

Charities Aid Foundation Budget 2021 Stakeholder Representation

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1. About CAF

1.1 The Charities Aid Foundation's ("CAF") mission is to 'make giving go further' and to motivate society to give ever more effectively and help transform lives and communities in the UK and around the world. We work to stimulate philanthropy, social investment and the effective use of charitable funds by offering a range of specialist financial and philanthropic services to charities and donors, and through advocating for a favourable public policy environment. In 2019/20 we distributed [£702m to charities in the UK and 110 countries around the world](#).

1.2 CAF's research team publishes landmark reports such as [UK Giving and the World Giving Index](#), and has provided analysis and insight on the [impact of COVID-19 on the charity sector](#). CAF's in-house think tank, Giving Thought, undertakes policy research and analysis to understand the macro trends affecting philanthropy and the work of charities. We also campaign on a range of issues affecting charities and civil society, and have [submitted evidence to the National Council for Voluntary Organisations \(NCVO\) Charity Tax Commission](#).

1.3 The ability of charities to raise resources and achieve financial independence is a prerequisite to building a civil society that is both effective and sustainable in the long term. Charitable donations are a vital source of funding for many charities and the UK tax system provides crucial incentives for donors to support the causes and organisations they care about. This support for giving is a crucial element in supporting a diverse civil society and sends a clear and important message that the Government recognises the valuable role this plays in maintaining the health of our democracy. This is why we have a vital interest in ensuring that the tax system is harnessed to maximise its impact on charitable donations, in particular in the light of the ongoing and protracted impact of COVID-19 crisis on the sector.

2. The impact of COVID-19 on civil society

2.1 Despite ongoing instability and uncertainty, and a third national lockdown, charities continues to do vital work within our communities. They are at the heart of community responses to the crisis: helping the most vulnerable to withstand the impacts of the pandemic;

easing pressure on our national services; delivering vital services, and connecting people and communities across the country.

2.2 It is highly likely that throughout large parts of 2021 charities will continue to face the double hit of a drop in income, while at the same time that demand for their services is increasing due to the impact of COVID on their beneficiaries. Many organisations have had to deal with cancelled fundraising activities, closure of charity shops, changes to funders' activities etc. (de facto since March 2020 with some short lived timeframes where charities were able to resume trading and fundraising), Social distancing and other measures are also forcing changes in operations and resulting in increased costs. We also now know that the impacts of the pandemic will be felt for much longer than originally anticipated throughout 2021 and beyond. CAF's [charity polling](#) three months into the first lockdown found that demand for charity services was still increasing, and that [half surveyed were reporting](#) that they would not survive more than a year without further support. [CAF's polling at the end of 2020](#) also showed that charities were likely to reduce their services as another lockdown showed its impact. Two thirds of charities said they will have to reduce services in the next three months as a result of lockdown measures. Financial concerns due to the impact of COVID-19 remain widespread in the sector, [with more than half of charity leaders \(55%\)](#) saying that generating income and achieving financial stability is one of their top three challenges.

3. Policy rationale and macroeconomic implications

3.1 From our position in the sector we see how philanthropy and charitable giving can play a crucial role in supporting civil society through the current crisis, and in helping it to recover and rebuild over the longer term. However, mobilising generosity on the scale necessary will require additional Government support and stimulus. Charities are providing vital help to the most vulnerable in our society where the state and private sector cannot or do not provide them. If these services continue to shut down in 2021 and beyond, it will have a potential knock-on effect on public services as well as the wider economy (not only because employment in the sector will go down, but also as beneficiaries receive less support to enter the labour market or engage in further economic activity).

3.2 At the same time civil society remains crucial to tackling the crisis now and going forward, which requires additional resources. For example, St John Ambulance has committed to training more than 30,000 volunteers to administer the vaccination programme and organisations in the VCSEP partnership have been essential partners to the government's crisis response.

3.3 The initial £750m charity support package, and furlough scheme, were both welcomed and have helped charities, but the gap between the support provided and the need is vast (with [a potential £10.1bn funding gap for reported in the second half of 2020](#)). Much of this emergency support (such as the furlough scheme) will end on 31 March 2021, leaving charities short of resources to meet service demands and needs. While direct government stimulus for the sector will be crucial, the importance of philanthropy and giving in a post-COVID-19 world cannot be underestimated. For that reason, it is important that the tax system also supports and facilitates giving as effectively as possible. Where tax relief mechanisms for giving are available they should

be promoted as part of the Government's ambition to build a stronger culture of giving and philanthropy in our country. It is also important to acknowledge that in order for donors to receive tax relief they need to give away a significant amount more than they receive in relief.

