO surveys indicate that covenants are only used by a small proportion of donors, and that not all of them are being converted to Gift Aid.

The second point to note is that although the value of Gift Aid grew in the 1990s, during that period there was no concomitant rise in the overall value of giving. In fact Figure 4 shows that total individual giving was in decline through the 1990s, redressed by a massive boost in the value of donations at the millennium, when there were many special fundraising campaigns. Between 1998/99 and 1999/00 the level of overall individual giving increased by one third in one year (after adjusting for inflation).

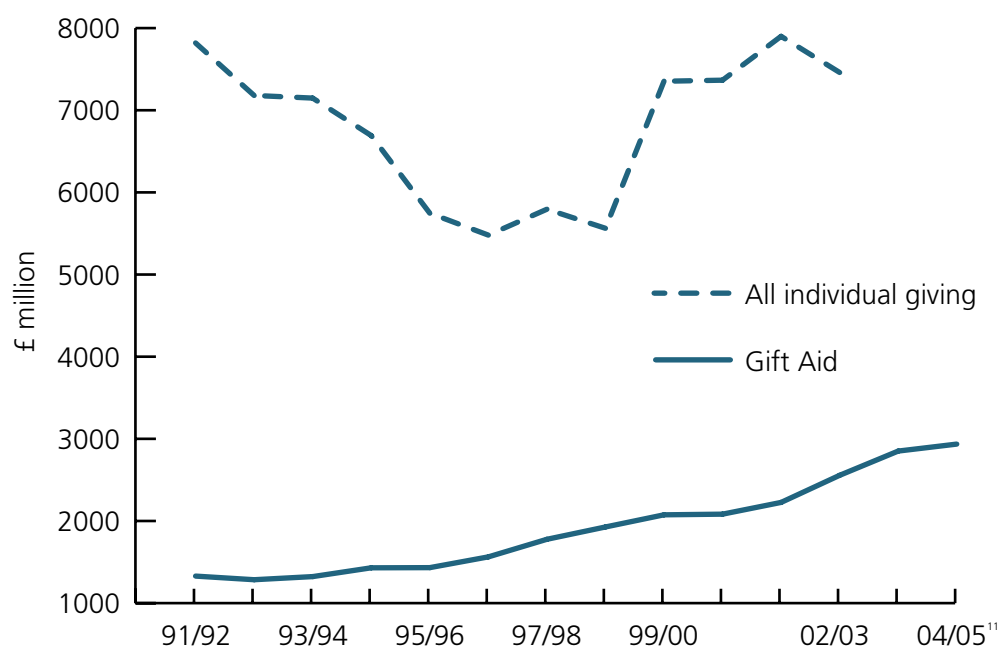
However, in spite of the fact that much of this millennium money was given in one-off campaigns, the new higher level of donations has been largely maintained since that time. This indicates that there has been some extra new money since 2000, but as Figure 4 shows, the bulk of the new money came in the year before the Gift Aid tax changes were introduced.

Some of the new gifts generated by the millennium may have been converted to Gift Aid, and the maintenance of the increase in individual giving may have been partly related to the tax changes because the changes to Gift Aid in 2000 were part of a wider initiative to create a culture of giving in Britain. This included the creation of the joint government / voluntary sector Giving Campaign which spearheaded a number of promotions of giving and of tax-efficient giving in particular. The changes to Gift Aid were designed not only to make it easier for all to participate in tax-efficient giving, but also to boost the relationship between donors and charities.

Of course, it is impossible to say with any authority, what might have happened to individual giving after the millennium without the tax changes. However, it seems eminently possible that the combined effect of an atmosphere in which greater giving was encouraged, and a growth in regular giving have helped to maintain overall individual giving at this new higher level into the 21st Century.

## 5 Impact of the Finance Act 2000 tax changes

Figure 4: Giving through Gift Aid compared with all individual giving to charity 91/92-04/05 (£billion, unadjusted for inflation)



Sources: CAF Individual Giving Surveys; CAF/NCVO Individual Giving Surveys; HMRC statistics. All figures are shown adjusted for inflation at 2004/05 prices; total individual giving does not include tax reliefs; the amount given through Gift Aid is shown gross.

### More bigger gifts?

How far was the growth in Gift Aid income due to existing donors making more bigger gifts through Gift Aid? There is no direct evidence on this, but it is possible to draw some conclusions from looking at other data.

The first point to note is that, as has been shown in this report, the numbers using Gift Aid have grown massively since the tax changes. Figure 5 shows a big decline in average amount after the removal of the £250 threshold in 2000, with gift size going down as the proportion using Gift Aid went up. The average amount donated per individual was calculated by dividing the total value of all individual donations through Gift Aid by estimated numbers using it.

