

Civil Society and Social Innovation Unit

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Digital Giving

Modernising Gift Aid; Taking Civil Society into the Digital Age

Asheem Singh and Samuel Middleton



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Digital Giving

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Digital Giving

Modernising Gift Aid; Taking Civil Society into the Digital Age

Asheem Singh and Samuel Middleton

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Notwithstanding the above, any mistakes found herein are our own.

A.S/S.M

Preface

By Phillip Blond, Director, ResPublica

This publication begins with the phrase, “we live to give”, and certainly, in a healthy reciprocal society, this is true. Giving is the essential transaction of civil society, the foundation of relationships and future exchange, and it is a fundamental prerequisite of the good life.

We have a Government that recognises this. Few would have predicted the prominence given to the Big Society before the election. Now it is a realisable reality, and the debate has moved on from whether the Government believes that civil society should be front and centre of a new social and economic settlement, to understanding how that very transformation can take place.

At ResPublica, we do not believe that civil society just happens. It must be nurtured, through the foundational infrastructure of communities and families, working in tandem with the Government and business to create options that didn't exist before. Government can't simply get out of the way and expect civil society to suddenly blossom – the state is still required to facilitate the ‘bottom-up’ renewal that our society so sorely needs. Government must remove the barriers to civic and social advance – it must make and secure the market for alternate social and economic forms to arise. In a democratic and free society, the state must encourage other powers beside itself. And crucial to this is the provision of a new economic foundation for the new order of fraternity and mutual prosperity. For charities, one of the pillars of our civil society, Gift Aid is a crucial economic infrastructure. It raises £1bn each year that goes towards rebuilding our society; towards helping the most vulnerable amongst us, and preserving and strengthening the social fabric where it is most attenuated. But, as this report shows, we need to make it work better.

I created ResPublica to be a transformative organization, and to achieve this we must do two things. The first is to consider the latest developments; to look forwards as well as backwards and so think ‘ahead of the curve’ about the coming future which we will all inhabit. In light of this and in the name of shaping that future to a better end, our second agenda is to create practical solutions that can be implemented immediately by Government. In this report, Asheem Singh and Samuel Middleton do both. They have given us a spectacular and compelling vision of the social technology and giving environment of the future, a picture that is located in the trends of the past and the evidence of the present. This acts as a context for a series of practical, implementable proposals for the Gift Aid system. I would say to Government, who have been searching for years for simple solutions to the problems of bureaucracy and administrative burden in the Gift Aid system, that they will find here simple, planned solutions that are ‘ready to go’.

A final word about the wider context. The message of this piece, apart from looking to the future, is to trust community organisations more, and the report presents practical policies that enable us to do just that. Lifting the burden of bureaucracy and regulation is key to restoring trust and to reimagining a more vibrant, self-organising set of communities, and so is vital to our thinking and work. Secondly, the authors’ approach appears to borrow much from the work of ResPublica fellow John Seddon and other systems theorists, who place a system in context to see how it can work better, relative to what it is supposed to do. This is the best approach and is, I believe, the true future of public service reform. I am delighted to endorse a report that puts these principles into practise.



Executive Summary

Giving to charity is an expression of our independence and our sense of social responsibility. It feeds and grows us and those around us. The nurturing principle, the idea of giving as a good that society should value is, at heart, what lies behind Gift Aid, our system of tax reliefs on charitable giving. Gift Aid exists to encourage us to give more and to provide the charities that do so much to help so many with income that can help them deliver. It exists because giving *is* good.

Gift Aid as both a concept and as a means of boosting the income of charities is a unique and invaluable system. By linking the relief to a donor's income tax and donation, Gift Aid takes the power of disbursing funds – funds that would otherwise be appropriated by Whitehall – out of the hands of government, grantmakers, and the sphere of lobbyists' influence, and places it in the hands of the donor. The system's relevance lies in its refusal to judge charitable causes on worthiness or neediness. Instead it reinforces the personalised nature of charitable giving by rewarding good indiscriminately. It is a prime example of the state facilitating civil society, not specifying or dominating it.

Every year in the UK we give approximately £4bn of our own money to charities through Gift Aid. This sum is boosted to the tune of an additional £1bn every year as a result. Annual statistics from HMRC show that the gross amount given by individuals using Gift Aid increased from £2.2 billion in 1999/00 to £4.6 billion in 2009/10. Despite the recession, the 2009/10 figure is an increase of 6.5% on 2008/9.^[1]

Yet there are many problems with the current system. Too few people are aware of the existence of Gift Aid, or are appreciative of the critical role it has in helping charities fulfil their social mission. Gift Aid was established in 1990, yet almost 20 years later, research suggests that 32% of the UK population has still never heard of the concept of tax-effective giving.^[2] This ought to be a serious cause for concern. It means that charities already under financial pressure are not receiving vital funds. Indeed, the Charities Aid Foundation has estimated that some £750m in Gift Aid goes unclaimed each year.

This is especially critical at a time when 36% of operating charities have no cash reserves to help them survive any cuts in funding against a backdrop of cuts to various government programmes targeting the voluntary sector;^[3] it means that some higher-rate taxpayers who donate to charity are unaware of Gift Aid's incentives which reward them for giving more. As too few people know about and fully understand Gift Aid, too few people use it; too few people realise why it must be celebrated and supported. It would be a mistake to view the success of Gift Aid with complacency.

Worse still, the system is teetering under the burden of bureaucracy. A claiming regime that requires paper-based submissions, excessive process and bureaucracy costs that take up charities' time, and an onerous audit burden, tends to hinder the work of the smallest charities the most. In a recent survey of small charities,^[4] 22.3% of respondents felt the time taken to complete the paperwork was an issue, and tragically, more than 10% of respondents felt that their charity had lost money due to complexity.^[5] A response to the then-Labour Government 2008 consultation on Gift Aid argued, "It can cost more

1. 'Gift Aid donations amounts', HMRC figures, available at <http://www.hmrc.gov.uk/stats/charities/menu.htm> accessed 1 September 2010

2. 'The public bond with tax-effective giving in the UK: A survey of the awareness of and attitudes to tax-effective giving', CAF Research Paper, April 2009, p10

3. 'Crowdsourcing cuts to Government funding for charities', NCVO, <http://spreadsheets.google.com/pub?key=0A13G3FWus29cdEV3cHFjS0YtZUgwS2FxFvHBFY0hVcUE&hl=en&single=true&gid=0&output=html> accessed 29 June 2010

4. With annual turnover less than £1million.

5. Survey of small charities by Small Charities Coalition for this report.

to administer a Gift Aid scheme than the amount that can be recovered...charity funds are being diverted to lawyers, VAT advisers and audit firms to work their way through the red tape involved in Gift Aid".^{6]} This has a financial cost which hurts the Government, too, and which would hurt more were more people to donate and the administrative burden was not somehow dealt with, as HMRC spend approximately £5 to process each Gift Aid claim submitted by a charity.

Reform of Gift Aid has been long mooted, but substantial reform has yet to emerge. The dire state of the public finances dictates that any reform or modification to Gift Aid must, in so far as it is possible, be cost-neutral. However, the interface between (1) the constraints of HMRC, who must track and combat fraud and maintain the integrity of the relief, (2) the process and audit burdens faced by charities, and (3) the difficulties of the antiquated system of paper declarations from the donor to opt in to the system and profess eligibility to receive Gift Aid (which act as a barrier to getting more donors to 'Gift Aid' their donation) presents an almost impenetrable problem: an **Iron Triangle of Gift Aid reform** that means that solutions that work within the current system will serve to provide only partial answers. This is why modernisation – using the very latest technological advancements – is so important. It is a means to break the iron triangle that has thus far prevented reform.

Understanding the role of technology in the future relevance of Gift Aid is important for another reason. Logically, any such reform must tend to do two things:

- (1) increase the number of donors using Gift Aid;
- (2) reduce the costs to charities that processing Gift Aid claims entails.

However, understanding just how we do both necessitates understanding the seismic shifts in our giving behaviour, many of which have been created or compounded by the rise of networking technology, that are currently taking place.

From instant communication to instant financial payments, and from minute-by-minute news to social networking, the way in which we interact with each other is changing. Text messages, iPhone applications, YouTube and Facebook jostle for our attention. The manner in which people interact with news, their friends and their social networks has dramatically transformed, and this has had a huge impact on the way we think about the world around us and our relationship to the causes that mean something to us. This is the Digital Age, a world which attaches value to rapidity, convenience and interaction. Gift Aid must embrace the future if it is to remain relevant and continue to provide tremendous support for charities.

Technology is increasingly important to charity fundraisers. Donations made online or via mobile phones have grown tremendously between 2004/5 and 2010 from 8% to 18%. Currently just 2% of the £9.2 billion donated to charity every year in the UK is given online. That the charity sector lags so far behind the private sector in this field is illustrated by the fact that more than 50% of people in the UK currently shop online. *Charity Text*, dedicated 5-digit numbers beginning with 7 that have been exempt from VAT charges since late 2008 and to which donors send an SMS message to in order to donate, raised £8million in 2009, and figures suggest that this sum could almost double to roughly £15m in 2010. Sport Relief 2010 raised approximately £3.4m via £1, £5 and £10 text donations, approximately 10.6% of the total generated income (£31.6m). And yet it is currently almost impossible for charities to claim Gift Aid on text donations. This is a very significant omission.

6. HM Treasury, 'Consultation of Gift Aid: the Government's response' (March 2008, available at http://www.hm-treasury.gov.uk/d/bud08_giftaid_335_.pdf accessed 19 April 2010 and 6 July 2010) p16

Increasingly, we give on impulse. Giving is an emotional, often visceral thing. We see an emotive advert, whether on the television or internet, or something bad happens to us or a loved one and we are instantly compelled to donate. Donors wish to donate in an instant, just as we increasingly expect to be able to pay for goods with minimum fuss. Some 11.3m people, or 42% of donors, give under £10 in a typical month. Yet a recent survey on Gift Aid Simplification found that 80% of charitable organisations who took part in the study do not claim Gift Aid on any form of donation below £5.^[7] This is a huge group of donors who are currently falling outside the Gift Aid system. As innovative new methods of fundraising are applied to social networking sites and new media channels, as well as highly personalised devices like mobile phones, we will see this valuable stream of income grow larger. The current system tends to render the claiming of small donations by small charities too time consuming and expensive. The trends, however, suggest that as our giving behaviour becomes more impulsive and more fragmented, this system takes us exactly in the opposite direction of where we need to be going if the relief is to make sense to the donors of the present and the future.

The UK Race Online 2012 campaign intends to “make the UK the first nation in the world where everyone can use the web”. Prime Minister David Cameron has argued that “promoting digital inclusion is essential for a dynamic modern economy and can help to make government more efficient and effective”^[8] The campaign promises to “tap into the incredible work that local charities do so that they can help us get to some of the people [who are not currently online] who would otherwise be too difficult to reach”^[9] This, we submit, is a rather ambiguous statement. Clearly the Government understands the vitally important role that charities play in our society, but it fails to realise that many charities themselves need help to embrace the online world.

A group shift needs to take place within the charitable sector: a race online to unlock the new income streams available and harness the evocative stories that charities can tell about the tremendous work that they do. The race online is not only about reaching more donors with advertisements and promotions; it is about shifting the ‘nuts-and-bolts’ operations and management systems online too, saving money, promoting efficiency and enhancing accuracy. If this is achieved, society will be the winner as the sector draws in more money, more profile, more donations and so can help more people.

These principles form the basis for our recommendations.

7. Gift Aid Simplification Survey – Headline Findings (2010, CFDG, CTG, CAF, IOF, CLAS, SCC, Stewardship). We must note that this survey has certain inherent biases with regard to the group selected, so we present it here with that caveat.

8. Race Online 2012 Press Release, available at http://raceonline2012.org/sites/default/files/resources/manifesto_for_a_networked_nation_-_press_release.pdf p1

9. Race Online 2012 Press Release, available at http://raceonline2012.org/sites/default/files/resources/manifesto_for_a_networked_nation_-_press_release.pdf p2

Digital Giving: Policy Recommendations

A Six Step Plan towards Digital Giving: Action Plan for Government and for the Charitable Sector to Modernise Gift Aid and Reduce Bureaucracy

1. It runs entirely against the grain of the modernising aims of the Government that claims for Gift Aid cannot be lodged online. The savings and benefits in terms of convenience and bureaucracy are numerous and the argument is compelling. Any reform will be incomplete without this change. As such, we recommend that the Office for Civil Society work with the charitable sector to create a system so as to allow Gift Aid to be claimed online, based upon the system we have co-created in this report. In order to achieve this, we submit that the Minister for Civil Society convene an implementation team, The Digital Giving Steering Group, comprised of government officials, charity sector representatives and private sector stakeholders, whose aim is to create a matched funding stream for charity sector investment in such a system and so a working coalition for digitising Gift Aid. The system should allow Gift Aid to be claimed on text message donations and other small quantum donations whose role will become increasingly important as the effects of the digital age take hold. Potential funders from the sector such as CAF or appropriate charity umbrella bodies should be part of the team. The Digital Giving Steering Group should work towards creating a feasibility study in conjunction with HMRC, Ofcom and others, acquiring matched funds for sector investment in such a system from the Big Society Bank, Big Lottery Fund, or from savings made elsewhere, as specified below. The aim of this group would be to practically implement the system, so cutting bureaucracy and spurring modernisation as a result.

2. We welcome the upcoming review for the Office for Civil Society by Lord Hodgson on cutting bureaucracy for small charities and urge it to consider three specific items relating to modernising Gift Aid: methods by which small donations can be claimed so as to relieve the need for an audit trail; simplifying guidance governing the offering of benefits by charities to donors; and conducting a cost-benefit analysis of the Self Assessment Donate mechanism, asking whether the costs could be better spent **redirected towards modernisation and bringing the system online, as the only sustainable approach to reform.**

3. We recognise the need for HMRC to protect the integrity of the national accounts and maintain an audit trail for donations. As such, we recommend HMRC amend its guidance only slightly in light of the proposed system so that **Digital Gift Aid is presumed to be the primary method of claim** and that a mobile telephone number or personal email is 'good enough' identification for a donor. No primary legislation will be required.

4. We need structures in Whitehall to ensure that the Government listens to the radical pace of technological change and amends its practices accordingly. We propose that the Digital Giving Steering Group be the anchor between two units. **A Digital Giving Unit, located in the Office for Civil Society, whose function is to work with technology companies and charities developing innovative fundraising forms and so suggest pro-sector, pro-social reform in light of the future giving environment, and the rise of digital fundraising (a policy function).** And HMRC, whose Gift Aid team's resources would be freed somewhat by the migration online, and whose job, made easier by the online migration, should be to reiterate the system and implement specific policy ideas that benefit charities while retaining the integrity of the system (a consultancy function). HMRC's eventual role should be to use the system to access Gift Aid data without having to go through charities at all, thus completely modernising the process.

5. We also need structures that enable a radical increase in uptake of Gift Aid, especially as donor behaviour fragments and more people give in smaller parcels to more causes that matter to them. An online system allows that infrastructure to develop. We recommend the Digital Giving Steering Group examine ways that the system can be turned **into a civic platform** and opened out, either with database improvements created open source, or indeed by encouraging retirees, volunteers and trustees to log on and give advice on how the system works. In concert, we recommend a civil society driven campaign that aims to influence people to ‘Gift Aid more’, working with technology companies and social media sites to spread the message from peer to peer, rather than centrally. A similar campaign should be extended to payroll giving and to other forms of digital currency, explored in this report, such as digital units.

6. Finally, we recommend that the treasury exercise its option not to continue with transitional relief on Gift Aid. Government efforts should instead be focussed on redoubling efforts to making Gift Aid ready for the future. This will save the exchequer approximately £300m over a three-year cycle. If matched funding is not forthcoming, we would suggest Government investment in the system be made in light of this figure, as well as possible savings from the self-assessment scheme, as a radical offering and a means to move this most important of tax reliefs into the future.

Gift Aid is a crucial, vital relief for charities and donors alike. In attempting to optimise Gift Aid we must not fall into the trap of thinking that ‘no system at all’ would be preferable. Instead, we need to modernise the system so that the claiming of Gift Aid on small donations is profitable and effective; we need to reduce the amount of money and time charities spend on processing and claiming Gift Aid; we need to reduce the amount of money spent by HMRC on processing Gift Aid claims, and finally, we need to raise awareness of tax-efficient giving amongst the general public and encourage more donors to use Gift Aid whenever possible. This entails the forging of a new partnership between Charities and HMRC based on efficient digital giving and efficient digital accounting. Technology holds the key to this new partnership of the future.

As such, a Gift Aid system suitable for the Digital Age must provide charities with the ability to file their Gift Aid claims online. There is demand in the charity sector for this technology: 84.2% of small charities claim to be interested in making Gift Aid claims electronically.^[10]

Moreover, a recent survey on simplification of Gift Aid found that the majority of charities (81%) predicted that an online Gift Aid management system would lead directly to savings on paper storage and reduce the time spent maintaining records of donations.^[11] Charities would not be the only beneficiary of such a system. Online submissions and processing of Gift Aid claims could see HMRC reduce the £5 it currently spends on processing each claim received, and the system overall would contribute to more accurate accounting. In short, everybody is set to benefit from the right online system.

10. Survey of small charities by Small Charities Coalition for this report.

11. Gift Aid simplification survey, op. cit.

The Cloud System: Getting Gift Aid Online and Enabling Text Donations to Be Claimed Online

Contactless payments, smartphones and mobile apps may perhaps shine a light on the future of charitable giving, but our charity sector has not yet fully embraced the benefits of established technologies such as text donations. Currently, Gift Aid is claimed on less than 5% of text donations. If Gift Aid was claimed on just 60% of these donations, this would generate an annual sum of some £1m for charities.

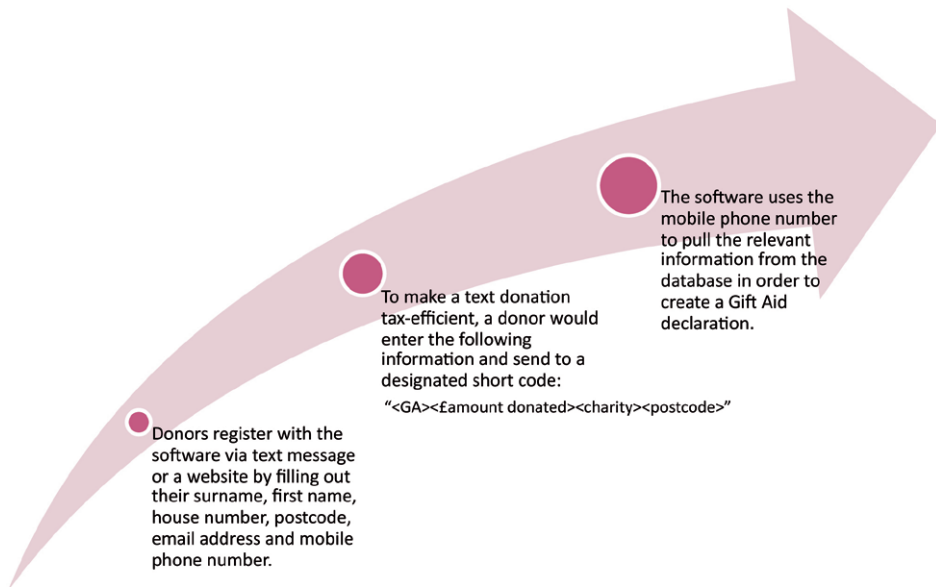
It was argued recently that this was a defect that could not be remedied. Part of our work on this project has been to revisit and challenge this presumption so as to show the power of migrating Gift Aid online while also providing the necessary service. That is why we have developed and co-created a service with Icen Mobile, the team that created M-PESA, the world's largest mobile payments service. The system:

- makes all text donations – **potentially worth £96m per year by 2014** – tax-efficient;
- easily facilitates the processing and management by charities, donors and HMRC of Gift Aid claims for future technologies;
- works through the cloud and so is internet, email and mobile ready, hosted securely, with multi-point access, so that charities, donors and potentially government institutions such as the HMRC could enter and view the database with differing levels of security, in a similar way to Google Health or Microsoft's HealthVault.

