

Charities Aid Foundation, Spring Budget Submission 2024

About the Charities Aid Foundation

The Charities Aid Foundation (CAF) is one of the UK's largest charities by income. For 100 years we have worked with partners across industry, government, and individual philanthropists to ensure vital funding reaches charities around the world. We work to stimulate giving, social investment, and to ensure the effective use of charitable funds by offering a range of specialist financial and philanthropic services to charities and donors. Last financial year, we distributed more than £1 billion to good causes in the UK and over 100 countries around the world.

Background

As we enter 2024, the challenges charities continue to face are threefold, experiencing higher demand while costs are soaring, and charity incomes are declining. An increasing number of people are relying on charitable services due to the ongoing cost-of-living crisis.

Our Charity Resilience Index published in January 2024, shows that half (50%) of charities say that they are at full capacity and cannot help anyone else and one in seven 15% are turning people away. Less than a third of charities (31%) said that they had the capacity to help any more people. Nearly half of charities surveyed (47%) say that more people are coming to them in a state of extreme need compared to this time last year, highlighting the way in which the issues that charities are dealing with have become increasingly complex.

Our data also show that donation and volunteering behaviour have not recovered to pre-pandemic levels, and we are increasingly concerned that people in the UK are getting out of the habit of giving. Our most recent UK Giving report showed that over 2022, 59% of people had given through donation or sponsorship in the past 12 months, significantly below the 65% of people contributing in these ways pre-pandemic in 2019. We are concerned that we are seeing a worrying and permanent change in charitable giving. The median monthly donation remains static at £20 and has been eroded by inflation¹.

An Extension of the £100m support for the sector

We remain grateful for the £100 million of support allocated to the charitable sector in the Spring Budget 2023. We know this funding is now reaching charities around the country who would be grateful for the critical support it will provide. However, as the sector continues to face challenges, we hope that the Government might consider using some of its reported fiscal headroom to direct further funding into the scheme in the 2024 Spring Budget.

With the distribution infrastructure for this support now in place, there is the opportunity to get funding out of the door quickly and in a highly impactful way, for instance to support small charities with their core costs. The Government may also want to explore introducing a match funding element to this to maximize funds. Match funding has an important multiplier effect.

Our experience demonstrates how impactful match funding can be. During the Covid-19 pandemic, CAF's Resilience Fund combined generous funding from the Department for Culture, Media, and Sport (DCMS)'s Community Match challenge with match-funding from the long-term savings industry, providing £40 million to support communities hardest hit. This funding provided support to

¹ [UK Giving Report 2023](#)

charities around the country and demonstrated what innovative partnership between the public, private and third sectors can do.

Income Tax and Gift Aid

We understand that the Government may be considering reducing the basic rate of income tax.

In the tax year to April 2023, Gift Aid was worth £1.6 billion to charities and community amateur sports clubs. Previously, when governments have announced changes to income tax, they have been mindful of unintended consequences for charities, who are affected by the corresponding impact on Gift Aid, and we would urge that a similar approach to be taken at this budget.

In March 2022, it was announced that the basic rate of income tax would be reduced to 19% from April 2024. At this point the Government included provisions for a three-year transitional period which would have maintained the current rate of Gift Aid relief until April 2027. In September 2022 it was announced that this change would be brought forward to April 2023, and confirmation was given at the time that the four-year Gift Aid transitional relief would still apply from April 2023.

As Gift Aid is a refund of the basic rate of income tax, any change to the income tax rate will result in a reduction in the amount of Gift Aid paid. A change from 20% to 19% changes the amount that can be claimed from 25p per pound to approximately 23.5p. Gift Aid remains an important source of income for charities, supporting their valuable work. We estimate that should income tax be reduced without further mitigations, every year charities will miss out on £100 million, with a four-year transitional relief worth at least £400 million to charities.

Should a change to income tax be announced at the Spring Budget 2024, the Government should ensure that unintended consequences to charities are minimised, by ensuring an arrangement for a long-term transitional relief allowing charities to continue to claim Gift Aid at 20% for as long as possible.

Ensure grants and contracts cover the cost of delivery and increase in line with inflation

Charities continue to struggle to maintain service delivery in the wake of increasing costs.