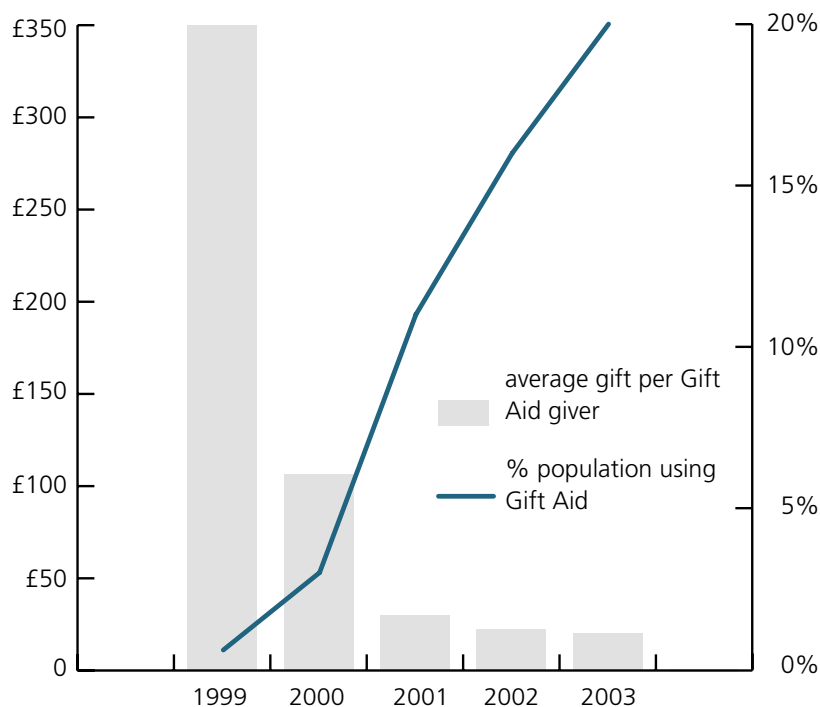
Although a fall in the average gift size as number and type of donors using the scheme expanded was predictable, the rather low average gift size for Gift Aid after the tax changes suggests that any increase in the number giving markedly larger amounts had to be quite small.

<sup>11</sup> New survey estimates for 2004/05 published by CAF/NCVO in December 2005 show higher levels of all individual giving than the previous surveys. This is due to a change in research methodology and the trends therefore are not affected (UK Giving 2004/05).

## 5 Impact of the Finance Act 2000 tax changes

The main implication of this is that Gift Aid has stimulated more high-volume, low-value, tax-efficient giving rather than significantly bigger gifts.

Figure 5: Trends in size of average gift through Gift Aid and proportion using Gift Aid



Source: % population figures taken from the CAFINCVO surveys of individual giving; average gift figures calculated from HMRC Statistics total donations from Gift Aid and CAFINCVO surveys. Note that the figures for 2000 show an average gift of less than £250; this is because Millennium Gift Aid is included which allowed gifts of £100 minimum.

### Conclusions on the sources of Gift Aid growth

After reviewing the evidence laid out above it seems that the recent upsurge in the amount given through Gift Aid can be explained by:

- a large proportion of conversion of existing donors and existing giving
- a small number of new charity donors
- a small amount of new charitable money
- a small number of larger gifts

This means that there is now a challenge for charities to build on these foundations and aim for a significant new increase in total giving, the number of major gifts and major donors, and the proportion of giving which is Gift-Aided.

### Future growth trends for Gift Aid

Has giving through the new Gift Aid started to level off after a short surge as the growth trends in Fig.2 show? It is too early to make predictions from the results of the last couple of years, but this possibility must be faced and is discussed further in the next section.

## 6 The future for Gift Aid

The Gift Aid scheme has changed dramatically since the April 2000 tax changes, and although undoubtedly easier to administer, has necessitated changes of fundraising approach and database systems amongst charities. After a brief period of acclimatisation, charities are beginning to reap rewards but need to do more if tax-efficient donations are to grow in any significantly greater way in the future.

The evidence suggests that while the tax reliefs now available through Gift Aid do not tend to increase individual giving, they have provided the opportunity for people at all levels in society to benefit from the tax reliefs and provide an added incentive for charities to build relationships with all of their donors.

Even so, there are limits to how much Gift Aid can grow within current patterns of giving and fundraising. Charities need to take decisions about how best to exploit Gift Aid's potential in the future. There are a number of options, and these are each explored in turn below.

### Further conversion

The most obvious option is to ensure that as much giving as possible is converted to Gift Aid. About one-third of current gifts are Gift-Aided. If the residual amount of donations made through easily convertible methods (eg: covenants, direct debits, sponsorships, particularly through doorstep or face-to-face fundraising), and which represents about another one-third of the value of giving, was Gift-Aided, this would serve as a good target for charities in the short to medium term.