A service such as this could hold a donor's Gift Aid declarations and link donors to their mobile phone numbers, email and home addresses. In the longer term, with sufficient security procedures in place, credit and debit card details may also be linked to the donor's account to facilitate higher value gifts.

Here is how the system would work from the donor's perspective:

Fig. 1

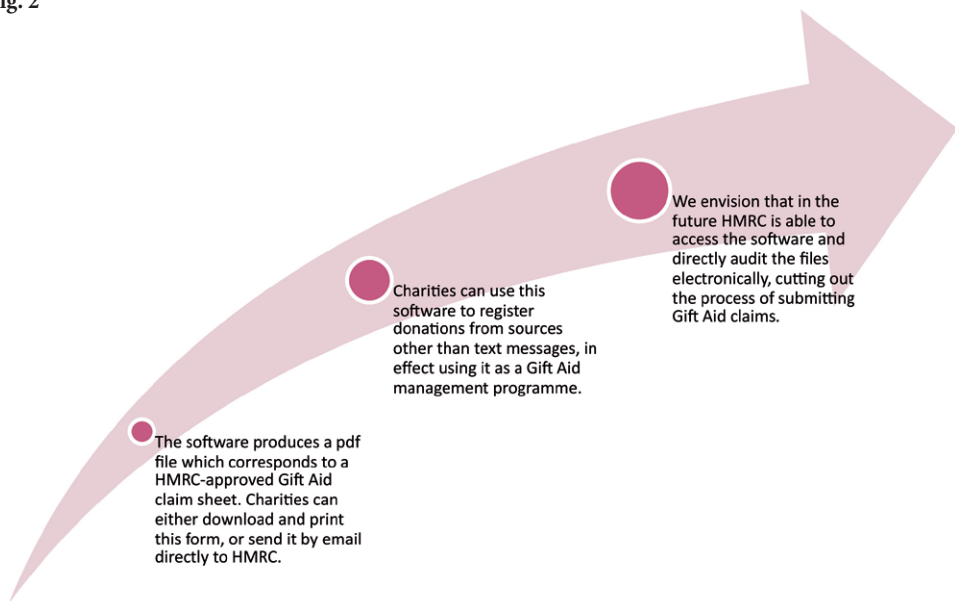


The software would use the mobile phone number to create a Gift Aid declaration to cover that donation by pulling the relevant information from the software. By entering “Gift Aid” or “GA” the donor certifies that s/he wants Gift Aid to be applied to the donation.

Similar services can also be made available for donations through websites by Credit Card, Debit Card, Paypal, etc, as well as through additional line items on professional and magazine subscriptions, or through ‘Apps’ via Apple’s iTunes store – and so on. Such a service could moreover be extended to provide a consumer portal – a civil platform – for the donor community, for example as a meeting point for retirees, programmers and those in the know to help those who are less knowledgeable on a peer-to-peer basis rather than directed from the centre, so reducing demand on the state.

Here is how the system would work from the charity’s perspective:

Fig. 2



As suggested above, this offers an opportunity for HMRC to evolve their remit. With the right preparation, HMRC could directly mine the data bank for the relevant information, thus completely cutting out bureaucracy for claiming charities. This would be a welcome development.

Along these lines, with such a system in place or in development, a practical cultural position could be taken by HMRC as follows. We would recommend that stakeholders such as HMRC, HMT, the Gift Aid Forum and other charity sector representatives adopt the principle that **Gift Aid should be claimed online**. This would support the goals of UK Race Online 2012 and is the *sine qua non* of the modernisation process. With this measure in place, other reforms that help reduce the bureaucratic burden of Gift Aid fall more readily into place.

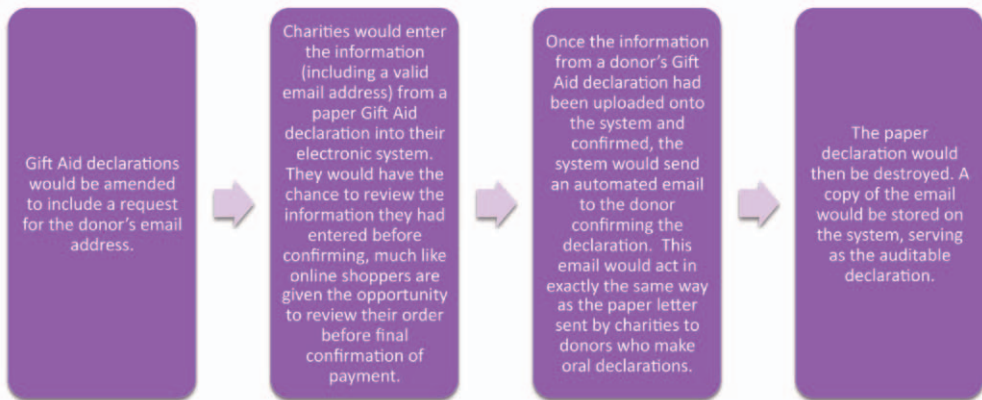
Digital Declarations

HMRC require an auditable trail linking an identifiable donor to their Gift Aid declaration, the donation they make and the subsequent claim by the charity. One of the drawbacks of similar proposals in this space is that they eliminate part of this audit trail.

Migrating online allows us to think more radically; to maintain the auditable trail but remove the burden of storage for charities by allowing all paper declarations from donors with email addresses to be transferred into oral declarations that are valid under current Gift Aid guidelines. In the system we have devised, this would work as follows:

- Gift Aid declarations would be amended to include a request for the donor's email address
- Charities would enter the information (including a valid email address) from a paper Gift Aid declaration into their electronic system. They would have the chance to review the information they had entered before confirming, much like online shoppers are given the opportunity to review their order before final confirmation of payment.
- Once the information from a donor's Gift Aid declaration had been uploaded onto the system and confirmed, the system would send an automated email to the donor confirming the declaration. This email would act in exactly the same way as the paper letter sent by charities to donors who make oral declarations.
- The paper declaration would then be destroyed. A copy of the email would be stored on the system, serving as the auditable declaration.

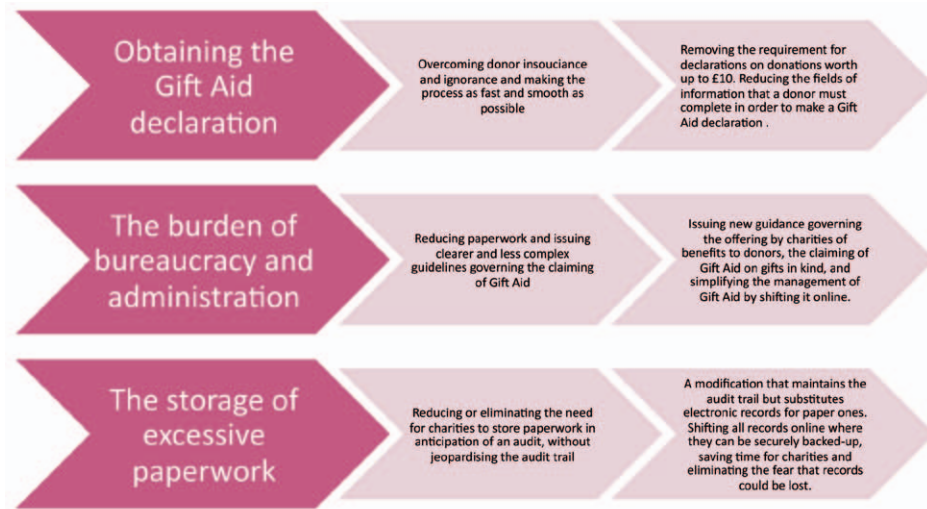
Fig. 3



Emails serve widely as a means of communication and confirming identity between customers and banks, utility companies and even government. People are able to pay their council tax online and communicate with their local council office via email. Emails are the unique identifier for PayPal payments. Gift Aid is the exception, not the norm. There is no reason why the letters confirming that a Gift Aid declaration has been made must be in paper form. An automated email sent to a donor as confirmation would then be stored by the online system in anticipation of an audit. Furthermore, unlike a hard copy letter, emails provide the opportunity to put in place a system to track whether and when the email has been opened by the recipient or not. The email could even ask the recipient to confirm that they had indeed made a declaration.

If this modification were accepted, it would completely eliminate the need for hard copies of records and claims to be stored for donations made by people with email addresses. The fear of losing records or making mistakes in processing Gift Aid would be eliminated. It is a small optimisation – but potentially a radical one.

Fig. 4. The basket of reforms recommended in this report to cut bureaucracy



Towards 2020

Technology offers charities the potential to boost their revenues through Gift Aid by a considerable amount, but as the group who will reap most rewards, charities who believe in the idea must be prepared to contribute. We recommend that this be something that umbrella bodies and sector representatives should lead on, in conjunction with Government, but in active partnership with private sector actors and technology specialists, so evolving the scope of the many groups that have been convened to address Gift Aid reform over the years. This 'Digital Giving Steering Group' would conduct the necessary feasibility study into the system, put together funding applications for the Cloud system to the Big Lottery Fund, Big Society Bank, or to other sources, create measurements for success and report on the progress of this and other projects pertaining to Digital Giving, with tangible milestones and goals. It is proposed that a Digital Giving Unit in the Cabinet Office be established, and linked to the government's UK Digital economy initiatives, so as to expedite the implementation of this system and keep abreast of similar future innovations that can be of benefit to civil society in the digital age, with the steering group forming the link between the unit and HMRC.

The Gift Aid simplification survey uncovered a worrying unwillingness on the part of charities to invest in the future, and a more comprehensive understanding of this barrier is crucial. Now should be the time for charities, authorities and interested stakeholders to make a concerted effort to dispel the fog of misunderstanding and fear of 'getting it wrong' amongst charities.

The Government can and should take additional steps. It should examine necessary mechanisms for allowing more retirees and volunteers, particularly from the accountancy and ICT sectors, to be able to give more advice to charities in need of IT advice. It could be for accounting institutions or a body such as OFCOM in the area of ICT that take a particular lead in this skills area, but we see a leadership role for umbrella organisations in the charity sector such as the Institute for Fundraising and the Charities Aid Foundation. We further recommend that the Government and the de-regulation Task Force, commissioned by the Government and headed by Lord Hodgson, examine how it can be made as easy as possible for people to volunteer time and share their ICT skills with charities.

In addition, we recommend that Lord Hodgson's team examine whether the current Gift Aid system, in an effort to guard against fraud, disproportionately penalises small Gift Aid claims; and if so, are the costs involved to charities (collecting, processing and storing information) and HMRC (auditing small claims) proportionate considering the relatively small amounts of money involved. As such, the task force would consider the possibility of taking donations that are worth less than £10 out of the audit system. For example, this could be achieved by allowing charities to aggregate donations under £10 in value into a maximum total sum of £500 and claim Gift Aid on a percentage of this sum. The percentage would be equal to the percentage of charitable donations on which Gift Aid was claimed during the current or previous year.

In looking to the future and the new technologies that will be available to us, we must not assume that the tools that currently exist are inherently outdated and of little use. Payroll Giving is an effective mechanism for tax-efficient giving. Though giving behaviour is evolving, this does not necessarily entail the extinction of committed regular giving. It simply means that in order to maintain regular giving, charities must engage with donors in new and innovative ways. Encouraging a social norm of giving is of vital importance, but charities must recognise that in order to retain regular givers, they must continuously re-evaluate how they engage and communicate with those donors to maintain the charitable bond.

Gift Aid has been a tremendous success story. However, awareness of just how vital a source of income it is must be communicated far beyond the charity sector and financially-savvy members of the public. Past promotional campaigns such as 'giftaid it' have enjoyed a certain amount of success, but now is the time to tap into the dynamics powering the new methods of charitable giving and create another promotional wave for Gift Aid. This time it means harnessing the power of social media, twitter campaigns, Facebook groups and online videos, as well as more traditional forms of communication. Government can play a supportive role in this particular recommendation, but the challenge of executing an engaging awareness-raising campaign will fall to charities, social enterprises and private sector partners, particularly in the advertising sector.

A new Government is in place, the Gift Aid Forum of charity and donor representatives will submit its report in September 2010, and the UK Race Online has as its benchmark the year 2012. However, in looking to the future we must be wary of overlooking the present and challenges that are yet to be overcome. Using the cloud to shift Gift Aid online, along with the other administrative simplifications we recommend in this report, would serve both present and future. It will place Gift Aid on a secure footing whereby its future can be secured; whereby the system goes with, not against, the grain of rapidly evolving donor behaviour, and where its relevance and importance are embellished as we move through the social and economic turbulence of the next few years. As such, we end this summary with a timeline demonstrating how reform along the lines we have recommended can sit within a coherent vision of civil society's future – as any upcoming reform to Gift Aid should.

Timeline of Reform

2010-2012

- Rules governing small donations introduced by government for Gift Aid claims by charities and fundraisers using internet-based fundraising sites.
- Groundwork across departments for Digital Gift Aid, including establishment of a Digital Giving Unit and Steering Group.

2012

- Introduction of a cloud-based system across the sector, making SMS text donations tax-efficient, capturing donations online and via smartphones and mobile apps. The rollout of this system would be combined with a promotional campaign to raise awareness during a fundraising drive such as Comic Relief.
- TV based campaigns for disaster relief allowable for blanket mobile donations of Digital Gift Aid

2013

- HMRC would have the capacity to accept claims for Gift Aid online and this would be synced with the cloud software already in use
- Oyster cards developed as first example for donations of Digital loose change

2015

- Donors would be giving to charity using contactless payments, swipe cards, and mobile phones as well as newer methods. Gift Aid would be rolled out to cover new 'gifts in kind' such as the Digital Units noted in Chapter 3.
- Smart metering UK roll out allows for Donations of surplus energy for charitable purposes
- International benchmarking study shows the UK Charity sector to be a global leader in Digital giving

By 2020

- The vast majority of donations would be made electronically: online, via SMS, mobile apps and smartphones. HMRC would have the capabilities to access and audit the Cloud System directly, meaning charities would not have to submit Gift Aid claims. Electronic donations would mean minimal if not non-existent role for charities in processing Gift Aid claims: the only expense would be the continued running costs of the cloud system.
- 'Loose change' would be donated via swipe cards and contactless payments, making it tax-efficient



Part One

Giving in the Past: When Charities Lose Out

We live to give. Whether by way of a cheque to our local soup kitchen or a standing order following a harrowing prime time ad. Whether it is a billionaire like Bill Gates or Warren Buffett handing over billions following a lifetime of success, or a few coins run along the rim of a scoutmaster's collection tin. Giving to charity showcases the best of human nature and the variety of human endeavour.

It is an intensely personal activity, a transaction quite different from entering into a business deal or paying tax to receive a service. It is not a contract or a right. It is something else: an expression of independence and responsibility that feeds and grows us and those around us. The nurturing principle, the idea of giving as a good that we should cherish is, at heart, what lies behind Gift Aid, our system of tax reliefs of charitable giving. Gift Aid exists to take those who give out of the tax system, so as to encourage them to give more and to provide the charities that do so much to help so many with income that can help them deliver. Gift Aid exists because giving is good.

Today, Gift Aid secures approximately £1bn extra every year for charities in the UK, in addition to the £4bn these organisations raise directly through 'Gift-Aided' cash donations. This additional money is needed more than ever before for two major reasons. First, there is a funding crisis in our charitable sector. In October 2008, 38 per cent of charities reported that they had been hit by the recession through higher costs and lower donations. Things have certainly worsened since then.^[12] Post recession, one in twelve charities will be forced to make redundancies.^[13] Nearly 20 per cent of charities have been unable to get funding for new services or people; 16 per cent have been unable to get funding to maintain ongoing services.^[14] The National Council for Voluntary Organisations (NCVO) estimates that about 100,000 third sector organisations do not have sufficient funds to cover 12 months' operations; in the employment and training sector, the average is less than six months' reserves.^[15] Thirty-six percent of 'operating' charities have no cash reserves to help them survive any cuts in funding. This number included one in five major charities that are household names, while the situation for small charities was worse still, with more than 50% having no reserves at all.^[16]

Secondly, Gift Aid matters because that same charitable sector is increasingly being asked to do more; and the need for the goods and services they provide and the social capital they build will only grow further as the after-effects of the recession begin to bite. Charities deliver services in innovative ways that the State, for all its money-raising power, cannot hope to match. Through engaged volunteers and the support they give to and receive from individuals and groups, "the contribution of charities to community and civil life is immense, invaluable and irreplaceable."^[17] As the political debate – in particular the Government's Big Society agenda, which in part sees the Government inviting voluntary groups to deliver its services better than it can – begins to understand the benefits of a healthy civil society, Gift Aid underpins this new political praxis.

12. The Charity Commission, 'Credit Crunch Sees Charities Squeezed by Increased Demand for Services', Press release, 14 October 2008

13. The Charity Commission, 'Credit Crunch Sees Charities Squeezed by Increased Demand for Services', Press release, 14 October 2008

14. 'A Balancing Act: New Perspectives on the Charity/Beneficiary relationship', The Charity Commission, 2009

15. *Ibid*

16. See e.g. Press Association, <http://www.google.com/hostednews/ukpress/article/ALeqM5h5rxR5h2qkrA8NShfkZpyKaarF4A> accessed 10 August 2010

17. 'The Promotion of Voluntary Sector for the Benefit of the Public', Charity Commission Guidance, available at <http://www.charity-commission.gov.uk/publications/rr13.aspx> accessed 29 June 2010

The act of charitable giving is, today more than ever, an act of citizenship. Gift Aid fuels that citizenship. Those of us who see the act of charitable giving not as some quaint ritual of self-interest but as a vital contribution to the process of helping the most vulnerable in our society in many different ways want to make Gift Aid work even better. We recognise that Gift Aid needs not only to be reinvigorated as charities look to diversify and embellish their sources of income, but that it needs to be updated as the ever-evolving Digital Age sees charities and their patrons form part of a radical culture shift that spans giving, fundraising and campaigning on a scale the like of which has not been seen before.