Some charities are turning down government contracts because they do not allow them to recover the full costs of delivering those contracts. NCVO research published in November 2023² and covering 300 charities found that 40% said that grants and contracts have never covered the true cost of delivering services, which a further 44% said that grants and contracts had not covered their true costs since at least 2020.

As we did for the Autumn Statement in 2023, we again echo calls from the wider charitable sector to increase local government funding to make it possible to uplift grants and contracts to cover the true cost of service delivery.

A simplified risk-based approach to cross border giving

Currently, UK charities can make grants overseas, and such grants qualify as charitable expenditure if certain conditions are met. However, each individual transfer overseas must be re-verified, creating an administrative burden which makes it more challenging for donors to donate abroad, for instance in response to a crisis. A new approach would provide clarity and certainty for donors, reduce uncertainty for charity trustees, and strengthen the UK's reputation as a leading destination for

² <https://www.ncvo.org.uk/news-and-insights/news-index/true-cost-of-public-service-delivery/>

overseas headquarters and high net worth individuals. CAF has developed detailed proposals for a new approach, which would allow UK third parties to certify that appropriate due diligence had been done on overseas entities, which could be relied upon by UK charities granting overseas. We have shared these proposals with DCMS and the Office for Investment. These proposals require a simple change to policy by HMRC.

Improve the VAT system for charities

a. Create a special charity rate of VAT on purchases

Despite the value of existing VAT reliefs, charities still pay a substantial amount of irrecoverable VAT on purchases. Research commissioned by the Charity Tax group, published in 2020, found that £1.8bn of VAT levied on charities is irrecoverable. We therefore echo calls made by the Charity Tax Group and Charity Finance Group for a special rate of VAT applicable for supplies made to charities. This rate would ideally be set at 0%, but could be reduced over time, as public finances allow. Introducing a special rate of VAT follows the example set during the pandemic and supports charities to deliver critical services to our communities.

b. Create a VAT exemption when goods are donated by corporations to charities for the charities' own use

As the British Retail Consortium (BRC) and the Confederation of British Industry (CBI) have highlighted, the VAT rules that apply when retailers donate products to charities are hampering companies from donating excess stock to charity at sale and contributing to unnecessary waste and environmental harm. Donations of goods to charities by corporates for onward sale attract full VAT relief. However, in the case when goods are donated directly to support people in need, the donor is required to pay VAT. For example, a company donating used IT equipment for the use of a charity must pay VAT on this donation. According to the BRC, since the alternative is that these donations end up in landfill, this measure should be considered low cost.

Gift Aid modernisation

a. Invest in Gift Aid modernisation

Gift Aid is an important tax relief worth £1.6 billion to charities and community amateur sports clubs in the year 2022-23. Charity Tax group estimates suggest that £560 million of Gift Aid goes unclaimed each year, while £180m is claimed in error. We welcome the Government's review of the administration of Gift Aid processes, and the work that HMRC has been doing with partners in the sector to streamline and improve the Gift Aid system. There now needs to be greater engagement with the sector, and clear evidence of progress as this work continues. We believe that the Treasury and HMRC should continue to invest in the Gift Aid environment, working towards a vision of a streamlined system fit for a digital world.

b. Uprate the Gift Aid Small Donations Scheme (GASDS) thresholds

GASDS currently allows charities to claim up to £2,000 (at 20% income tax rate) on donations up to £8,000, comprised of small donations of £30 or less. The threshold has remained unchanged since 2016, and we believe it should be increased in line with inflation.

National Strategy for Philanthropy and Charitable Giving

At CAF we believe that the UK Government should commit to developing a national strategy for philanthropy and charitable giving. This would build on and bring together the existing work going on

in the Office for Investment and DCMS to encourage greater philanthropy. Such a strategy should aim to address the challenges facing the sector today and seek to maximise the contribution made by charities and donors to society.

This strategy should consider the UK's broad philanthropic and charitable landscape, exploring individual giving (particularly from high net-worth individuals) corporate giving, and place-based giving. It should also look at the role and position of philanthropy within government, data and evidence around giving, and giving infrastructure.

Charities Aid Foundation, January 2024