Charities need to continue to innovate in fundraising to ensure that the remaining third of giving, which consists of less easily convertible money, is brought into Gift Aid. For example, wherever possible, cash donations should be solicited in ways which allow donor details to be captured at the point of donation. Collection envelopes allow this, or other ways of collecting details on paper or electronically personally from the donor when donating.

Another example of a new approach to on-the-spot collections is the new voucher scheme which CAF has launched in which donors can purchase a book of donation vouchers on which the tax has already been reclaimed. Donors can donate a voucher instead of cash to their chosen charity.

In October following the huge telephone and online response to the Tsunami Appeal, the Treasury changed the rules surrounding Gift Aid donations to ease tax reclaim, opening up new opportunities for easy conversion of fundraising. Online giving

## 6 The future for Gift Aid

now requires no more than electronic confirmation that the donor is a taxpayer, wishes to Gift Aid and has paid sufficient tax to cover the donation reclaim. Telephone donations also now require no more than a telephone record of the donor declaration.

Estimates for how much extra Gift Aid income this administrative cut could bring in range from the Treasury's £1 million to a more optimistic £10 million by some sector spokespeople.

### Converting the unconvertible

A second option is to look at imaginative ways in which fundraising approaches which seem much more difficult to convert to Gift Aid might be brought into it. For example, one idea currently being discussed in the sector is a mechanism for enabling tax to be reclaimed on gifts of goods to charity shops.

### Increasing regular giving

A third approach would be to focus on increasing regular giving. About one-fifth of donors currently give through regular mechanisms such as direct debit and payroll giving.

There is plenty of scope for increasing regular donations from the remaining four-fifths of donors, at all levels of society. Regular giving through direct debits and standing orders is still mainly a preserve of the better-off in society, as a recent CAF analysis shows. Table 2 below shows the proportion of each social class giving through direct debits and standing orders. There is still enormous opportunity for regular giving to be promoted more broadly across society.

Table 2: Proportion (%) using regular giving methods by social class

Social Class	% households using direct debit & standing orders to give to charity
i	25.4
ii	15.5
iii non-manual	12.5
iii manual	5.3
iv	5.4
v	1.7

Source: *Expenditure and Food Survey, 2000/01*

## 6 The future for Gift Aid

Fundraisers could give the acquisition of regular commitments priority over spontaneous gifts of cash, ensuring the initiation of a relationship between donors and charities which could lead to increased tax-efficient income. Better relationships with donors would also reduce the multiple direct mail appeals which swamp the general public daily through their mailboxes.

### Optimal donor targeting

While Gift Aid is an excellent tool for encouraging stronger relationships between charities and donors, charities have options of putting more resources into encouraging high volumes of lower-value donors to use Gift Aid or into acquiring more high-value gifts from a few. Currently, the situation appears to be that more lower-value donors are being recruited to Gift Aid.

However, many charities still face administration difficulties with high volumes of small gifts and some have set caps on the size of donation they deem 'worth converting' to Gift Aid.

What is needed is a calculation of an optimal fundraising strategy for each charity, which is targeted at raising the largest amount from the maximum number of donors.

### Making more of charities' relationship with donors

There have recently been calls from some in the voluntary sector for the government to make Gift Aid an 'opt-out' rather than an 'opt-in' scheme, in a bid to increase take-up rates. It would mean that all donations to charity would be Gift-Aided unless a donor specifically opted out. This was a particular call following the Tsunami disaster appeal which CAF has estimated was a highly tax-efficient campaign, with around 50% of those donors eligible for tax relief giving through Gift Aid.

The advantage of the 'opt-in' approach is that if charities have the direct responsibility for reclaiming tax they have an excellent incentive to develop their donor databases and achieve regular giving relationships with donors. In the longer term the current opt-in system will be the most effective way of increasing giving.

### Rewarding individuals for tax-efficient giving

There have also been debates about whether giving all the charitable income tax relief to the individual instead of to the charity, as in the US, would incentivise more giving. This possibility was investigated by CAF with the NCVO and HMRC before the April 2000 tax changes were introduced. Results suggested it would not be desirable. Firstly, comparatively few people in the UK file tax returns and so the mechanism for reclaiming this tax relief

## 6 The future for Gift Aid

would be cumbersome and possibly off-putting. Secondly, figures from an omnibus survey indicated that 49% of givers would rather see all the tax relief go to charities, while only 23% said that they would rather have the tax relief themselves<sup>12</sup>.

### Attracting more major donors

A number of recent initiatives in the voluntary sector are trying to address the issue of how to raise more and bigger gifts, including, for example, Guidestar UK and New Philanthropy Capital, which focus on increased donor information and Venturesome, Impetus and Charity Bank which aim to grow social investment by major donors. Other initiatives include exploring the value of 'lifetime legacies'. The jury is still out on whether these initiatives will increase total giving, and charities should invest more in developing new ways to stimulate major giving through Gift Aid.