This report charts those digital trends and seeks to adapt the processes of Gift Aid and civil society for the future. For too long, we have been 'giving in the past.' As the imperative for reform becomes more insistent, we urge Government, in concert with charities and technology companies, to look forward to our digital future. Otherwise, it is the little platoons which help build our society that will continue to lose out.

1.1 How Does It Work? The Mechanics of Gift Aid

Several tax regimes in the developed world offer some form of relief on charitable donations. The precise relief varies widely, from Denmark, where the relief enables donors to give up to a third more, to France, which operates a generous tax credit that allows donors to offset between 66% and 75% of the value of their donations. Some, such as Sweden, have none. That said, when the Swedish Government looked into, and ultimately rejected, introducing deductions last year, it concluded that the proposals would cost €60m (\$81m) a year in lost tax, but that the benefit to charities could be as much as €80m.

As the effects of the recession have begun to materialise, the response from various governments has been mixed. In the US, President Obama has looked to restrict the quantum of tax relief on charitable donations to fund his healthcare plan, while in recent times, Slovakia and Hungary have also sought to curb their reliefs. On the other hand, many more countries are moving the other way. Italy recently introduced a tax relief; a new lightly regulated fonds de dotation endowment fund was introduced last year in France; and Luxembourg increased their tax incentives. The rationale for the latter trend has been simple. To quote Jim Myers, President of the United States Association for Philanthropy and Giving, "Governments increasingly recognise that they can't pay for everything themselves, and they're trying to encourage donors to step in."¹⁸

The debate on the United Kingdom's Gift Aid system has been one of the most long running. Gift Aid was introduced in 1990 under the then Conservative Government. It was based on the charitable deed of covenant scheme, where donors signed a deed of covenant under which they promise to pay to the charity a sum net of income tax for a specified period. Its goal was to increase the value of donations to charities by allowing them to reclaim basic rate tax on the donor's gift.

It was originally designed as a tax relief on one-off donations with the following five aims:

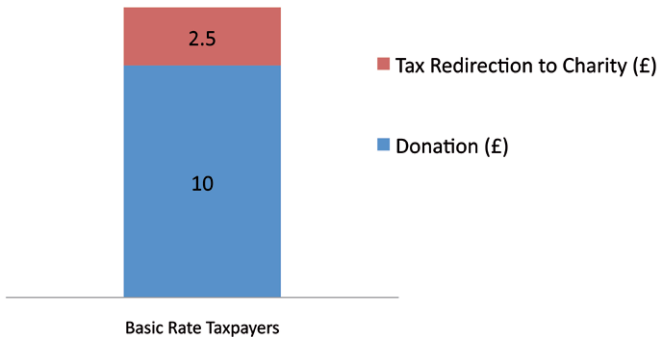
1. to provide an incentive to donors to give more;
2. to be acceptable to the bulk of charities;
3. to be workable at a reasonable administrative cost;
4. to have an acceptable cost in terms of tax revenue foregone;
5. to minimise - so far as possible - the scope for fraud or abuse which could bring the scheme into disrepute.

18. 'Jury Still out over the Power of Tax Perks,' Financial News, Peter Davy, 1 March 2010. Country case studies taken from Charities Aid Foundation research.

Gift Aid donations are regarded as having had basic rate tax deducted by the donor. Charities or Community Amateur Sports Clubs (CASCs) treat the donation as having had tax deducted before payment and reclaim the basic rate tax from HMRC on its 'gross' equivalent (the amount before basic rate tax was deducted). This means that with a 20% basic rate of tax, a donation of £10 using Gift Aid is worth £12.50 to the charity.

Fig. 5

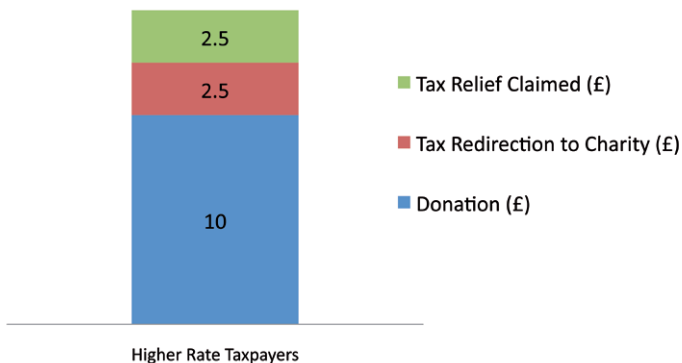
£10 Donation by a Basic Rate Taxpayer



There are certain important complexities built in to the relief. If the donor claims age-related allowances or tax credits, Gift Aid donations can sometimes increase their entitlement. If the donor pays higher rate tax he or she can claim even more relief on their donations. Higher rate donors are able to claim relief themselves – at a rate equivalent to the difference between the basic rate and their highest rate of tax – on the gross donation. Therefore, a donor in the 40% tax bracket, giving a cash gift of £1, can claim 25p back, and a donor in the 50% bracket, 37.5p. This means that it costs a basic rate donor 80p to make a gift worth £1 to a charity. For a donor paying tax at 40%, it costs 60p, and for a donor paying tax at 50%, 50p.

Fig. 6 ^[19]

£10 Donation by a Higher Rate Taxpayer

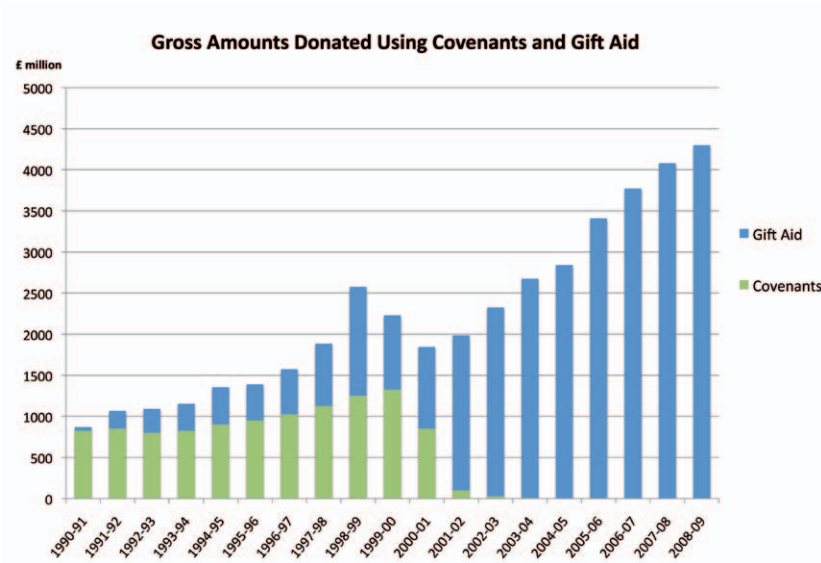


19. Nb. Does not account for the potential effects of redirection.

1.1.1 Success

The first thing we must stress is that Gift Aid works in terms of take-up, though its influence on getting more people to donate is less clear. Annual statistics from HMRC show that the gross amount given by individuals using Gift Aid or deeds of covenant increased from £2.2 billion in 1999/00 to £4.6 billion in 2009/10. Despite the recession, the 2009/10 figure is an increase of 6.5% on 2008/9.^[20]

Fig. 7. The gross amount donated under Gift Aid has risen consistently since 2000



1.1.2 Criticisms

That being the case, despite these successes the structure of the relief has sometimes left it open to criticism. The extra relief for higher rate taxpayers and the fact that the relief comes from the public purse have prompted many to argue that it is a 'luxury' whose costs must be controlled by the treasury. The essential link between the gift of the donor and the relief on his or her taxation has been decried as a fig-leaf for charities in general receiving an unmandated subsidy through general taxation.^[21] These arguments have little merit – we do not directly democratically mandate most of our public expenditure – however they have practical import.

20. 'Gift Aid donations amounts,' HMRC figures, available at <http://www.hmrc.gov.uk/stats/charities/menu.htm> accessed 1 September 2010

21. See e.g.: *"The warm ritual of charitable giving is never complete without the recipients adding one smiling, additional, tiny request of the benefactor: could they gift aid the donation? What could be more virtuous, reasonable and satisfying for all involved than making it tax-efficient, bringing extra charity at no extra cost to the donor? But, with apologies to all the deserving causes whose receipts might initially fall, this is a plutocratic pantomime that should stop."* The Guardian, Editorial, May 2010

The Reform Ticker

1990 Gift Aid was established in the 1990 Budget as a new relief for sizeable lump sum gifts of more than £600. This minimum was set to keep down costs of administration and to avoid undermining regular and committed giving.

1992 The £600 minimum gift is reduced to £400.

1993 The minimum gift is reduced further to £250.

1998 The introduction of Millennium Gift Aid, where the minimum gift was reduced to £100 for gifts to specific causes (poverty relief and advancement of education) in certain developing countries made by December 31, 2000.

2000 Getting Britain Giving package. The 1999 pre-Budget report announced a package of measures aimed at modernising and simplifying the incentives for charitable giving in order to stem the decline of charitable giving in the 1990s. Capital gains tax and income tax at higher rates were counted towards the amount of qualifying tax paid by donors. The minimum gift limit was removed altogether. Gift Aid declarations could now be made electronically and orally.

2002 Introduction of a new relief for gifts of property and Community Amateur Sports Clubs to incentivise new sources of giving to charity. Like quoted shares, property was considered to be relatively easy to value and easily realisable by charities.^[22] An amendment also meant that donors could treat a Gift Aid donation as if it were made in the previous year, allowing higher rate donors immediate access to Gift Aid through the self-assessment return.

2004 The 2004 Finance Bill established SA Donate, a new provision for tax repayments to be directed to charities through the self-assessment tax return.^[23]

2005 The 2005 Finance (No. 2) Act introduced new, more restrictive rules around visitor attractions claiming Gift Aid on admissions, where the donor paid 10% more than the normal admission price.

2006 Budget 2006 created the substantial donor rules. These restricted the scope for donors to place large sums of money into a charity and get the money out again after tax relief had been granted. The Budget also introduced restrictions to tax relief where charitable funds were used for non-charitable purposes.

2007 Gift Aid benefit limits for gifts over £1,000 were doubled to a maximum of 5% of the gift or £500, whichever was smaller.

2008 Following a major consultation in 2007, the 2008 Budget featured a package of measures to help charities, including a 3-year 2% supplement for Gift Aid claims (transitional relief), to help charities adapt to the reduced rate of Gift Aid claims following the reduction in the basic rate of tax from 22% to 20%.^[24]

2009 Government-commissioned research into proposals for reform around composite rates and higher rate tick-boxes published.

2010 Gift Aid forum convened to generate concrete proposals for major reform by September 30, 2010.

22. To protect against charities receiving unwanted gifts of unsuitable property, the relief was conditional upon charities issuing a certificate of agreement of the gift to the donor.

23. Charities needed to be registered with the Inland Revenue to benefit from this scheme, and payments would be made electronically to the charity's bank account. The Bill also introduced anti-avoidance rules to counter contrived schemes to abuse the relief for gifts of shares. The new rules prevented donors from receiving tax relief on an amount greater than the value of the benefit of the shares to the charity.

24. Other measures included: major reform to the auditing process; a comprehensive programme for bringing more smaller charities into Gift Aid; redesign of guidance; and outreach to 5,000 new charities a year through the launch of targeted marketing tools.

The debate on reforming Gift Aid has raged since its inception. Protagonists and antagonists have agitated for positions based on which of the five original aims of the relief that they relate to best. Even before the relief was established, there was a debate within Government about whether to give Gift Aid relief to the donor or to the charity. Ministers and their advisers asseverated that, in general, relief for the donor was a more obvious incentive to give than relief for the charity. However, giving relief to large numbers of donors was predicted to carry heavy administrative costs: one initial estimate was that the Inland Revenue would need 4,000 extra staff to operate a scheme with up to 10 million qualifying donors.^[25] A compromise decision was eventually taken to split the proceeds of the relief between charities and donors for higher rate taxpayers, following the model for deeds of covenant, while for basic rate taxpayers the relief would go entirely to the charity.

The NCVO have argued that this ‘anomaly’ “provides an individual incentive for charitable giving to higher rate taxpayers but not to other taxpayers.”^[26] The best evidence we have, however, comprising a significant, independent study by Warwick and Bristol Universities on behalf of HMRC and the Treasury, articulates the contrary opinion.^[27] Moreover, many argue that multiplying reliefs for higher rate donors – who tend to give the most by quantum if not as a percentage of income – will reap the most in terms of bare monetary benefit for the charitable sector.

There has been constant debate around how we optimise take-up among donors, with the process of having to ‘declare’ and ‘opt in’ to Gift Aid receiving special criticism. The Institute for Fundraising has spoken of the “inertia associated with the completion of [the Gift Aid] declaration” being “the single greatest barrier to maximising Gift Aid claims for UK fundraising organisations.”^[28] These represent only a handful of the many perspectives that have effectively locked the Gift Aid debate to date.

In the 2007 Budget, the Labour Government announced a consultation with representatives of the charitable sector to increase the efficacy of Gift Aid. The consultation, run by the Treasury in collaboration with HMRC and what is now the Office for Civil Society,^[29] was designed in order that the Government could explore with the charitable sector and its representatives the case and scope for improvements to:

- the profile of Gift Aid among charities and donors;
- charity and donor accessibility to the benefits of Gift Aid;
- the ease of operation of Gift Aid for charities and donors;
- the overall value of Gift Aid for the charitable sector.^[30]

A number of ideas for reform of the structure of the tax relief were suggested, such as a so-called composite rate which does away with all the distinctions between higher and basic rate taxpayers and instead posits that higher rate tax relief should be abolished and charities should claim at one rate set somewhere between the basic and higher rates (it has been suggested that the composite rate be set at 23% or 27%). Another proposed idea is redirection, which would allow charities to reclaim the whole of the tax relief while wealthy donors reclaim nothing. Two further ideas are the introduction of an opt-out system where Gift Aid is automatically applied to all donations unless the donor opts out, and the introduction of an accounts-based method which would allow charities to reclaim a fixed proportion of their total voluntary income at a composite rate calculated on an individual, donor-based or

25. This figure is taken from a speech given by Jeremy Sherwood to the IFS, available for download at <http://www.bristol.ac.uk/cmpo/events/2009/giftaid/hmtreasuryspeech.pdf>

26. See e.g. http://www.ncvo-vol.org.uk/uploadedFiles/NCVO/What_we_do/Policy/Funding/HMT_proposals_on_Gift%20Aid.pdf accessed 20 June 2010

27. Scharf K and Smith S, ‘Gift Aid Donor options: exploring options for higher rate relief’ Study for HMRC and HMT, December 2009

28. See e.g. <http://www.institute-of-fundraising.org.uk/influence/keypolicyissues/giftaid/giftaidoptout> accessed 20 June 2010

29. Formerly the Office of the Third Sector (OTS)

30. HM Treasury, ‘Consultation of Gift Aid: the Government’s response’ (March 2008, available at http://www.hm-treasury.gov.uk/d/bud08_giftaid_335_.pdf accessed 19 April 2010 and 6 July 2010) p3

sector-by-sector basis. This would mean charities would be allowed to claim Gift Aid at a fixed annual rate based on the proportion of donations coming to them from taxpayers; it would also remove the need for charities to obtain and store Gift Aid declarations from donors, that is to say the pieces of paper that affirm that the donor wishes to and is eligible to claim the relief.

In March 2008, the then Government announced that there would be a so-called transitional relief on Gift Aid for the following three years. The basic rate of income tax had been lowered to 20%, but rather than mirroring this development, the Gift Aid rate for basic taxpayers was artificially maintained at the level of 22 per cent in order to grant charities sufficient time to prepare for a predicted fall in their incomes. As a consequence, charities are still able to reclaim 28 pence for every pound donated, up to 2011. As it is not linked to a current rate of tax, transitional relief is classified as Government spending rather than as a tax relief; it is worth around £300 million to charities over three years. This relief is set to end in 2011.

It is not entirely clear whether any one of the many structural reforms suggested would significantly improve the current system. Structural reform was “kicked into the long grass,” as NCVO chief Sir Stuart Etherington put it, in a time of abundance; in a time of funding shocks, the chances of its resurrection may be even slimmer. However, with the system we have being as successful as it is, despite the criticisms, perhaps we need to look at things more broadly: to examine reform from a new angle.

1.2 Distributing the Future

“I wanted advice, all I got was: ‘I’ll send you forms in the post with a CD once you’re signed up.’ Don’t make us do the paperwork over and over again. I’m sure we’ve missed something but justgiving.com money comes so much more easily.”

– Respondent to survey of small charities asking how to improve Gift Aid

Gift Aid can be seen as a bridge between our desire to give and the state structures that collect tax on our behalf. As such, the future of Gift Aid, and its entry point into the tax system, is dependent upon the future of giving itself. Where our giving behaviour changes, the system will have to be tweaked to match that change if it is to remain relevant.

However, any sort of account of the future of giving and any sort of attempt to analyse the system of tax relief on giving in light of change is what has been missing from the debate thus far. The reasons for the lack of this type of investigation are many. The most obvious is that we generally do not think about problems like Gift Aid Reform in this way. When faced with a problem such as reform of the Gift Aid system, we tend to analyse the problem by breaking it up into its constituent parts: looking at the structure of the relief, the cost of the relief, the amount claimed, the amount of fraud and so on. The essential virtue of the system – as a means to connect the tax system with people’s giving behaviour – is not adequately considered in this analytical process. Put another way, concentrating on making the individual bits of Gift Aid work tells us nothing about why we need it to work and how it could work as a whole.

Suggesting reform without analysing the wider background and context of giving would, we submit, be a mistake. By the time such proposals get to Government, the flaws and inconsistencies in various structural reforms become clear – little wonder that the previous Government stalled repeatedly on

reform of Gift Aid's structure. When in 2008, after a consultation with sector representatives, the Government did introduce a package of small measures aimed at easing another problem with Gift Aid – the administrative burden and increased training and support for charities – it was suitably unambitious.

The package aimed to:

- reduce the fear of audit by setting a de minimis error level of 4%, below which charities with claims of less than £2,500 each year (two-thirds of claimants) will not be penalised for errors in record-keeping;
- reduce the audit burden by allowing charities to repair errors at audit before the error rate is extrapolated across the Gift Aid claim;
- consider introducing the option of self-certification to reduce audit burdens for large charities;^[31]
- adjust the Gift Aid claims process to allow charities to aggregate donations under £10 in claims up to a total of £500;
- develop a framework setting out the option to destroy enduring Gift Aid declarations after 6 years provided a database record is retained.^[32]

During the Consultation, Cancer Research UK had called for a 10% de minimis error level^[33] to remove the fear of audit for charities. This sentiment was echoed by a small local charity who responded to the consultation: “We would like to see (in respect of small and medium charities in particular) a concerted effort by HMRC to quell the ‘fear’ factor associated with audits through consistent delivery and the training of charity volunteer fundraisers.”^[34] However, absent a compelling, comprehensive understanding of the future of Gift Aid in the context of the future of giving, significant commitments of this kind would be difficult for any Government.

