The potential impact of a cap on Charity Tax Relief

May 2012
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.

- HM Treasury estimate that removing the cap on income tax relief would raise an additional £50-100 million in revenue to the Exchequer. 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.

- 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.

- 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.

1. [http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm](http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm)
2. [http://m.bbc.co.uk/news/uk-politics-17724415](http://m.bbc.co.uk/news/uk-politics-17724415)
3. This figure is also supported by the leader of the opposition, Ed Miliband, during Prime Ministers 18th April, 2012. [http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120418/debtext/120418-0001.htm](http://www.publications.parliament.uk/pa/cm201212/cmhansrd/cm120418/debtext/120418-0001.htm)
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\(^5\).

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\(^5\) 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\(^{th}\) percentile have been considered in order to adjust for the potential impact of outliers.