### Encouraging more charities to use Gift Aid

In November 2005, the Home Office announced new proposals<sup>13</sup> to renew the government's commitment to the "Getting Britain Giving" package of tax measures set out in the Finance Act 2000. Included in these proposals is considerable investment in support and training, particularly for small and medium-sized charities, to increase take-up and use of Gift Aid and to make the most of tax-efficient giving.

### Conclusions

In conclusion, Gift Aid is showing great signs of success in extending access to tax reliefs to donors across the whole of society, in making more giving tax-efficient, and in encouraging better relationships between charities and donors. However, on current patterns of giving and fundraising, it is not an inexhaustible source of growth in charity income. The future for Gift Aid lies in ensuring that as much current giving as possible is Gift-Aided, while also encouraging the wealthy to make larger and more frequent donations through Gift Aid, by the development of more sophisticated major donor fundraising strategies.

<sup>12</sup>And although it is true that more higher-rate taxpayers than basic, lower or zero taxpayers thought it important to get the tax relief themselves, this group constituted less than one third (29%) of higher-rate taxpayers, compared to over one half (53%) who thought it important that the tax relief go to the charities. Thus there is no hard evidence to support increasing tax reliefs for higher-rate taxpayers only, which has also been mooted, either – although the process for reclaiming this would be much easier for this group. For further details see the Charities Tax Review background papers at [www.cafonline.org/research](http://www.cafonline.org/research) (Tax-efficient Giving)

<sup>13</sup>A Generous Society :Next steps on charitable giving in England", Home Office, November 2005.

# Background notes

## The Gift Aid scheme and the Finance Act 2000

The Gift Aid scheme, when introduced in 1990, allowed charities to reclaim basic-rate tax relief on gifts of money from individuals and close companies. Higher-rate taxpayers are able to claim tax relief on any gift made to charity through Gift Aid, as the difference between basic-rate and the higher-rate of tax.

Since its introduction, there have been several revisions to the Gift Aid scheme, mainly aimed at extending the tax breaks to smaller gifts. In 1990, only gifts between £600 and £5 million could qualify for the scheme, but the upper limit for gifts was abolished in 1991, and the minimum limit was lowered to £250 in 1993. Neither of these revisions had any major effect on the total volume of donations given through Gift Aid, which grew steadily but slowly over the ten-year period from 1990 to 2000.

In April 2000, the government made several sweeping changes to the Gift Aid scheme to open it up to all tax-paying donors, and to make it easier for charities and donors to use (the Finance Act 2000). The major change was the removal of the lower threshold of £250, which means that donations of any amount are now eligible for tax relief under the scheme.

The rules governing covenants have also changed. Under the old legislation, if individuals or companies gave to charity through covenants of three years or more, charities could reclaim tax relief on the money given, in the same way as they could under Gift Aid. Under the new legislation, a covenant ceased to be a tax-efficient method of giving in its own right, but can be Gift Aided to become tax efficient. As a transitional measure, HMRC automatically transferred any covenant that was already set up in April 2000 to the Gift Aid scheme. For any covenants taken out since April 2000 to become tax efficient, they must be Gift Aided.

## Analysing the Gift Aid figures

The March 2003 CAF online briefing paper 'Gift Aid in the New Millennium' contains a detailed analysis of the difficulties of measuring Gift Aid after April 2000 (<http://www.cafonline.org/research>). Covenants in force at the time of the April 2000 tax changes were automatically incorporated into Gift Aid, but there are no figures available to tell us how much this was, nor how much covenant money is currently being Gift Aided. As a result, it is impossible to track growth trends in Gift Aid in the same way as previously, and also impossible to estimate the extent to which growth in levels of donations through Gift Aid represents real growth in the Gift Aid scheme since the tax changes, and not just conversion from covenants.

# Background notes

For these reasons, this paper combines covenants and Gift Aid in order to track the long-term trends in tax-efficient giving through the two schemes. Estimates have been made from the HMRC figures for the amount of money given by individuals through covenants for the years before the April 2000 tax changes, in discussion with HMRC.

## Further revisions to Gift Aid

In April 2004 it became possible for self-assessment taxpayers to donate any overpayment of tax to charity, and attract Gift Aid on the gift.

In November 2005 HMRC removed the requirement for charities to write to donors confirming their Gift Aid declaration, so long as an adequate record of the declaration is kept which may be a recording of a phone declaration, an email declaration or a copy of a mobile phone text message declaration, amongst other things, for full details see the HMRC website: [www.hmrc.gov.uk/charities](http://www.hmrc.gov.uk/charities).

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CAF is the not-for-profit organisation which is committed to effective giving, providing a range of specialist services to donors, companies and charities in the UK and internationally.

Our aim is to increase both the level and impact of giving and we strive to achieve this through all our activities, including working as an advocate for the charitable sector.

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