This package of reforms was dominated by the last-minute inclusion of transitional relief. When the environment in which a system exists changes, the system needs to change too. This change came at a cost of £300m to the exchequer.^[35] Moreover, with this boon granted, the administrative reforms introduced were only lightly scrutinised. As transitional relief comes to an end in 2011, and charities receive less income from donations as a result, there can be no further patch or substitute for proper, systemic reform.^[36]

31. HM Treasury, 'Consultation of Gift Aid: the Government's response' (March 2008, available at http://www.hm-treasury.gov.uk/d/bud08_giftaid_335_.pdf, accessed 19 April 2010 and 6 July 2010) p6

32. HM Treasury, 'Consultation of Gift Aid: the Government's response' (March 2008, available at http://www.hm-treasury.gov.uk/d/bud08_giftaid_335_.pdf, accessed 19 April 2010 and 6 July 2010) p6

33. See e.g. http://info.cancerresearchuk.org/prod_consump/groups/cr_common/@nre/@pol/documents/generalcontent/crukmig_1000ast-3275.pdf p2, accessed 6 August 2010

34. Available at <http://webarchive.nationalarchives.gov.uk/> and http://www.hm-treasury.gov.uk/media/F/F/bud08_giftaid_335_.pdf p13, accessed 6 July 2010

35. HMT Budget 2008. The relief took effect from 6 April 2008.

36. **Systems Thinking: A Crib Note**

Throughout the introduction and throughout this publication, we adumbrate two concepts: systems thinking and change management. In essence systems thinking is predicated on the idea that traditional modes of analysis are insufficient to change organisational behaviour. While analysis, the preeminent mode of thinking, essentially takes something apart to see how it works, systems thinking does the inverse: it places that thing in several important contexts to see why and when and how it ought to work. This inverse of analysis is called synthesis.

Systems thinking is used by consultants, psychologists and academics to bring fresh perspectives on enduring problems of change. The preeminent UK exponent is John Seddon, while America has produced several influential systems thinkers, such as Russ Ackoff. While we have not performed a complete systems analysis of the Gift Aid system in this publication, the idea of placing the system within a behavioural and technological set of contexts, chapters 2 and 3 respectively, borrows insights from that canon.

Both synthesis and analysis rest on a profound understanding of the inputs and outputs of the system. Perhaps the main difference with them is as follows: analysis attempts to understand how the various inputs and outputs fit together; synthesis attempts to track what they do to the people and things with which the system interacts. As such, we see this piece of work as complementary to the analytical work of those who have analysed this subject before us, and who continue to do so in various contexts.

1.3 Digital Giving and This Report

The Charities Aid Foundation (CAF) warned in 2006 that, although Gift Aid has come a long way in the last 15 years, if current patterns of giving and fundraising continue unchanged, the limit to the growth of Gift Aid is in sight.^[37] That prediction has not come to pass in the intervening period, however we should be wary of what lies on the horizon. We now know that the economic downturn has coincided with an 11% decrease in the total amount given in the UK. The proportion of people giving and the average donation have declined to 2006/07 levels.^[38] In 2007/08, 56% of adults made charitable donations; that figure has fallen to 54%. This is equivalent to 774,000 fewer donors per month.^[39] There is moreover a serious issue with uptake of Gift Aid for small donations, with a ‘tailing off’ of such donations in 2008/09. While there are several reasons for this changing donor base, including a changing overall tax profile as the financial turbulence has continued, it all points to difficulties ahead for the sector.

Technology and social media provide new means of charitable giving, of digital philanthropy and other interesting ways to support causes of choice. The dynamics that underpin our sense of what it means to give and why we give change as the environment in which we act changes. In this publication, we argue that it is because our giving behaviour is changing that the role of Gift Aid has changed.

The good news is that, as we will show, our analysis suggests that Gift Aid has a real future. While the relief structure for Gift Aid is important, there is a significant modernising and streamlining exercise to be done if we are to have a system that is fully equipped for the Digital Age.

CAF has calculated that around £742m of tax relief under Gift Aid goes unclaimed every year; if we leave things as they are, the unfortunate truth is that more will go unclaimed and more costly, hastily convened, evasatory measures will have to be taken by the Treasury to appease the rising clamours for reform.^[40] In the medium and long terms this is a huge waste. It means less money for charities, smaller resources channelled towards improving lives, and fewer partners able to join the Government in their agenda to help civil society work to solve some of our most enduring problems. Taking Gift Aid into the future is therefore not simply a matter of topping up charitable incomes or an ascetic exercise in making a system more efficient; it is also a key tool in a progressive agenda to improve the life chances of those at the bottom of society who use charitable services the most. It is in all our interests to work towards a state whose structures work to boost rather than hinder the essential transaction of civil society: giving.

37. ‘Analysis of Giving through Gift Aid’, CAF, January 2006, p5

38. ‘UK Giving 2009: An overview of charitable giving in the UK 2008/09’, NCVO and CFA, p 4

39. *Ibid*

40. This figure is extrapolated from giving intention and survey data, stratified by higher and lower rate taxpayer, age, gender and class. In CAF, *The Public Bond With Tax Effective Giving in the UK*, CAF Research Paper, December 2009



Part Two

Behavioural Analysis: The Burden of a Bureaucratic System

“It can cost more to administer a Gift Aid scheme than the amount that can be recovered... charity funds are being diverted to lawyers, VAT advisers and audit firms to work their way through the red tape involved in Gift Aid.”

- Response to government consultation on Gift Aid (2008) ^[41]

The above was only one response to the consultation, but it was a startling one. Bureaucracy is the bane of charities. It suppresses tax-efficient giving and unnecessarily saps the resources of charities that can ill-afford wasteful expenditure. Where a charity's core work is to help people who are vulnerable, an hour spent doing paper work is an hour spent not delivering vital services, helping more people, improving lives.

Why then, do we have a system that is so bureaucratically burdensome? There is no one answer to this question, and no one culprit. The principal issue is that the system fails to go with the grain of human behaviour in several pernicious ways. As systems theorist John Seddon has argued in numerous places, when you have a system that was created to work to the requirements of the tax authorities first and follow natural, human and institutional behaviour second, that system will tend to come apart at the seams as human behaviour follows its natural course.

To use the language of Richard Thaler and Cass Sunstein in, ‘Nudge,’ the architecture of the system is sub-optimal, contains invidious defaults and does not tend to produce coherent outcomes as a result. To put it another way, Gift Aid was created to achieve the many goods discussed in the first chapter, but has been designed and reformed by HMRC with a very real threat in mind: fraud and the necessity to protect the integrity of the national accounts. This dichotomy has created problems for those whom the system ought to benefit.

In this chapter, we will examine these problems in more detail. It cannot be emphasised enough that for charities, especially small charities, these are not abstractions: the implications are serious. They are hit twice, once through less money being donated tax-efficiently, secondly through the demands on time and money involved in managing Gift Aid, and in some instances, the resources associated with retrospectively obtaining Gift Aid donations. These problems fall into three categories, which together present an ‘Iron Triangle’ of Gift Aid reform:


- (1) behavioural issues with the form of declarations required by HMRC
- (2) process and audit requirements for charities
- (3) donor awareness

41. HM Treasury, ‘Consultation of Gift Aid: the Government’s response’ (March 2008, available at http://www.hm-treasury.gov.uk/d/bud08_giftaid_335_.pdf accessed 19 April 2010 and 6 July 2010) p16

2.1 Behavioural Issues: the Effect of the Declaration

2.1.1 The Gift Aid Declaration Form

Gift Aid declaration



Name of charity or CASC _____

Please treat

The enclosed gift of £ _____ as a Gift Aid donation; OR

All gifts of money that I make today and in the future as Gift Aid donations; OR

All gifts of money that I have made in the past 6 years and all future gifts of money that I make from the date of this declaration as Gift Aid donations.

Please tick the appropriate box

You must pay an amount of Income Tax and/or Capital Gains Tax for each tax year (6 April one year to 5 April the next) that is at least equal to the amount of tax that the charity or Community Amateur Sports Club will reclaim on your gifts for that tax year.

Donor's details

Title _____ Initial(s) _____ Surname _____

Home address _____

Postcode _____ Date _____

Signature _____

Please notify the charity or CASC if you:

1. Want to cancel this declaration.
2. Change your name or home address.
3. No longer pay sufficient tax on your income and/or capital gains.

Tax claimed by the charity or CASC

- The charity or CASC will reclaim 28p of tax on every £1 you gave up to 5 April 2008.
- The charity or CASC will reclaim 25p of tax on every £1 you give on or after 6 April 2008.
- The Government will pay to the charity or CASC an additional 3p on every £1 you give between 6 April 2008 and 5 April 2011. This transitional relief for the charity or CASC does not affect your personal tax position.

If you pay income tax at the higher rate, you must include all your Gift Aid donations on your Self Assessment tax return if you want to receive the additional tax relief due to you.

“Research examining the uptake of Gift Aid, when declaration forms were either included or excluded from Direct Mail campaigns, found that in some cases Gift Aid declarations actually suppressed the level of giving.”

Fig. 8. HMRC Gift Aid declaration form, available at http://www.hmrc.gov.uk/charities/appendix_b1.pdf

You are a fundraiser at a charity and you have been given a donation. You want to claim Gift Aid on it on behalf of your organisation. What you need is to get your donor the above form: the standard Gift Aid declaration.

The purpose of the declaration is to state that the donor:

- (a) wants to claim Gift Aid; and
- (b) is eligible to claim Gift Aid.

The standard declaration is by no means the only form in which the declaration can be accepted. As a minimum, the declaration must state the name of the charity, the amount given and the name and address of the donor. The charity must be able to demonstrate that the donor has made the declaration (though this does not necessarily need to be by means of a signature or a ticked box on the form). Charities must moreover make donors aware of the need to have paid at least as much tax as they can recover on the gift, so a question to that effect is often included in the Gift Aid declaration.

Charities must keep an auditable record of the declaration and the making of it, usually by keeping paper or scanned copies of declarations. In the case of enduring declarations which cover multiple donations to the same charity, they must be kept for as long as the charity continues to make claims in respect of the donor's gift together with the required period after the last claim.

This small piece of paper and the structures that surround it have created difficulties for many charities. During a Government consultation in 2000^[42] some charities requested that the requirement for the Gift Aid declaration be removed altogether on the basis that all donors can be assumed to be taxpayers. Others requested that the eligibility note be removed. One of the main obstacles to the implementation of these moves is that, according to some estimates, up to 40% of charity donors in the UK are non-taxpayers.^[43] The consultation also drew attention to concerns from bodies such as the Low Incomes Tax Reform Group that were anxious that the implications for non-taxpayers should be clearly spelled out to them.^[44] Unless an approach is adapted where taxes on consumption such as VAT – which tend to be a greater source of expenditure for those on low incomes than the qualifying (income and capital gains) tax for Gift Aid – qualify for Gift Aid eligibility, then complete removal of the declaration or the eligibility notes seems unlikely, and would be undesirable.

The Gift Aid declaration system introduced in 2000 replaced the previous system that had required the donor to give the charity a certificate for each donation they made. Under the new system – as illustrated by the form above – donors need only to provide their name and address. Declarations can be given in writing, electronically via the internet, or orally.^[45] In the following sections, we will explain some of the behavioural issues that endure despite these reforms.

2.1.2 The Behavioural Effects of Declarations on Donors

Securing the Gift Aid declaration from a donor is all too often an unnecessarily large challenge for the following two reasons:

- There is insouciance, where a donor feels that s/he has already completed the charitable act of giving and so dislikes the secondary step of filling out a declaration form.
- There is ignorance. There are donors who do not fully understand Gift Aid and worry about the consequences of an incorrect Gift Aid claim. For example, a CAF survey revealed that just 44% of the general public were confident that they understood Gift Aid.^[46] This makes them nervous to get involved with a system that is so proximate to the 'dreaded tax man.' These factors, and more, combine to create a serious behavioural barrier.

The fact is that Gift Aid declarations can actually suppress donations. This has led to perverse cases where charities opt not to employ a scheme designed to boost charitable giving, simply in order to maximise their immediate income from a campaign.^[47]

42. HMRC, 'Final Regulatory Impact Assessment: Getting Britain Giving in the 21st Century', available at http://www.hmrc.gov.uk/ria/ria_giving.pdf p3, accessed 9 August 2010

43. According to research by the NCVO, quoted in HMRC, 'Final Regulatory Impact Assessment: Getting Britain Giving in the 21st Century', available at http://www.hmrc.gov.uk/ria/ria_giving.pdf p3, accessed 8 August 2010

44. HMRC, 'Final Regulatory Impact Assessment: Getting Britain Giving in the 21st Century', available at http://www.hmrc.gov.uk/ria/ria_giving.pdf p3, accessed 8 August 2010

45. *Ibid*

46. 'The public bond with tax-effective giving in the UK: A survey of the awareness of and attitudes to tax-effective giving', CAF Research Paper, April 2009, p11

47. The money they receive directly from the first donation (i.e. discounting what is subsequently claimed on follow-up campaigns where donors are asked to Gift Aid donations).

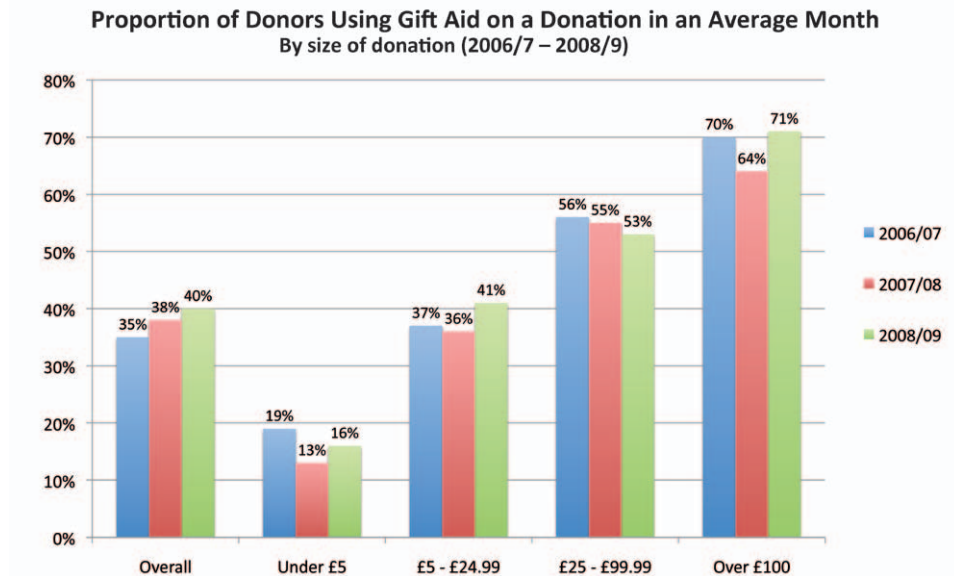
In one case a charity ran a direct mail campaign – where advertising material is posted to all people in a specific area or on a specific list – which purposely omitted any mention of Gift Aid. The charity planned to contact donors retrospectively to ask them to fill out a Gift Aid declaration form, so wary were they of placing the behavioural burden on the donor up front.[48] Coping strategies as extreme as these are relatively rare, but they do highlight the essential problem with the declaration system.

2.1.3 The Behavioural Effects of Declarations on Charities

Owing to limited resources, many charities will often try to contact only a certain number of donors to ask them to complete an incomplete Gift Aid declaration. Unsurprisingly, charities tend to focus on higher-value donors in these initiatives. Smaller donations are ignored and their potential reclaim value lost. This is a problem. This pattern of activity does not match the changing shape of donor behaviour. There is a clearly visible trend, particularly among younger donors, towards smaller donations. While these younger donors may now be outside of the tax system – and therefore outside of the scope of Gift Aid – there is good reason, as we will see in the next chapter, to believe that this behaviour will persist as an enduring cultural change.

Let us evidence these points. Usage of Gift Aid increased slightly after 2007/08, with 40% of donors using Gift Aid in 2008/09. People who donate larger amounts are more likely to use Gift Aid: 71% of higher-level donations (over £100) attracted Gift Aid compared to 16% of small donations (under £5).[49]

Fig. 9

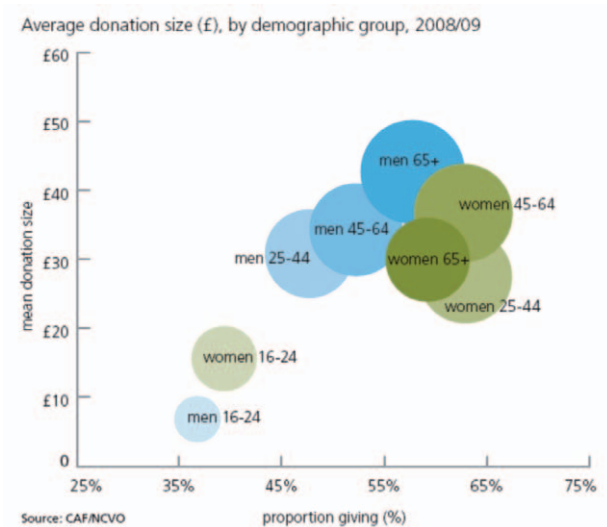


48. This case was related to us at our expert roundtable meeting on 20 May 2010.

49. 'UK Giving 2009: An overview of charitable giving in the UK 2008/09', NCVO and CFA, p10

While it remains true that a small number of donors continue to generate a significant proportion of the total amount donated – in 2008/09, 7% of donors donated more than £100 per month, but these donors generated 49% of the total amount given to charity – it would be a poor strategic decision for charities to rely purely on higher-level donors. The vast majority of donors give relatively small amounts: 11.3 million people (42% of donors) gave under £10 in a typical month. While the sum of these donations is currently equivalent to 5% of all donations,^[50] this represents a valuable stream of income that will undoubtedly grow larger, and so which should be captured by Gift Aid.

Fig. 10



As for those who are young, it is clear that gifts of less than £10 are by far the most popular size made by young people aged 16-24 years. Gift Aid was claimed on just 10% of donations of less than £10 by young people. For the age group 45-54, this figure was 31%.^[51]

Of course, it might be argued that as people grow older they will donate greater sums of money and be more inclined to use Gift Aid, but this sort of complacency blinds us to the reality that things are changing and to the opportunities that change brings. There is a burgeoning incentive for us to use new technology and our interactions with this technology to create a sustainable surge in charitable giving through small and medium-sized donations. We neglect to grasp the measure of this change at our own loss.