3.4 Work is ongoing between charity sector representatives and HMRC to improve eligible Gift Aid take-up and ensure that Gift Aid is fit for the future; harnessing the opportunities that digital payments and other technology can offer to increase levels of Gift Aid usage, while at the same time reducing ineligible claims. However, whilst this could bring significant benefits over the longer-term, more immediate support for the sector is required right now due to the impact of COVID-19. The existing Gift Aid scheme provides a simple way for the Government to offer additional support for the charity sector at this unprecedented time, by helping to maximise the value of donations made by people around the country to the organisations and causes of their choice.

4. Introducing a short-term change to the tax system with lasting impact: the Gift Aid Emergency Relief Package

4.1 A coalition of leading voices in the UK charity sector (including CAF) has called on the Government to increase temporarily the level of Gift Aid that can be claimed on donations. A Gift Aid Emergency Relief package would contribute significantly to keeping charity services running and enable many charities to get through the crisis that will otherwise have to shut their doors.

4.2 The proposed Gift Aid change would mean that a £100 donation from a UK taxpayer would increase in value to £133.33 (from £125) for the charity once Gift Aid had been claimed. Raising Gift Aid from one-quarter to one-third on donations could secure an extra £450m for charities and benefit over 70,000 charities, as they return to fundraising activity and re-open charity shops.

4.3 A temporary two-year change to the rate at which Gift Aid is calculated has precedent in the form of the introduction of Gift Aid Transitional Relief in 2008. This scheme, which temporarily cut the link between Gift Aid and Income Tax and allowed Gift Aid to operate at a 28% effective rate for a three-year period between 2008 and 2011. Given that HM Treasury has already implemented an identical scheme, we know that that the mechanism works and that implementation is possible. Whilst charities need support as soon as possible, the requirement for primary legislation does not unduly limit the effectiveness of the proposal.

4.4 The package has two elements:

(1) The introduction of Gift Aid Emergency Relief (modelled on the previous successful Gift Aid Transitional Relief scheme (in Sch 19, Finance Act 2008)). This would get much needed funds to charities across the country by temporarily changing the way that Gift Aid is calculated. The proposal is for this to take effect from the beginning of the 2021-22 tax year and stay in place for two full tax years. As this makes use of the existing Gift Aid claiming processes that charities already have in place with HMRC, this can happen quickly and easily and thus will enable more cash to be delivered to charities as effectively as possible.

(2) Changes to Gift Aid Small Donations Scheme, to remove barriers for entry to ensure wider access across the full charity sector and increase the amount that can be claimed.

5. What would this measure cost?

5.1 Gift Aid claimed by charities was worth £1.35bn in 2018-19. If the effective tax rate at which Gift Aid was paid increased to 25%, this level of donations would secure an additional £450m to support the work of charities.

5.2 There is a long-established principle that donations to charities should not be taxed and this underpins the Gift Aid relief. However, estimates from the National Audit Office indicate that approximately £560m of eligible Gift Aid is not claimed each year - money that could be directly funding charity services. Taking into account that it is estimated that £180m is also claimed each year where it should not be, in net terms charities are losing out on potential Gift Aid claims of £380m each year.

5.3 It would seem likely that charities will see a fall in donations on which they can claim Gift Aid. If, for example, the level of donations fell by 20%, as some charities are predicting, then the measure would then only cost £360m. This is less than the net amount of eligible Gift Aid that has previously gone unclaimed each year.

6. The COVID-19 pandemic has brought enormous and unprecedented challenges for our society

6.1 As a result, the Government has already introduced emergency packages of support for many industries and sectors, in recognition of the difficulties they face and the value they bring to our economy. Charities have benefitted from some general measures, such as the furlough scheme, as well as a dedicated £750m package of support. However, it is clear that that the sector requires further support if it is to weather this storm.

6.2 A temporary increase in the rate at which Gift Aid is paid represents a simple, practical means of ensuring that more money gets to charities at this vital time, and one that has clear precedent in the recent past (in the form of the Gift Aid Transitional Relief scheme). Furthermore, this would not only utilise existing distribution methods - minimising challenges around distribution and reach which could be associated with grant funding. It would in effect act as a match for individual giving. Because Gift Aid is accessible to charities of all sizes and across all sub-sectors, this proposal offers an opportunity to provide equitable support across the sector based on a percentage of the donations that the charities receive from the public. It could also act as a powerful tool for further fundraising that could bring in even more money for charities and offers support the sector alongside long-term efforts to maximise Gift Aid take-up.

6.3 [Over 700](#) charities (including small, medium and large ones) have pledged support for the campaign alongside a number of MPs. Polling carried out by CAF also [found that four in ten people](#) who already donate money to charity said Government incentives such as top-ups make them more likely to give. We also found that [four in five people who have used Gift Aid](#) on a recent donation support a temporary increase in the tax benefit for charities. We would urge HM

Treasury to support calls for this important temporary relief package, which would increase the value of individual giving and could incentivise an increased number of donations.

More information on the proposal, a [detailed briefing](#), [FAQs](#) and a list of supporters that includes small, medium and large charities can be obtained on our campaign website for the [Gift Aid Emergency Relief Package](#).