

# OXFORD ECONOMICS

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## **The potential impact of a cap on Charity Tax Relief**

**May 2012**



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## Summary Findings

- In the 2012 budget, the Government outlined proposals to introduce a limit on all uncapped income tax relief, to include relief on charitable donations. From April 2013, the maximum amount that can be reclaimed in tax relief will be £50,000 or 25% of the individual's income per annum, whichever is greater.
- Through Gift Aid, charitable donations in the UK are increased by allowing voluntary organisations to reclaim the basic tax rate on the donation. Therefore a £1 donation would be worth £1.25 to the charity (i.e. the equivalent pre-tax donation before the 20% basic income tax rate was deducted). Furthermore, a higher rate tax payer is eligible to claim the difference between the higher rate of tax and the basic rate. If the individual donating £1 to charity was paying income tax at the rate of 40%, then they would be eligible to reclaim the difference between the tax rates (i.e. 40% - 20% = 20%) on the gross donation of £1.25. They would therefore realise a relief on their income tax bill of £0.25<sup>1</sup>.
- HM Treasury estimate that removing the cap on income tax relief would raise an additional £50-100 million in revenue to the Exchequer<sup>2</sup>. Through the Gift Aid process, for every £1 given in tax relief to a 40% tax-payer, £5 will reach charity (because a £4 gift is grossed up to £5, on which the donor gets 20%, i.e. £1 back).
- It is therefore estimated that the proposed cap of income tax relief on charitable giving will lead to a fall in annual donations in the UK of up to £500 million<sup>3</sup>.
- Oxford Economics estimate that a fall in donations in the UK of £500 million could lead to a reduction in employment at charities of around 10,700 employees. Based on the latest figures released by the National Council for Voluntary Organisations (NCVO), this equates to approximately 1.4% of total employment in the sector<sup>4</sup>.
- The voluntary sector is an important source of employment for demographic groups which are less well represented in the public and private sectors, such as women, the over-50's and the disabled.
- In response to a fall in voluntary contributions, charities will also reduce their day-to-day purchases of goods and services produced in the UK. This will have a knock-on effect throughout the UK economy, with suppliers reducing employment in response to a fall in demand. In addition, a fall in employment in both charities and their supply chain will lead to a fall in consumer spending in sectors such as retail and leisure services.
- When considering these knock-on 'multiplier' effects of the charity sector on the wider UK economy, the loss of £500 million in donations is estimated to reduce employment by 18,800 people across the whole economy.
- A fall in donations in the UK will also impact on the ability of organisations to fulfil their charitable objectives in the UK, providing assistance to the most vulnerable in society.

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<sup>1</sup> <http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm>

<sup>2</sup> <http://m.bbc.co.uk/news/uk-politics-17724415>

<sup>3</sup> This figure is also supported by the leader of the opposition, Ed Milliband, during Prime Ministers 18<sup>th</sup> April, 2012. <http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120418/debtext/120418-0001.htm>

<sup>4</sup> <http://data.ncvo-vol.org.uk/category/almanac/>

- Social Return on Investment (SROI) is a research method used frequently by the voluntary sector to quantify their impact on the wider society and establish value for money. Using a meta-analysis of around 100 SROI research papers in the UK, Oxford Economics are able to model the potential impact on the UK society of a reduction in £500 million of donations.
- Analysis of the SROI literature suggests that for every £1 donated to voluntary organisations in the UK, the wider society stands receive benefits valued at between £2.6-2.9. This suggests that a fall in charitable donations of £500 million could lead to between £1.3-1.5 billion of societal impacts foregone in the UK per annum<sup>5</sup>.

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<sup>5</sup> Oxford Economics does not attest to the accuracy of the methodology of each SROI report obtained as part of the literature review. As such, only studies with an SROI co-efficient below the 90<sup>th</sup> percentile have been considered in order to adjust for the potential impact of outliers.

**OXFORD**

Abbey House, 121 St Aldates  
Oxford, OX1 1HB, UK  
Tel: +44 1865 268900

**LONDON**

Broadwall House, 21 Broadwall  
London, SE1 9PL, UK  
Tel: +44 207 803 1400

**BELFAST**

Lagan House, Sackville Street  
Lisburn, BT27 4AB, UK  
Tel: +44 28 9266 0669

**NEW YORK**

817 Broadway, 10th Floor  
New York, NY 10003, USA  
Tel: +1 646 786 1863

**PHILADELPHIA**

303 Lancaster Avenue, Suite 1b  
Wayne PA 19087, USA  
Tel: +1 610 995 9600

**SINGAPORE**

No.1 North Bridge Road  
High Street Centre #22-07  
Singapore 179094  
Tel: +65 6338 1235

**PARIS**

9 rue Huysmans  
75006 Paris, France  
Tel: + 33 6 79 900 846

**email:** [mailbox@oxfordeconomics.com](mailto:mailbox@oxfordeconomics.com)

**[www.oxfordeconomics.com](http://www.oxfordeconomics.com)**



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