2.1.4 The Behavioural Effects of Declarations on the Relationship Between Donor and Charity

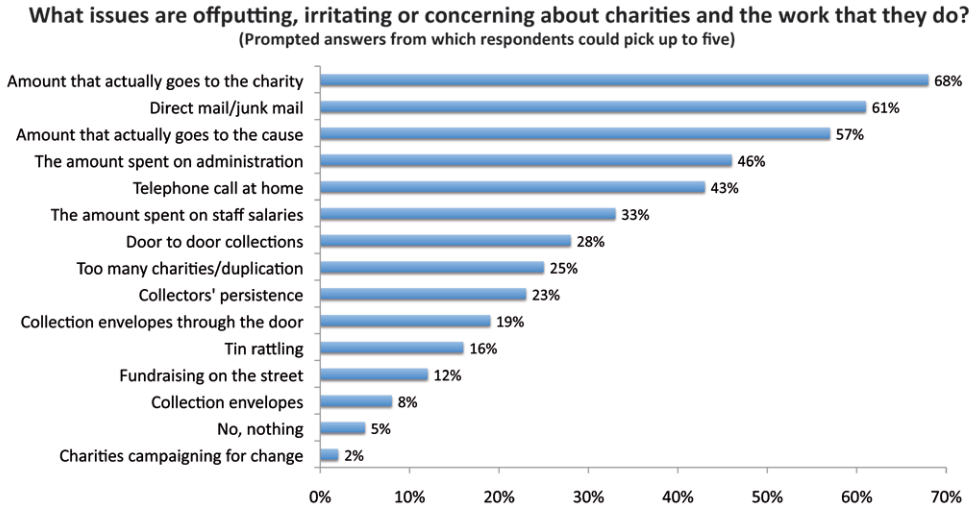
Charities already plough significant time, money and resources into campaigns to retrospectively secure Gift Aid for their donations. They call donors, they harry them, they hassle them, often in the nicest possible way, but the point remains that this sort of thing, while it can help build a relationship between charity and donor, can also strain it, or even destroy it. Besides the above up-front, measurable cost of such calls in terms of time and money to charities with multiple donors, another factor that is

50. 'Charity Giving', NCVO, 2008/09, p6

51. CAF figures, op. cit.

perhaps overlooked is that these are precisely the kinds of activities the majority of donors are keen that their money does not fund. Research by nfpSynergy asked people to state what issues put them off charities and – as the table below demonstrates – three of the top four responses directly related to concerns about the proportion of a donation that is used by the charity for work to which the donor didn't intend to contribute.

Fig. 11



Source: nfpSynergy (2004)

The logic is clear: why give to charity if an equivalent amount is spent on calls asking you and your friends to 'gift aid' your donations?

To conclude our section on the effect of declarations, we must reiterate that we are not arguing here that the declaration should be scrapped or that no audit trail is necessary. The necessity for an auditable link between an individual and tax relief is not simply about protecting the system against fraud, but also about the integrity of the national accounts. The network effects of this are huge: in essence, maintaining the audit trail of the system has implications that touch the bond market.

Yet it is clear to us that the process and infrastructure around the declaration need to change. Ideally Gift Aid declarations would be captured in some way by charities at the first opportunity, in a way that creates less hassle for the donor and themselves. For example, some charities have obtained declarations over the telephone covering future donations despite not receiving a donation at the same time as the declaration. This means that during a telephone campaign, even if people decline to make a donation, the telephone call need not be wasted. Initiatives like this should be shared more widely, but the principles behind them also need to be built upon and made relevant to more contexts in which the fundraiser/donor relationship takes place. We need to take these ideas and create analogous ones that can be used in other situations; here technology can help.

2.2 Process

“Under the current system there is too much paperwork and the rules and systems are too complex. We ourselves have a whole warehouse full of declarations. Surely there must be a better way?”

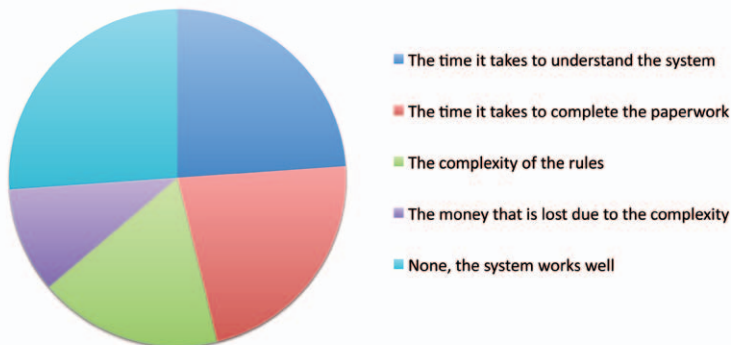
– John Low, Chief Executive, Charities Aid Foundation^[52]

While the Charities Aid Foundation may be an extreme example, aggregating as they do the claims of several charities, their experience is instructive. Once a Gift Aid declaration is obtained by a charity, there is still the problem of processing and storage. The existing system can create complex and unwieldy process requirements, the extent of which can be hard to appreciate, so let us advert to some statistics.

In a recent survey of small charities^[53] 23.9% of respondents claimed that the time taken to understand the Gift Aid system was a burden, while 22.3% felt the time taken to complete the paperwork was an issue. Additionally, 17.6% felt the complexity of the rules was a problem and disappointingly, 10.1% of respondents felt that their charity had lost money due to this complexity.^[54]

Fig. 12. Survey of small charities (under £1m turnover)

Which of the following best reflects any issues you have had with the Gift Aid processes?



Process requirements represent a disproportionate burden on all charities, regardless of size. A large charity recently spent in the region of £2m investing in a new system to operate Gift Aid, which involved converting shoeboxes of papers into electronic form.

52. CAF Response to Scharf and Smith, op. cit.

53. With annual turnover less than £1million.

54. Survey of small charities by Small Charities Coalition for this report.

2.2.1 Tackling the Audit Trail

“[Gift Aid] sometimes can be off-putting due to the time scale, and fear that you might be doing something wrong!”

– Respondent to survey of small charities about how to improve Gift Aid

In addition to the costs involved in administrating and storing Gift Aid declarations, the auditing process is perceived as “onerous and confusing” to the extent that it sometimes deters smaller charities from claiming Gift Aid at all.^[55] As with obtaining the declarations themselves, high levels of audit administration mean that it is often not worth claiming Gift Aid on smaller donations. Smaller charities, often more risk averse, tend to opt not to claim for these donations because more entries mean that there are more likely to be errors, which can be costly, leading to problems with claiming rate rebates or worse. While these audit requirements may work for a larger charity with a more developed back office, it is easy to see how a small or rapidly expanding charity would have trouble keeping up with what is required, where every small donation should have Gift Aid claimed on it.

What must a charity or CASC keep an auditable record of?

- All Gift Aid declarations, together with confirmation that they have advised the donor that they must pay at least as much UK tax (for the tax year that they donate) as the amount the charity or CASC will reclaim on the donation
- Any cancellations of Gift Aid declarations
- Any benefits they provide to donors

All Gift Aid information must be kept securely in a file with the following sections:

- Correspondence with the Inland Revenue including claims made
- A record of subscriptions received supporting claims made
- Gift Aid declarations filed alphabetically by member’s name (with a link to Gift Aid declaration)
- Forms for later use (such as blank repayment forms)

The 2008 Government response to the Consultation on Gift Aid committed the authorities to examining an option of self-certification of Gift Aid paperwork for larger charities in order to reduce audit burdens. John Low of the Charities Aid Foundation said that “These changes will be vital in making Gift Aid more accessible and easier to administer for charities,”^[56] but questioned whether the changes had done much for donors.

There are two further criticisms. First, this measure would appear to benefit larger charities at the expense of smaller ones, which hardly seems progressive. Secondly, while the introduction of a de minimis error level of 4% – whereby Gift Aid claimed incorrectly by a charity will be overlooked if it totals less than 4% of the full amount claimed – was a small step in the right direction, recent surveys of small charities have shown that the move has done little to quell the clear level of fear amongst charities of ‘getting it wrong’.^[57]

55. ‘Proposal for the Future of Gift Aid’, NCVO, 2007, p7

56. Comment available at <http://www.cafonline.org/default.aspx?page=15603>, accessed 8 August 2010

57. Survey of small charities by Small Charities Coalition for this report.

Process is a huge problem with the Gift Aid system. While the reasons for many of the measures are understandable from the point of view of HMRC, one cannot help but feel that with the technology we have at our disposal, such processes should be capable of being rationalised.

2.3 Awareness Issues: Earn Less, Give More, Know Less About Gift Aid

“Is it [Gift Aid] something to do with ticking a box?”

– Respondent at Cancer Research UK focus group on Gift Aid and Lifetime Legacies^[58]

The HMRC standard Gift Aid declaration form contains the following passage:

“You must pay an amount of Income Tax and/or Capital Gains Tax for each tax year (6 April one year to 5 April the next) that is at least equal to the amount of tax that the charity or Community Amateur Sports Club [CASC] will reclaim on your gifts for that tax year.”

As part of this project, ResPublica held a roundtable event with charities, charity sector representatives and technology companies, among others. One prevailing opinion on which there was almost unanimous agreement was that one of the challenges of obtaining a Gift Aid declaration from donors is the need to tackle the lack of precise knowledge on the part of donors of the mechanism of Gift Aid.^[59] One respondent to a survey of small charities conducted for this study, when asked how Gift Aid could be improved, remarked: “Provide some guidance suitable for giving to donors of all levels of intelligence in simple and straightforward language...especially explaining who is a tax payer and who is not.”^[60] Similarly unanimous was the sense that every additional piece of information regarding eligibility and tax on a Gift Aid form contributed to a decrease in the level of take-up by donors.^[61]

We tend to give on impulse. Giving is an emotional, often visceral thing. We see an emotive advert, or something bad happens to us or a loved one, and we might be impelled to give on that basis. Quite simply, many donors wish to donate easily and anonymously; to not have to read through information and fill out forms. At the same time it is important that donors understand what Gift Aid is, what it does and how it can work for them and the cause about which they care. There remains a clear lack of awareness of how one becomes eligible for Gift Aid’s benefits.

Three focus groups convened by Cancer Research UK to discuss Gift Aid and Lifetime Legacies with financially savvy higher-rate taxpayers found that, surprisingly, despite the fact that some people mentioned Gift Aid as a tax-efficient way of giving, there was low awareness of how Gift Aid works, particularly with regard to higher rate tax relief. Even respondents who were very engaged with charity and gave significant amounts of time and money had limited understanding of the process.^[62] For many respondents the Gift Aid section on the tax return seemed daunting. Fear of completing it incorrectly and potential consequent penalties were a major deterrent to take-up. There was also a perception that it was not ‘worth the hassle’ of claiming the tax relief, and some respondents claimed to leave these kinds of tax issues for their accountants to deal with.^[63] Many of these concerns can be applied to charities that process Gift Aid claims, as well as those members of the public who are less financially savvy than those surveyed.

58. CRUK Focus Group on Gift Aid and Lifetime Legacies, 2009

59. From responses at expert roundtable convened for this report, held on 20 May 2010

60. Survey of small charities by Small Charities Coalition for this report.

61. From responses at expert roundtable convened for this report, held on 20 May 2010

62. Topline findings from qualitative focus groups carried out by Cancer Research UK on Gift Aid and Lifetime Legacies

63. Topline findings from qualitative focus groups carried out by Cancer Research UK on Gift Aid and Lifetime Legacies

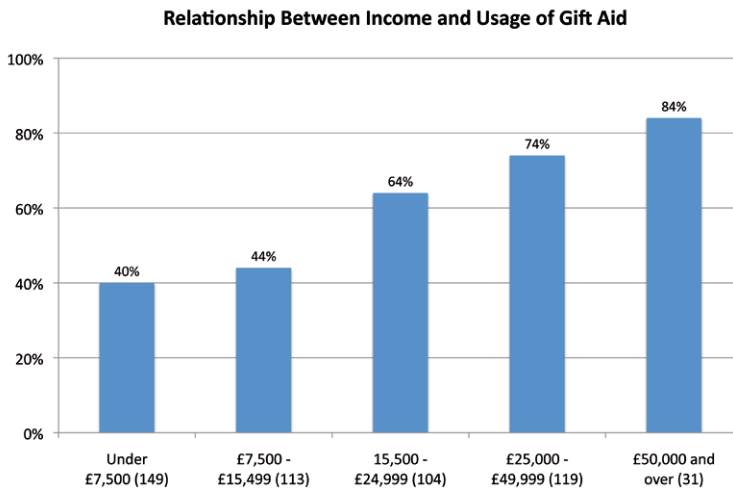
Research by CAF suggests that 32% of the UK population has never heard of the concept of tax-effective giving.^[64] Charities should be concerned that, particularly in the planning for future fundraising, young people (24%) are far less likely to be aware of tax-efficient giving (the average is 68%).^[65] As a result, only 27% of 16-24 year olds have used Gift Aid compared with over 50% for all other age groups.^[66]

There is evidence to suggest that those who are less affluent give more as a proportion of their income to charity.^[67] Some of these people may not qualify for Gift Aid; however this would certainly not be the case for that entire group. The concern here is that those on lower incomes in the UK are far less likely to be aware of tax-efficient giving.^[68]

Of those that have heard of tax-efficient giving, Gift Aid is by far the most established and best known of these schemes. Yet only 44% of the general public and 77% of higher-rate taxpayers were entirely sure that they understood this was a way of giving tax-effectively.^[69] This element of uncertainty and confusion has a worrying repercussion, especially in the context of attempts to draw more people into Gift Aid: just 40% of people who are aware of but have not used Gift Aid hold a positive view towards it.^[70]

Not only is there a correlation between usage of Gift Aid and donor age, but there is also a more substantial concern about correlation between usage of Gift Aid and donor affluence. At the current time, “the more one earns, the more one is likely to know about Gift Aid”.^[71]

Fig. 13^[72]



64. 'The public bond with tax-effective giving in the UK: A survey of the awareness of and attitudes to tax-effective giving', CAF Research Paper, April 2009, p10

65. *Ibid*, p7

66. *Ibid*

67. See e.g. http://www.samaritans.org/your_emotional_health/publications/giving_trends.aspx

68. 'The public bond with tax-effective giving in the UK: A survey of the awareness of and attitudes to tax-effective giving', CAF Research Paper, April 2009, p7

69. *Ibid*, p11

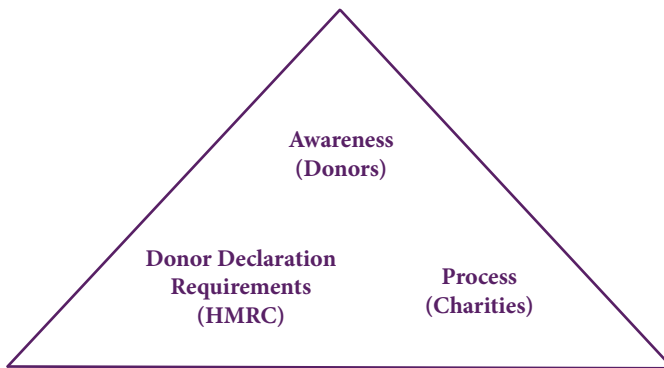
70. *Ibid*, p8

71. *Ibid*, p21

72. CAF 2007 Strategic Review Market Research Findings, p4

2.4 Conclusion: The Iron Triangle of Gift Aid Modernisation

In concert, these problems present an Iron Triangle that prevents Gift Aid reform. The principle works as follows. Get more people using Gift Aid through reducing the declaration requirements and the need for an audit trail goes up. Reduce the audit burden and more charities will ask more donors to claim Gift Aid, but the Treasury will have an interest in restricting who claims by increasing the declaration requirements. Increase the audit burden and the young and those donors who give smaller amounts will be shuffled further out of the system and their relationship with the system will decrease as a result, even though declaration requirements could be relaxed. It seems that only two of these criteria can be satisfied at any one time.



In effect, this Iron Triangle arises from the many different constituencies that the system is designed to satisfy.

Its effects, as we have seen, are many. Gift Aid is a good thing, but many of us do not like it; many of us do not use it; small charities can't use it; and for small donations in many situations it is not worth using it. Furthermore, it takes too much time to enter the system, too much time to progress through it, by which time the relationship between donor and fundraiser might well be strained.

At this juncture, note that we have not tackled the bureaucratic burden that the system places on HMRC itself, and the extra demand on the department produced by the many problems that emerge from it; the suspicion of HMRC that perhaps unfairly flows from small charities as a result of the relatively cumbersome design of the system; and the systemic disconnect between the centre and the grass roots in which all this results.

Technology has the potential to break that Iron Triangle and to reboot the modernisation debate. It is to understanding the opportunities presented by these changes that we now turn.



Part Three

Technology Analysis: The Future of Fundraising and Giving

“In the internet age, we need to ensure that people aren't being left behind as more and more services and business move online.”

– Prime Minister David Cameron, 2010^[73]

So argued the Prime Minister in his recent endorsement of the Race Online 2012 campaign. This campaign intends to “make the UK the first nation in the world where everyone can use the web”. David Cameron added that “promoting digital inclusion is essential for a dynamic modern economy and can help to make government more efficient and effective”.^[74]

The so-called Digital Economy, the “novel design or use of information and communication technologies to help transform the lives of individuals, society or business”,^[75] poses both magnificent opportunities and significant challenges to charities. This chapter will explore the opportunities, the following chapter the challenges. In the future of fundraising and the future of giving, the radical future of our charitable sector can be discerned.

3.1 Fundraising in the Digital Age

Freerice.com is an online flash game that allows participants to answer questions in return for grains of rice. A certain number of answers puts more grain in the bag as a graphic on your scorecard. The rice is distributed to a needy family in a poor country by the United Nations. The site is paid for by a sponsor's advert, which appears when the player gets an answer right. In essence, the sponsor is paying for exposure in rice grains, from which the cause benefits as a result.

Technology offers new ways – some complex, some brilliantly simple – for charities to reach their audience and garner donations. New channels of communication offer the platforms to build incentives for more people to make more donations than ever before. For example, to follow the language of the above-mentioned ‘Nudge’, they allow the so-called ‘mapping’ of outcomes onto activity, providing the donor with an accessible means to conceptualise the impact that their possible choices will have; the building of ‘feedback systems’ allows more people to indicate better choices and to help donors in ever more visual and graphic ways – be that through bags of rice or something even more ingenious. All this enables us to internalise the impact that making a particular decision will have on the world around us that much more viscerally and effectively.

Case Study: Girl Story

Girl Story is a donation-driven online short film series, the product of a collaboration between global non-profit organization Nanhī Kali and the cultural movement agency StrawberryFrog. Visitors to the website are asked to donate money to finance the education of young girls in India. In order to build bonds between donors and recipients of aid, every time a certain value is met by donations, donors see a short video detailing the progress of the young girl whose education they are financing. The unique aspect of this campaign is that if the donations dry up and do not reach the sufficient level, the girl's education stalls.

73. Race Online 2012 Press Release, available at http://raceonline2012.org/sites/default/files/resources/manifesto_for_a_networked_nation_-_press_release.pdf p1

74. *Ibid*

75. See e.g. <http://rckdigitalconomy.org.uk/home/what-is-digital-economy.html>

By combining technology and social media, charities have the opportunity to capture charitable impulses in ways unimaginable a decade ago. We submit, however, that this only describes the symptoms of the change; it is more profound and runs even deeper than this. Our argument in this chapter is that the shape of charitable behaviour is inexorably and rapidly changing. The manner in which people interact with news, their friends and their social networks has dramatically transformed, and this has had a huge impact on the way we think about the world around us and our relationship to the causes that mean something to us. Let us take a closer look.

3.2 New Platforms for Interaction: Online

Seventy percent of households in the UK have access to the internet, and the number of those who use the internet to purchase goods or services is rising rapidly.^[76] More than 50% of UK consumers (28 million) shop online. They outspend their European counterparts considerably, spending on average £1,312 (€1,341) per year, compared with €869 and €781 per year for Germans and the French respectively.^[77] Forrester Research forecasts online retail and travel sales in the UK growing strongly over the next six years as consumers migrate online, and predict that by 2014, 37 million UK consumers will spend £56 billion online.^[78] The potential donors of the future are growing up accustomed to communicating and connecting online and via mobile phones. Exploiting these trends is crucial for charities if they want to capitalise on the benefits that the internet mobile phones offer. So far, however, the sector as a whole has been slow to adapt to the changing communications landscape.

Currently just 2% of the £9.2 billion donated to charity every year in the UK is given online. Compare that to the 50% plus of those in the UK who shop online. A survey of small charities by the Small Charities Coalition for this report found that 47.5% of respondents had received donations online. Three-quarters of respondents claimed that online donations made up less than 5% of the total number of donations they receive.^[79]

Currently the internet is worryingly underutilised by the charitable sector.

At the heart of this is a failure amongst many charities to see the internet as the powerful tool that it is. Successful creative firms and private sector companies invest huge amounts of resources into developing, maintaining and updating their websites. Clearly for smaller charities with fewer resources this is asking a lot, but it would be true to say that currently the internet is worryingly underutilised by the charitable sector. nfpSynergy's Charity Awareness Monitor found that the numbers of people visiting charity websites doubled between 2002 and 2007.^[80] Despite these five years witnessing visitor numbers double, by the end of the period still just 33% of charity websites were able to accept online donations. The future is dawning: the survey of small charities conducted for this report acknowledged that they must update their site in order to incorporate online payment facilities and an option to Gift Aid donations.^[81] However the process is going slowly and must speed up.

76. Official statistics available at <http://www.statistics.gov.uk/ci/nugget.asp?id=8> accessed 14 June 2010

77. See e.g. <http://www.internetretailing.net/2009/03/uk-retail-and-travel-sales-to-reach-54bn-by-2014/> accessed 25 June 2010

78. Online research available at http://www.forrester.com/rb/Research/uk_online_retail_and_travel_forecast%2C_2008/q/id/45345/t/2 accessed 25 June 2010

79. Survey of small charities by Small Charities Coalition for this report.

80. 'New Media fundraising: 21st century innovations', CAF Research briefing paper, p8

81. Survey of small charities by Small Charities Coalition for this report.

Forty-three percent of people feel ‘comfortable’ about giving to charity online^[82] and 48% of young people who stated that they were interested in online giving said that they would increase their giving were a well-designed site available.^[83] The phrase a ‘well-designed site’ is crucial. It is no good charities merely having an online presence. The advertising and marketing sectors have realised that targeting an online audience is very different to targeting a television or print media audience. Online audiences want shorter, punchier advertisements and in many cases interactions ranging from being able to comment on the piece to being able to co-design it, to even being able to donate so as to keep the project alive.

Consider: at the time of writing the most successful and fastest growing interactive online advertising campaign in history has been this year’s Old Spice “The Man Your Man Could Smell Like” campaign, which catapulted the brand into the number one spot for men’s body wash in the US. The campaign began with a single video which was launched online and then played on television. Then Old Spice launched the “response” campaign in which “The Man Your Man Could Smell Like” – played by an unknown actor – interacted with fans via a series of YouTube videos and tweets via twitter. The campaign garnered 5.9 million YouTube views in its first day, more views than Barack Obama’s victory speech received in the same period. By its second day online, Old Spice accounted for 8 videos out of the 11 most popular videos on the Web, and by its third day the campaign had more than 20 million views. Old Spice’s Twitter following increased 2700% and their Facebook fan interaction went up 800%. This increased interaction and the higher volume of traffic going directly to OldSpice.com – which went up 300% – was monetised: brand sales rose by 107%, making Old Spice the number one brand for men’s body wash in the United States.

Of course, this is but one campaign with its own campaign synergy and dynamics. These campaign dynamics cannot be blindly replicated by charities: to paraphrase Marshall McLuhan, archetype quickly becomes cliché in a world of mass communication. We list this example in lieu of hundreds of others that we could have listed, to demonstrate the potential of a well-designed campaign in favour of a particular cause. We submit that a group shift needs to take place within the charitable sector: a mass migration to the online space, to unlock the new income streams available and harness the emotive stories that charities can tell about the tremendous work that they do. Deploying this emotional artillery in exciting and innovative ways is the key to reaching a far greater audience. Society will be the winner as the sector draws in more money, more profile, more donations and so can help more people.

3.2.2 The Convergence of Online and Mobile Platforms

The graph below maps the forecasted growth of payments made throughout the world by mobile phones, online and via other technologies. While this area is still in the early stages of growth and user behaviour has not yet been fully ingrained, we suggest that there is huge potential in these early stages to synchronise it with an optimised Gift Aid system.

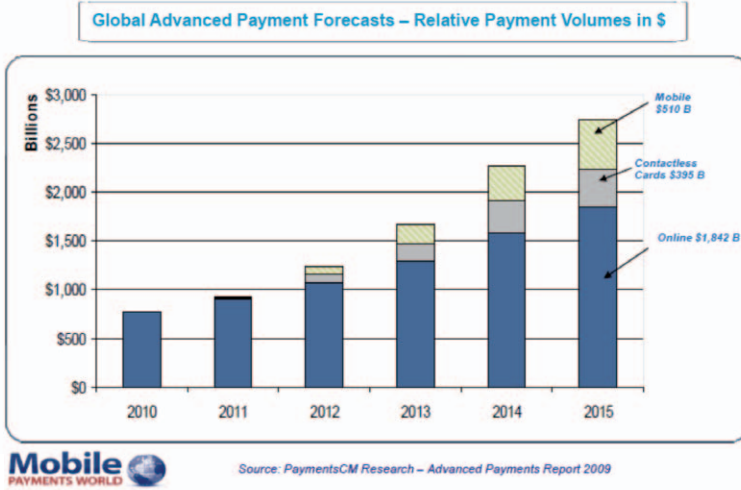
Mobile phones are the ultimate growth industry. It is clear that people in the developed world will increasingly use mobile devices to make financial transactions and manage their money.^[84] Online businesses are keen to take advantage of these trends; the charitable sector can too.

82. CAF 2007 Strategic Review Market Research Findings, p4

83. CAF 2007 Strategic Review Market Research Findings, p5

84. Mobile Payments World, Advanced Payments Report 2009

Fig. 14



At the time of writing, eBay, the online auction site, for example, would like Apple to give users of its software applications for iPhone and iPad models the chance to donate to charity through a model based on eBay's own 'Give at Checkout'. The eBay system allows eBay purchasers, when paying for eBay goods, to press a button entitled 'Give at Checkout' and so make a donation. The Give at Checkout feature raised almost £2m for UK charities in 2009 alone. As Carrie Bienkowski, Europe-wide head of charity and sustainability at eBay said, "If Apple let us use its payments system for donations, it could be the first step towards letting other charities take donations through its system... this would let charities create their own apps that allowed supporters to donate easily through the Apple payment system."^[85]

Give at Checkout would not be alone in populating the mobile phone 'apps' space for charitable giving. Another example is the GetGiving app for iPhones and Blackberrys, soon to be released in the UK. It uses PayPal, internet tycoon Max Levchin's secure online payment system, and the charity MissionFish's database of nearly 4000 charities to try to make it as easy as possible for users to make donations from £1 upwards in as few steps as possible.^[86] MissionFish's objective is to help charities of all sizes raise funds by trading on the eBay marketplace^[87] and Gift Aid will be applied to appropriate donations with ease.

The expected surge in payments being made online and via mobile phones has already begun. The same is happening with donations too. The application of new media – online and via SMS/Text message – as a tool for donation has grown tremendously since 2004 when the DEC Asian tsunami appeal raised more than £1million via 650,000 text donations and £300,000 via online payments.^[88] During that appeal, donations via new media contributed 8% of the total sum raised. By 2009/10 that contribution as a percentage of the overall total had risen to 18%.^[89] Vast numbers of people have already begun to engage in spontaneous giving and new media is driving this trend even faster. Donors influenced by an appeal or advertisement, who want to instantly act on their charitable impulse, can do so with more ease than ever before. For charities, this offers even more means to access people's charitable giving on impulse.

85. 'eBay Asks Apple to Allow Charity Donations via iPhone and iPad Applications', Third Sector Magazine, June 2010

86. <http://www.getgiving.co.uk/how-does-it-work.php>

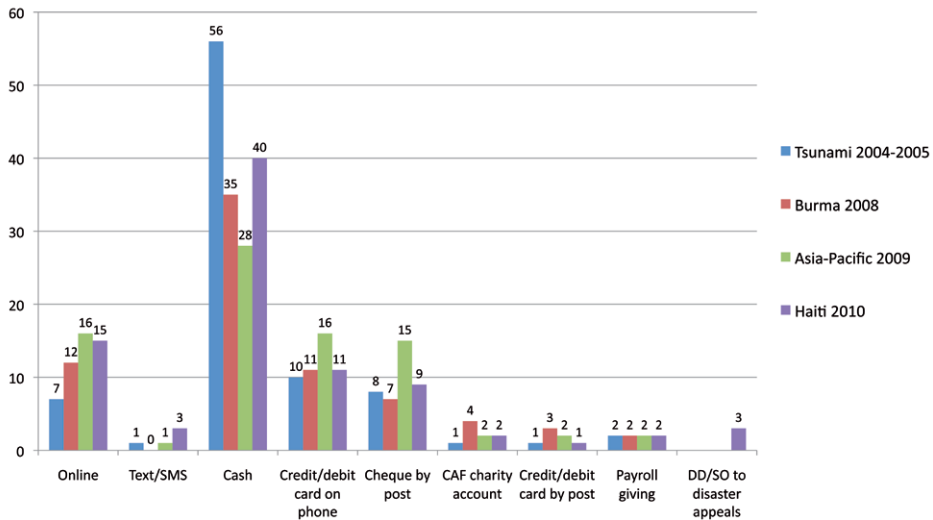
87. http://www.missionfish.org.uk/about-us/uk_about-us.html

88. 80% of people in the UK aged over 15 years donated to tsunami appeal.

89. 'A Survey of the UK general public's donations to overseas disaster appeals', CAF Disaster Monitor, (Summary of trends, February 2010), p11

Fig. 15

Method of Donations by Campaign



Donations by ‘new methods’ grew considerably between 2004/5 and 2010 from 8% to 18%. As the table above illustrates, the most recent Haiti earthquake appeal saw a far bigger response from donors using text messages than previous campaigns. This is indicative of a wider trend. Charity Text, dedicated 5-digit numbers beginning with 7 that have been exempt from VAT charges since late 2008 and to which donors send an SMS message in order to donate, raised £8million in 2009, and figures suggest that this number could almost double to roughly £15m in 2010. Sport Relief 2010 raised roughly £3.4m via £1, £5 and £10 text donations, approximately 10.6% of the total generated income (£31.6m). BBC Children in Need 2010 is likely to exceed this sum. Charity Text works so effectively because it is such an inclusive communication tool. It is a key part in the armoury of charitable fundraising because of the relative convenience of mobile giving. And yet it is currently almost impossible for charities to claim Gift Aid on text donations. This is a very significant omission.

3.2.3 New Platforms for Interaction: SMS Text Donations

Figures from Ofcom reveal that there are now 10 million more mobile phone connections than there are people in the United Kingdom.^[90] More so than the internet, the mobile phone is a profoundly personal device, offering a mobile internet platform where online and mobile worlds converge; where payment platforms meet mass communication.

Currently 40% of UK mobile phones offer web browsers, and this percentage is predicted to rise sharply to 80%. However, the rise in mobile web browsers must not be allowed to mask the unique potential of mobile phones. Over 11 million text messages are sent every hour in the UK.^[91] SMS text message donations are an extremely valuable source of income frequently overlooked by charities. SMS is by no means an outdated technology: social networking site, Twitter, for example, gains much of its effectiveness from being able to be used through the internet and also through the SMS network. For short communications, SMS and the internet are actually mutually reinforcing: one does not replace the other. William Hoyle, Chief Executive of the Charity Technology Trust somewhat mischievously suggested

90. ‘Ofcom’s Mobile Sector Assessment’, Ofcom, 28 August 2008

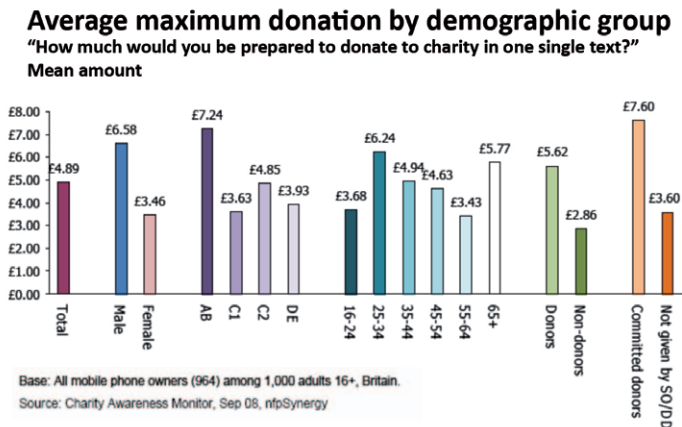
91. TextIt Press Release, 28 January 2010, available at http://www.text.it/mediacentre/press_release_list.cfm

that if all UK mobile phone users donated £1.50 by text, the charity sector could receive an instant boost of approximately £810m.^[92] This figure is impressive, if improbable, but it does show that with the right solutions text donations can be forged into a substantial stream of income for charities, as opposed to a stream of income predominantly associated with one-off appeals and campaigns. Campaigns such as Comic Relief and Sport Relief and charities such as Children in Need and the NSPCC are pioneers in this field, though they are the exceptions. Consider, in 2009, mobile phone users spent £720 million on Premium rate services (PRS) such as ringtones and prize competitions. Combined with text donations this outlines the contours of a willing market for charities to tap into.

Research by the Charities Aid Foundation found that 58% of 18-24 year olds expressed interest in using text donations. This is unsurprising given the remarkable success of interactive television programmes where viewers vote by SMS/text message (and a proportion of the value of the text is donated to charity). For example, Channel 4 reality show Big Brother was the first major UK TV format to embrace text messaging as a means for audiences to vote for contestants and immediately generated more than 5 million votes via this method.^[93] The comparison between the numbers of texts sent by the audience of television shows and the number sent in response to charitable appeals points to the huge potential for growth in the latter, but it also highlights the existence of impediments which have so far hindered growth.

Research conducted in 2009 suggested that the main barriers to a wider sector take-up of text message donations were lack of knowledge in the charitable sector (38% of charities) and the charges taken by network operators for processing donations (72%).^[94] The research concluded that it was these specific barriers that meant that “the charity sector are choosing not to use the mobile phone, which in turn means that charities are not targeting potential supporters and donors.”^[95] But there appear to be more significant barriers than these. Around 41% of charities fail to use mobile phones in their communications or fundraising work in any way at all.^[96] This is equally about the charitable sector lagging behind and failing to fully embrace technology. As the table below demonstrates, there is a rich source of income for charities to tap into via text donations.

Fig. 16



92. Charity Times, IT Supplement, Sept/Oct 2005, pp34-35

93. See e.g. <http://www.nma.co.uk/opinion/dont-ditch-sms-just-because-other-phone-services-fouled-up/34715.article>

94. ‘Sending out an SMS – The potential of mobile phones and text messaging for charities and non-profit organisations’, CAF, The Institute of Fundraising and nfpSynergy, 2009, p22

95. *Ibid*, p31

96. *Ibid*, p17

The Charities Aid Foundation, the Institute for Fundraising and nfpSynergy calculated in 2009 that if the barriers of high charges by network operators and so-called charity sector 'ignorance' were overcome, **text donations could be worth £96m per year by 2014.**

3.2.4 Charity Text Codes

One of the two barriers identified by the Charities Aid Foundation, the Institute for Fundraising and nfpSynergy in the quote above has been all but demolished. In July 2009 the Mobile Data Association announced that networks would cease deducting VAT from part of an SMS donation.^[97] The Framework for Charitable Donations uses the UK's Mobile Networks and allocates registered charities a five-digit short code beginning with the numbers 70, meaning that operators can identify donations as charitable. They therefore deduct or reduce their own charges and then levy VAT on those charges but not on the remaining amount.^[98] O2 were the first operator to pass on 90% of text donations made through charity text codes and more recently both O2 and Vodafone have announced that they will pass on 100% of text donations made in this way. Civil Society magazine claims that this "could signal an industry-wide shift."^[99] This is undoubtedly true: the mobile network operators are fulfilling their part of the bargain. The more pertinent question, however, is whether the charitable sector will overcome the other set of barriers identified in the report: what the report dubs 'charity sector ignorance'.

3.2.5 Applying Gift Aid to SMS Text Donations

The report also argues that claiming Gift Aid on text donations is near impossible under the current system.^[100] Spontaneous giving does not tend to lend itself to tax-efficient giving with the systemic constraints currently in operation. As a consequence, for example, the Disasters Emergency Committee's Haiti Earthquake Appeal was able to reclaim Gift Aid on less than 5% of its text donations.^[101] Justgiving.com states that it does not currently claim Gift Aid on text donations because the "effort and expense of collecting this additional data is not justified by...volume and take-up".^[102] This is because charities must send out forms (paper or online) for text message donors to fill out in order to claim, and the positive response rate to these kinds of initiatives is usually between just 10 and 20% of all donors contacted (though if donors are telephoned this percentage can rise dramatically to 80%). While an automated response featuring a Gift Aid declaration form can be sent to text donors asking them to go online and make a Gift Aid declaration, this defeats many of the positive characteristics of text donation: speed, ease and reduced need to populate fields of information, all of which donors like.

97. Framework for Charitable Donations using the UK Mobile Networks, June 2009

98. See e.g. <http://www.thirdsector.co.uk/News/FundraisingBulletin/922858/Mobile-operators-agree-waive-VAT-text-donors/0F6FBD7615BA08BB6730FAAF16A20C73/?DCMP=EMC-FundraisingBulletin>

99. See e.g. http://www.civilsociety.co.uk/fundraising/news/content/7038/o2_makes_text_donations_free_for_charitiesJoe

100. 'Sending out an SMS – The potential of mobile phones and text messaging for charities and non-profit organisations', CAF, The Institute of Fundraising and nfpSynergy, 2009, p38. They instead recommend exempting text donations from the declaration process and assuming every donor is eligible, or applying an opt-out scheme instead.

101. Figures obtained directly from DEC

102. Their guidance is available at <http://www.justgiving.com/design/93/sms/reclaim.asp>

3.3 The Future of Payments

There are thousands of payment options available online and on mobile phones that have one thing in common: they allow consumers and donors to pay or give relatively small amounts in an instant.

We have all seen people collecting for charity in the street, at fairgrounds or sports events. Donation boxes, church collections and individual sponsorship forms are a common feature of fundraising. Often the individual sums involved in these initiatives are relatively small. Loose change may be donated, or a few coins from a purse. In terms of Gift Aid, these donations are largely ‘untraceable’ in the sense that the donation is often made in an instant, with no time afforded to gather sufficient information for claiming the relief. In a so-called ‘cashless society’, however, this need not be the case.^[103]

3.3.1 Micropayments

“The future is here; it simply has not been distributed yet.” Nowhere is this contention more true than in the realm of micropayments, where Western Europe contends with an outmoded architecture and lags far behind several less developed countries across Asia and Africa. In Africa, six million people are already paying for goods on their mobiles, providing evidence for the contention that electronic payment systems can be more reliable and secure than cash.^[104] The fact that impromptu donations made by members of the public in the street or at shopping centres often involve very small amounts of money and in some cases simply entail people giving their loose change, means that it might well be a natural move for donors to give with their mobile phones should the right systems be in place. These new forms of micropayments may be even more effective than conventional credit or debit cards.^[105] The need to wait for a receipt, sign it, and verify a signature or enter a PIN number, compared to the relative speed of an SMS payment, may well soon be seen by consumers and merchants as taking too much time when a small amount of cash or change through a contactless payment would do just as well. The cost structure also provides problems. As analyst James McGrath explains:

“In a credit purchase, although the interchange paid to the issuing bank is variable — charged as a percentage of the transaction amount — there is a flat fee component as well. Debit, while having a lower interchange rate, has a similar cost structure. For smaller purchases, the fixed component becomes much more pronounced as a percentage of the transaction amount, and interchange, always a significant marginal cost concern, remains a stumbling block. Therefore, many retailers may consider accepting a credit card for a \$50 transaction to be economically defensible, but not for a \$2 one.”^[106]

Technology is now available that allows smaller payments to be made at efficient cost. For example, Peppercorn technology uses ‘intelligent aggregation’ to allow merchants to adjust the way transactions are rolled up to maximize profitability.^[107] What this means is that multiple micropayments are combined into one transaction to make the flat fee component of a credit or debit-based transaction more economically viable. This technology has been extended to support a suite of different payment schemes, including pay-as-you-go, prepaid, subscription, and postpaid, all of which are ultimately billed to a customer’s credit card.

103. ‘Is a cashless society on the cards?’, *The Telegraph*, 11 January 2010

104. *Ibid*

105. ‘Electronification’, *Bankers Online*, available at <http://www.bankersonline.com/articles/bhv10n02/bhv10n02a7a.html>

106. McGrath, J.C., ‘Micropayments: The Final Frontier for Electronic Consumer Payments’, *Payment Cards Center, Federal Reserve Bank of Philadelphia*, June 2006, p6

107. *Ibid*, p14

Business models have been adapted in the face of modern consumer behaviour. Successful business models, which follow what technologist Chris Anderson calls the ‘long tail’ model, such as Apple’s iTunes, offer à la carte pricing and software to aggregate several individual song purchases into a single transaction that appear as a single line item on a customer’s credit card bill.^[108] The “pay-as-you-go” approach, made possible through aggregation and validated through the incredibly successful market for music and related digital content, can likely be extended to purchases made through a variety of channels and offers the possibility of creating new markets and fundamentally altering existing ones,^[109] including donations to charities.

The products in this field^[110] which offer the most potential appear to be those that fall in the diverse group of so-called stored-value applications, such as transit cards, digital cash, or electronic purses that are functionally quite similar to currency. They provide a means to make payments from funds loaded on a card or similar device without the need to authenticate or clear the transaction through a central network. Products like Hong Kong’s Octopus E-purse are incredibly popular.

Case Study: Octopus E-purse

The Octopus E-purse is an electronic payment card. There are 12 million cards in Hong Kong, facilitating 9 million transactions daily and accounting for \$2.2 billion in annual transaction volume. Each transaction represents about 7.7 Hong Kong dollars, or \$1 U.S., on average. Cards can be reloaded via three methods: 1) at ATMs, 2) at partners such as 7-Eleven, Circle K, McDonald’s, and Starbucks, and 3) via direct linkages to a bank account or credit card that will replenish the card when the balance falls below a certain level. The ease with which to replenish funds and to make payment transactions mean that market penetration of the Octopus E-purse is phenomenal. More than 95% of Hong Kong residents actively use the product.

There is no reason why we cannot do the same in the UK. The emerging science of network economics suggests that once a competing payment system is able to demonstrate its worth and gain an advantage it can very quickly become ubiquitous and displace its competitors: a variation on so-called ‘tipping point’ or ‘critical mass’ theory. Moreover, there have been forays into contactless payment systems in the UK. Most famous is the popular Oyster card, which is used on London Transport. The Contactless ‘OnePulse’ introduced in 2007 in London by Barclaycard combined credit card and oyster card. The card allows customers to make purchases of £10 and under instantly.^[111] In 2008 the scheme was expanded to encompass its range of ‘wave and pay’ cards. Contactless VISA cards are now able to make payments of up to £15, and the numbers of these cards in use in the UK is expected to reach 12m by the end of 2010.^[112]

108. McGrath, J.C., ‘Micropayments: The Final Frontier for Electronic Consumer Payments’, Payment Cards Center, Federal Reserve Bank of Philadelphia, June 2006, p15

109. “The additional layer of disintermediation between issuers and customers brought about by aggregation may cause additional complexity for banks, especially with respect to authorization/authentication and customer service. Banks must be able to confirm that a customer is actually permitted to make a purchase of an individual item. With the potential need to repeat this process many times, especially in the case of very inexpensive digital content, confirming such permission introduces additional frictions into transaction processing. At the same time, issuing banks, which maintain the proximate relationship with the consumer, are contacted first in the case of billing questions or disputes. If banks have incomplete data about the details of an aggregated transaction, they may find it challenging to deliver a high level of customer service. Both of these challenges could be mitigated if providers of aggregation services and issuing banks continue to work together to improve the integration of operational and data communications.” McGrath, J.C., ‘Micropayments: The Final Frontier for Electronic Consumer Payments’, Payment Cards Center, Federal Reserve Bank of Philadelphia, June 2006, p16

110. Which also covers (1) techniques that allow such payments to be made via credit cards or equivalents over proprietary communication networks or open networks such as the internet: credit based; (2) approaches, such as debit, electronic checks, or ACH, that involve transmitting instructions to banks to transfer funds between demand deposit accounts or equivalents: these may be called account-based.

111. See e.g. <http://www.themoneystop.co.uk/072007/barclaycard-introduces-wave-and-pay-credit-card.html>

112. See e.g. http://www.visaeurope.com/en/newsroom/news/articles/2010/12m_contactless_cards_in_uk.aspx accessed 23 August 2010

Given the ubiquity of mobile phones, there is no doubt that they will take centre stage in the growth of electrified micropayments. The 'O2 wallet' saw Europe's largest trial (11/07 – 05/08) of what is now known as Near Field Communications (NFC) technology on a mobile phone. The trial tested consumer demand for making cards available that we would normally carry in our wallet, such as Oyster and credit cards, on a Nokia 6131 NFC mobile phone. To travel on London's transport system or make purchases in retail stores, the user simply touched the phone against a reader. The Barclaycard Visa payWave payment application was also installed on the handset, enabling trialists to make 'contactless' payments of £10 and under at the growing number of retailers across London including Books Etc, Chop'd, Coffee Republic, EAT, Krispy Kreme, Threshers and YO! Sushi. As well as making payments, participants could also use their Nokia 6131 NFC mobile phone to locate local retailers.^[113] Of the 500 trialists, 90% were happy using NFC technology on a mobile phone and 78% said they would be interested in using contactless services if available. Convenience, ease-of-use and the status of having such an innovative device were seen as the main benefits. The trial also had some interesting behavioural effects. For example, many found that having Oyster on their mobile phone actually increased their use of public transport.^[114] It would be similarly interesting to explore the behavioural effects of enabling Gift Aid to be capable of being easily applied to charitable donations on such a platform.

A phone that is able to replace a wallet-full of cards, and features accompanying software that allows its user to check the balance on their rail pass, for example, is common in Japan. To reach this stage in the UK however, the technology will require someone to champion it. As noted by *The Economist*,^[115] there were persistent rumours that Apple were to put NFC chips into the recently launched iPhone. The company has filed a number of NFC-related patents,^[116] but the new iPhone did not feature an NFC chip. Here the charitable sector, or at least those who understand the possibilities of this technology, can step up and make a difference.

The first undertaking will be to prepare charities for when this technology does take off in the UK. The second will involve representatives engaging with technology companies as well as Government. Agitating for Gift Aid reform without understanding or having a sense of the technology time line would be to subject the system to an ongoing and fatal error that will get worse as the pace of change quickens.

3.4 Gift Aid and Gifts in Kind

3.4.1 Keeping Up with Innovations

Gift Aid is for gifts of money only. Over the last ten years, however, it has increasingly been extended by smart practitioners through a variety of schemes and means to include the proceeds from charity shop donations, reimbursed volunteers' expenses, and admission fees. HMRC has had to issue complex guidance on common fundraising activities such as sponsorship, auctions and raffles to keep up with innovations. This can result in seemingly discouraging actions by the authorities, primarily through introducing new legislation to crack down on new methods of extending Gift Aid and interpreting current legislation to do the same. The mutual suspicion that results is unproductive.

113. Press Release from O2, available at http://www.o2.com/media/press_releases/press_release_14279.asp

114. Press Release from O2, available at http://www.o2.com/media/press_releases/press_release_14279.asp

115. On their blog, at <http://economist.com/blogs/babbage/2010/06/apple> accessed 10 June 2010

116. See e.g. <http://www.socialtimes.com/2010/04/apple-gets-patent-for-mobile-paperless-it-travel-tickets/> accessed 14 June 2010

Gift Aid applies to gifts of money, so if a supporter gives goods to a charity Gift Aid conventionally does not apply. There is, however, a method by which Gift Aid can be utilised by charities or Community Amateur Sports Clubs (CASCS) to maximise their income from the sale of supporters' goods. The charity can offer to sell goods on behalf of supporters, and then ask the supporters if they would like to choose to give all or part of those sale proceeds to the charity as a donation. Any donation of the proceeds can be treated as a Gift Aid donation, subject to all other Gift Aid conditions being satisfied. Once the item has been sold the individual must be told how much it was sold for and be given the opportunity to choose whether to keep all or part of the proceeds or donate all or part of those proceeds to the charity. This not only ensures that any donation is entirely voluntary but it also protects the charity from any allegations of inappropriate practice if the goods are sold for more than expected. After the goods are sold the charity then asks the supporter – who has at least 21 days to respond – to formally confirm that they want to donate the sale proceeds to the charity.

Sue Ryder Care was the first charity to start claiming Gift Aid on donations of goods to its shops. The charity estimates that it now raises £50,000 every week in retail Gift Aid through its 350 stores. It is able to claim Gift Aid on donated items by selling them on behalf of the donors and then asking them to donate the money raised to the shop. According to Julie Beames, business development manager at Sue Ryder Care, the system is not expensive, but requires investment in technology and training:

“It requires you to give each donor a unique number, attached to everything they donate, and to know when those items are turned into cash and what the value of the goods sold on their behalf is... You need a system for tracking that data.”¹¹⁷

To achieve this, each charity shop is equipped with broadband and a PC, with a standard form available. Details of donors are entered into the system, along with unique ID numbers attached to each item they donate. When donors' goods are sold, they are sent a letter asking them to confirm they are happy for Gift Aid to be claimed. The system is cheap, considering the benefits it brings: total costs are approximately 5% of the Gift Aid reclaimed.

3.4.2 Online Gifts in Kind

We have already argued that the steady replacement of coin by electronic payments means that claiming Gift Aid on small donations could become far easier if the correct systems were to be put in place. The tremendous success enjoyed by e-retail and e-travel sales highlights the vast potential for e-donations. However, as we have seen with Gift Aid offline, gifts in kind have become a stream of income from Gift Aid for charities of all types. This offers profound possibilities when applied to the online world.

3.4.3 'Digital Units'

The Coalition Government recently announced that “every penny” from dormant bank accounts would be channelled into a Big Society Bank, a wholesale bank that will in time make available hundreds of millions of pounds to social enterprises and charities. Smart Metres, Oyster Travelcards and SIM cards offer the opportunity to channel similar ‘unused’ money to other good causes.

117. Covered in Third Sector Magazine, available online at <http://www.thirdsector.co.uk/news/Article/991562/Case-Study-technology-behind-retail-Gift-Aid/>

One way to think about this is through the idea of Digital Units. These non-cash items are similar to unused units of energy or unused mobile phone minutes. Across several unit types, charities could benefit from increased donations were a system to be implemented where the value of excess units would go to charity rather than remaining wasted. This effect could be enhanced by a simple ‘nudge’, through allowing customers and potential donors to opt ‘in’ or ‘out’ of schemes that automatically donate their unused credits or units to a charity of their choice. To take one example, users of smart metres who sell energy back to the grid could opt to donate some of the money they receive to charity. And so Digital Units could become another tax-efficient source of income for charities.

Example of donating ‘Digital Units’: recycling unused ‘minutes’

- 55% of mobile phone users on monthly contracts never use up their free minutes. The average amount of unused minutes per user is £62 per year. The total value of unused minutes every year is estimated to be roughly **£800million**.
- A mechanism could be put in place whereby users of mobile phones on monthly contracts could sign a form at the beginning of their contract requesting their mobile network operator to resell their unused minutes or credits.
- The mobile network operator would take a percentage of the proceeds from the sale. The remainder would be donated to a charity designated by the user.
- Gift Aid could conceivably be applied to these donations using the model for non-cash donations pioneered by Sue Ryder Care.

3.5 The Future of Fundraising

The internet offers a rich seam of capital – both social and monetary – for charities to capture, the like of which simply has no counterpart in pre-internet culture. Internet-based tools such as social media, Google maps and twitter allow multiple users to connect; be they donors, campaigners or fundraisers. Interactive blogs, twitter streams and online video channels can potentially strengthen and personalise these relationships further. The closest descriptive term we might use is that of the online ‘reputation economy’ – but even this does not cover the breadth of its diversity or opportunity.

3.5.1 Monetising Social Networks

In the United States, market research firm The Nielsen Company found that people spend twice as much of their online time on social networking sites and blogs than any other activity. This figure is up 15.8% from just one year ago, representing a 43% increase.^[118] Websites such as Facebook and Twitter account for 22.7% of time spent on the web; the next closest activity is online gaming, which accounts for 10.2%.^[119] As social networking continues to grow at a remarkable speed there is both opportunity and danger. Thomas Power, CEO of online business network academy, believes that with Facebook set to create a billion-strong social network by 2012, the company has the potential to leverage its large user base and move into entirely new business territory.^[120] Facebook is already considering the creation of its own currency with the launch of Facebook credits, along similar lines to the social networking sites in South Korea and China, and Power sees a real opportunity for extending peer-to-peer lending, essentially online microfinance using banks of small amount lenders.

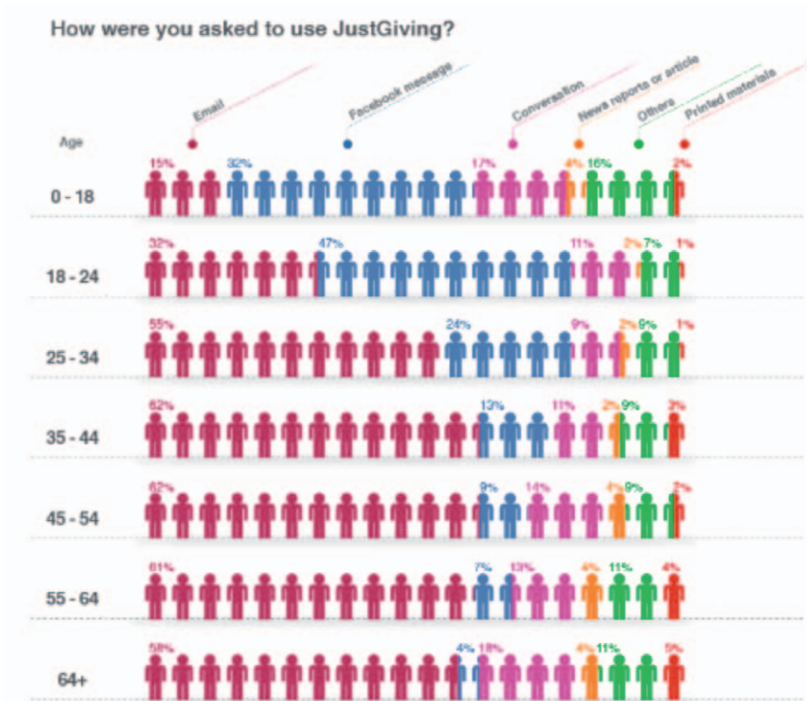
118. Figures available on their blog, at http://blog.nielsen.com/nielsenwire/online_mobile/what-americans-do-online-social-media-and-games-dominate-activity/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+NielsenWireOnlineMobile+%28Nielsen+Wire+%2C%BB+Online+%26+Mobile%29&utm_content=Google+Reader accessed 2 August 2010

119. Estimates vary, but see http://mashable.com/2010/08/02/stats-time-spent-online/?utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+Mashable+%28Mashable%29&utm_content=Google+Reader accessed 20 July 2010

120. See e.g. <http://www.finextra.com/news/fullstory.aspx?newsitemid=21187>

Social networking sites can be used to tap into groups of active and potential donors who can mutually encourage and spread awareness of charitable giving. For example, 20% of people who sponsor a fundraiser on JustGiving.com then share this fact with their friends via Facebook. This creates a ripple effect where awareness of the fundraiser and their cause spreads outwards across multiple social networks. As a result, for every person who shares a link using Facebook Connect, an additional person visits JustGiving.com,^[121] constituting 46% of this fundraising site's referrals.

Fig. 17.



Source: Jonathan Waddingham, *JustGiving*, presentation: *Discover the secrets of online fundraisers*, (IoF National Convention 2010, 6 July 2010)^[122]

Users of Facebook for example will choose to “Like” events or particular causes, organisations and individuals. In essence this is an act of online self-definition and reputation, the individual telling people in their social network and beyond what their interests and values are. It is a means of spreading a message quickly, and online marketing firms have already latched onto the idea. For example, the online ticket site Ents24 asks people to “Like” them on Facebook in order to enter a competition to win free tickets to events. This act on the part of a person entering the competition spreads the news of this competition and Ents24 itself across a social network from where it can filter onwards and outwards. There is potential here for charities to make people more aware of their causes and the ways they get involved; for example, an idea that has synergy with the Ents24 model is that of RockCorps, the social enterprise that offers concert tickets to young people who do community work. Avenues such as these could also offer powerful and cost-effective means of both spreading awareness of Gift Aid and, crucially, making Gift Aid part of the social norm of giving.

121. Available at <http://www.slideshare.net/jwaddingham/discover-the-secrets-of-online-fundraisers-iof-national-convention-2010>

122. *Ibid*, slide 39

Notwithstanding this real potential, there are a number of concerns we feel it right to raise at this juncture, particularly the need for regulation against fraudulent online fundraising. The Charity Commission was forced to issue a warning to donors to remain vigilant after a number of fraudulent emails were sent to people asking for money purportedly from mainstream charities.^[123] This space requires careful monitoring in order to generate confidence and trust amongst charities and donors. At the same time, any regulation must enable rather than avoid crushing this exciting new field.

3.5.2 Payment Platforms to Monetise Social Networks

There are already a whole host of ways to raise money through social networking sites, all of which charities can exploit. Facebook causes, a way to raise money directly through Facebook has raised roughly \$22million since it was launched. However, so far only a small fraction of the 180,000 organizations on Facebook have raised more than \$1,000.^[124] Twitpay and its RT2Give platform, designed specifically for the social networking site Twitter, focuses on the viral nature of Twitter, creating donations based on 're-tweets,' or actions that expose favoured messages to a user's entire network.

The JustGiving.com website is a model of Gift Aid incorporation. Established in 1999, it enables any charity, however small, and individual fundraisers too, to use the web to raise money at very low cost. The website has over 7,000 member charities and has raised more than £450 million.^[125] It conducts the administration of donations and Gift Aid so that the burden is lifted from charities, who 'pay as they go' to use the service, an option with little risk and minimum cost.^[126] The pages where people donate are also constructed in a streamlined way to capture the charitable impulse and nudge it in a manner which leads to successful obtainment of a Gift Aid declaration. Rather than many donation forms, which feature a tick-box for Gift Aid at the bottom of the form, the JustGiving website asks donors to tick the box immediately after they have entered the amount they would like to donate. It is the second step in the payment process, coming even before the request for credit/debit card information, which is the third step. Finally, the donor is asked to enter his/her name. This is an excellent example of designing a system that harnesses the charitable impulse towards giving tax-efficiently by re-ordering the information-giving process, informing choices and helping to shape positive decisions. As a result Gift Aid is claimed on roughly 85% of all donations made on the site.

From blogs to microblogs, photo and video sharing to message boards and chat rooms, and from podcasts to Widgets, online fundraising offers the potential for drawing donors in and interacting with them in many different ways, some of which are outlined by the case study of Girl Story at the beginning of this chapter. In January 2009, for example, the National Trust for Scotland became the first UK charity to use Twitter as part of its campaign to raise funds for a new museum. This foray into social media, which involved small set-up and running costs, met with a far better response than anticipated and helped the charity reach a younger audience.^[127]

But it's not just younger people who can be reached through these methods, and at this stage, we would like to dispel a popular myth. Social media can indeed be used to reach younger audiences, but it can be used to equal effect to reach older ones too. The average age of users of online social networks is 37 years old. Using social media is not just about targeting a niche market of technology-savvy youngsters; it is one of the communication tools of the present.

123. 'Beware of Bogus Online Charity Appeals', The Observer, 24 January 2010, available at <http://www.guardian.co.uk/money/2010/jan/24/charity-commission-online-scams-haiti-appeal>

124. See e.g. <http://www.e-benchmarksstudy.com/socialmedia/facebook/#facebook-causes>

125. From their website, at <http://www.justgiving.com/about-justgiving/> accessed 28 June 2010

126. From their website, at <http://www.justgiving.com/how-justgiving-works/> accessed 28 June 2010

127. 'Sending out an SMS – The potential of mobile phones and text messaging for charities and non-profit organisations', CAF, The Institute of Fundraising and nfpSynergy, 2009, p13

The average age of social networks: [Source: *pingdom.com*]

LinkedIn: 44

Twitter: 39

Facebook: 38

Myspace: 31

Bebo: 28

Overall: 37^[128]

3.5.3 Peer-to-Peer (P2P) Fundraising

The growth potential of peer-to-peer fundraising can be illustrated by the success of online peer-to-peer (P2P) lending, which occurs directly between individuals ('peers') without the participation of a traditional financial institution ('intermediary') by way of the internet (or more specifically, a social network style interface). The take-up of peer-to-peer lending has been staggering, and the industry as a whole is projected to grow to nearly \$6 billion in 2010.

Some peer-to-peer lending provides the methods for individual participants to directly control the allocation of their own capital, as opposed to the traditional bank lending models which pool funds together and eliminate individuals who own the money from the decision-making process. Others offer a less direct selection process that is nevertheless more personalised than a traditional bank.

The highly-personalised style of lending has already been adapted by social enterprises. One of the market leaders, Kiva, partners with existing microfinance institutions (Field Partners) around the world and provides lenders with the opportunity to lend money to social entrepreneurs anywhere in the world. The interaction between lender and recipient does not end there. The lender follows the recipient's progress through written updates and photos: altogether it offers a highly personalised form of social lending.

There are similar models at work in the charity space. The number of online charity fundraisers using the JustGiving.com site has risen from 65,012 in Q1 of 2007 to 125,524 in Q1 of 2010.^[129] Up to July 2009, the average individual 'collection' raised by these fundraisers through JustGiving was £48 across approximately 275,000 donations. JustGiving find that on average donors give more money to

fundraising 'collections' than they do directly to charities. The personalised peer-to-peer fundraising model is able to tap into social networks and monetise their value. This is particularly effective when dealing with smaller donations collected through fundraising activities.

3.6 Creating a Social Norm Around Using Gift Aid

Social networks are very effective at challenging and creating social norms. Indeed the effectiveness of social networks such as Facebook in altering prevailing social attitudes to, for example, privacy, has been a source of some concern. Positive social norms can certainly be enforced through social networks that get us to give more; can a norm be established that gets us to use Gift Aid more? There are strong indications that this could be possible. Fundraising pages for individuals on the website JustGiving detail the donations received by the fundraiser. Donors can choose to reveal themselves, the value of their donation, whether or not it was made with Gift Aid and also leave a personal message. Of course, revealing the amount individuals donate to others is a double-edged sword.

128. Waddingham, op. cit.

129. Waddingham, op. cit.

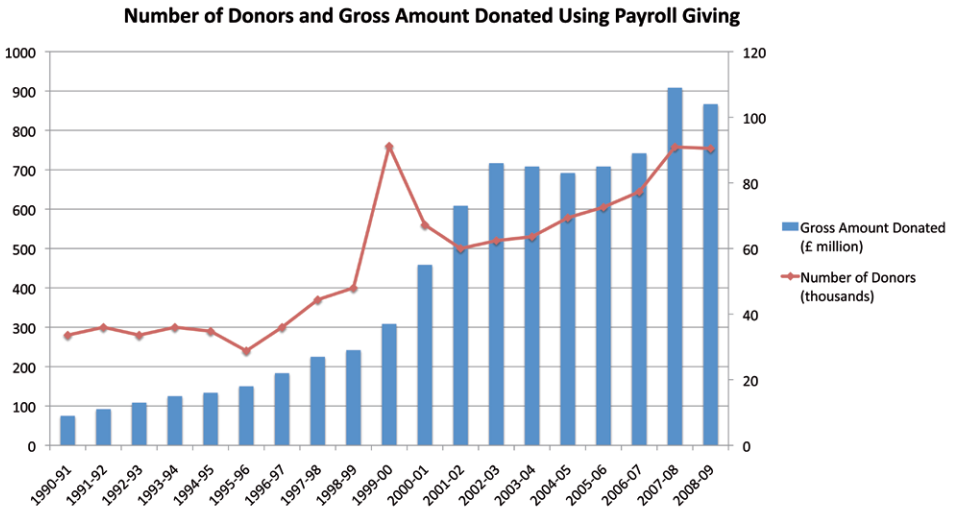
Peer pressure, in the form of past donations, can encourage future donors to give less or more. It can also be uncomfortable for people who cannot afford to match their friends' donations. JustGiving has the option to disclose or keep secret the amount donated. Revealing whether a donation had been made with Gift Aid would be a less morally contentious, more powerful nudge towards making Gift Aid a social norm. If the fact that someone had used Gift Aid was displayed on a Facebook or other social network profile, it would remind other people in that social network to use Gift Aid and perhaps even encourage them to try to understand it if previously they did not: "my friend is using Gift Aid, can I?"

3.6.1 Group-Based Donations

Let us consider the workplace as one example where group-based donations could be encouraged. The infrastructure for this is already present in the form of payroll giving. Payroll giving allows a donor to make donations to charity directly from their pay or company/personal pension. It is "automatically tax-effective, compared with Gift Aid, which is usually an opt-in device at the point of donation".^[130] The donations are made after national insurance contributions (NIC) are calculated but before income tax is worked out and deducted. Because of this, the donor pays tax only on what is left. This means that the donor receives tax relief on their donation immediately – and at their appropriate rate of tax. It costs a basic rate donor 80p to make a donation worth £1 to charity. The equivalent figures for donors taxed at 40% and 50% are 60p and 50p respectively. These figures correspond exactly to the net-of-tax cost of giving using Gift Aid.^[131]

However, compared with Gift Aid, relatively little money is given using payroll giving: £3.4 billion and £130 million respectively for 2008/9, although after a spike in 2000 – attributed to a millennium campaign that succeeded in almost doubling payroll giving for that year – there has been a steady, if not sizeable growth.

Fig. 18.



130. 'The public bond with tax-effective giving in the UK: A survey of the awareness of and attitudes to tax-effective giving,' CAF Research Paper, April 2009, p6
 131. In 2000 there was a proposal to extend payroll giving to allow relief from NIC. This was rejected by Government as being too complicated – there are different calculations for earnings and NIC. Analysis suggested such a relief would cost the Exchequer more than the funds it could be expected to generate for charities.

Is payroll giving unpopular? There is clearly room here for measures to ‘nudge’ people to give more at work by creating a mutually-supportive and encouraging environment where the use of Gift Aid is the social norm (because everyone will be paying sufficient tax) and awareness of Gift Aid itself is high. This moreover highlights a wider dynamic behind giving that we have noted above: the increasing prominence of impulse-based, one-off donations, that sits at odds with this automatic, somewhat staid process.

Payroll giving is a valuable example of the disconnect between present and future. Payroll giving as currently systematised assumes a lasting relationship between donor and charity. What it does not do is offer mechanisms that leverage the extent to which we can take advantage of the visceral qualities attendant upon charitable campaigns that are attuned to the future. The Public Fundraising Regulatory Association’s 2009 Attrition Survey, which examines whether donors who signed up during charity campaigns in 2007 and 2008 are still donating a year later, found that the proportion of donors cancelling their direct debits after signing up through street fundraising campaigns in 2008 is set to be between 55 and 57 per cent, a 10% increase on the previous year’s figures. Further illustrating our point, the report found that many of the reasons donors cancelled direct debits related to how charities communicated with givers after they were recruited.^[132]

The payoff for the donor can be that much more gratifying with the technology at our disposal. Payroll Giving is a particularly efficient method of tax-efficient giving, but currently it is geared toward serving outdated giving behaviour. This can and should be rectified. In a world of more causes, where more people give smaller amounts to more charities; wherein the window of interest and the attention span of a donor is smaller than ever before; we have a Gift Aid system that eschews smaller amounts, that takes time to process and that works less well with smaller charities and excludes many from the process. The lessons of the last two chapters are that we have a system that does exactly the opposite of that which it needs to do.

In the private sector, as communication becomes cheaper and more and more products fight for small segments of the market, companies have realised that they must fight that bit harder to capture and retain customers. It is no different for the charity sector. A recent report from the Public Fundraising Regulatory Association found that the year-on-year cancellation rate for charity donors recruited by street and door-to-door fundraisers is static for the former at 46% and increasing for the latter at 56%.

On the other hand, the positive aspect in all this is that, as we have seen, there is an ever-expanding array of internet-based tools that can make a difference. Encouragingly, charities big enough to invest in new technology are already ahead of the curve. A prime example is Cancer Research UK’s website, MyProjects, which asks donors to specify which research projects they want their money to fund. The website cost approximately £200,000 to develop, and it has attracted more than 3,000 supporters. The rewards for engaging donors in a more personable and innovate way are self-evident: 65% of all MyProjects supporters had not previously supported CRUK, and the average value of donations was higher than that of other individual donors. In total the website has raised £400,000, double the cost of investment.^[133]

To date, it is only a few pioneers that have grasped this crucial opportunity. The rest of the sector must catch up, safe in the knowledge that it is precisely the social characteristics of social networks that make it so appropriate to fostering those relationships that mean so much to those who give. The future of fundraising and the future of the internet are one: charities take note.

132. ‘Street Fundraising’, Third Sector Online, 6 July 2009, available at <http://www.thirdsector.co.uk/news/Article/918034/street-fundraising-attrition-rates-predicted-rise-10/> accessed 20 August 2010

133. ‘Case Study: Cancer Research UK’, Third Sector magazine, 16 August 2010, available at <http://www.thirdsector.co.uk/News/FundraisingBulletin/1022133/Case-Study-Cancer-Research-UK/809569F574A0C2CBB7A87B8E9F540285/?DCMP=EMC-FundraisingBulletin> accessed 19 August 2010



Part Four

Gift Aid in the Digital Economy: The Barriers

It is undoubtedly true that technology could and should be deployed to improve the Gift Aid system. Many within the charitable sector and without have been agitating along these lines for some time. Why, then, has it not yet happened? At this juncture, it makes sense to consider this question in more detail.

According to figures collated by the NCVO, the voluntary sector has already suffered funding cuts in various government programmes of nearly £3m since the end of May.^[134] Any proposed changes to Gift Aid must acknowledge that the overwhelming concern for the Government is that these changes are as close to cost-neutral as possible. Most substantial reforms to the auditing process or the method of applying Gift Aid might well involve significant costs to HMRC. And so we have to be clear where the costs are, where the efficiencies come from, and how any reform alters the balance of affairs in a way that works for charities but also for the exchequer. And we have to be clear what barriers, particular to the current arrangements, will make the reforms that we will outline in the next chapter that much more difficult.

4.1 Barriers from HMRC: The Persistence and Cost of Inertia

In chapter two we outlined the iron triangle of Gift Aid reform. With the current system so stuck in the past, there is little opportunity for this to be broken. Online submissions of Gift Aid claims would save paperwork and time for HMRC and charities. It would create a stronger and more reliable audit trail and be easier for authorities to monitor and process. This would allow more donors into the system too and offer new opportunities for reliable declaration media. However there is no means for charities to file Gift Aid claims online so as to create these multiple wins.

We will come to the systems that might make this a reality in the next chapter; at this stage we would only say that this omission is significant and will become more so. The priority for Nick Hurd, the Minister for Civil Society, is to make it easier for charities to claim Gift Aid by reducing bureaucracy and simplifying the process. In 2009/10, HMRC processed 154,425 Gift Aid claims. The payroll costs for HMRC directly attributable to this process were £450,413, representing £2.92 per claim. The total cost to HMRC per Gift Aid claim is estimated to be £5, which includes overheads and additional processes impacting on the repayment process. Let us say that the Minister was successful, and bureaucracy could be reduced. HMRC would then expect a substantial increase in the number of Gift Aid claims and may well struggle to meet and pay for demand – unless they heed the Prime Minister's advice, outlined at the beginning of chapter three, and shift the system online.

Potential savings could be significant. The first report by Martha Lane Fox as the Government's Champion for Digital Inclusion claimed that households without an internet connection missed out on average savings of £560 per year, while by moving just one Government service wholly online, the state could save £900 million.^[135] HMRC have already embraced the internet in other areas. For example, the migration online of self-assessment tax returns was actively promoted by HMRC through their phasing out of prepaid envelopes usually supplied with self assessment forms. The Department for Work and Pensions is working to a presumption that people of working age should apply for benefits online and have the skills to look for work online.

134. NCVO: Crowdsourcing cuts to Government funding for charities, <http://spreadsheets.google.com/pub?key=0A13G3FWusZ9cdEV3cHFj50YtZUgwS2FxVHBFYOhVcUE&hl=en&single=true&gid=0&output=html> accessed 29 June 2010

135. PricewaterhouseCoopers Report, released 13 October 2009

4.1.1 The Fear of Fraud

Charity finance experts have been told by official HMRC sources that tax fraud involving charities “runs into tens of millions”, with figures mentioned during discussions ranging from £60m to £100m.^[136] In a briefing document, HMRC claimed that extending reliefs to charities in the EU would cost an additional £450m a year in fraud.^[137] To counteract the potential of fraud, the 2010 Finance Act granted HMRC the power to conduct a ‘Fit and Proper Persons Test’ every time a charity hired a new trustee or senior manager. If a trustee failed to pass the test, the charity was to be denied tax relief. The legislation, which provoked widespread dismay, was modified so that HMRC will now “assume that all employees and trustees of charities are ‘fit and proper persons’ unless it is shown otherwise.”^[138]

There is a fine balance between protecting Gift Aid against fraud and stifling the activities of charities through burdensome regulation; however, systemic inertia is not only a result of HMRC intransigence, but part of a very real problem with fraud that must be deferred to in any posited reform. Many sector representatives have shown that they understand HMRC’s position, but this has not been enough to overcome the impasse or the problems that flow from it. Uncertainty about Gift Aid and the concern of ‘getting it wrong’ remains a critical issue for charities, particularly smaller ones.

One extra cause of complexity is the variation of tax reliefs on offer for individual donations, and how they have been altered since they were first introduced. The original policy justifications for the three main tax reliefs – payroll giving, Gift Aid and gifts of shares relief – have grown less clear as original restrictions have been lifted or altered as charities developed innovative ways to apply the reliefs to cover activities for which they were not originally designed.^[139] HMRC require an audit trail between an identifiable donor, the sum of the donation and the charity to which the gift was made and this must stay, but the form is ripe for a rethink.

Take for example, the application of Gift Aid to donated goods sold in charity shops. To stay within HMRC guidelines, a charity engaging in this kind of activity must maintain extensive records. For audit purposes, in addition to keeping the donor’s Gift Aid declaration, the charity must retain all documentation associated with claims for Gift Aid on the proceeds from the sale of goods on behalf of donors. Internal accounting records by the charity must also be kept, to show how goods are identified as belonging to a particular supporter; and if arrangements are made by a trading subsidiary of a charity,^[140] records must be maintained to demonstrate how the sale proceeds are remitted to the charity.

If charities are deemed not to have followed the complex HMRC-issued guidelines, their charitable VAT exemption on overheads and their business rates relief may be removed. For instance, when charities sell donated goods which they own, the activity is not normally treated as trading and so any profits are not taxable. However, if they are providing a service in return for payment, in the form of selling goods on behalf of others in return for a commission, then this service may itself amount to a taxable trading activity. If no commission is charged the charity will not be in a trading position.

136. ‘Tax Fraud Involving Charities Runs to Tens of Millions’, Third Sector Magazine, 3 August 2010

137. Ibid

138. See e.g. <http://www.thirdsector.co.uk/News/FinanceBulletin/1015647/HMRC-will-assume-charity-employees-fit-proper-persons/B12708392F3EB836EBF2FC24214C1D5C/?DCMP=EMC-FinanceBulletin>

139. **For example, payroll giving was originally intended for regular small donations and Gift Aid for one-off substantial donations. But now the cap on qualifying gifts under payroll giving has been removed, and there is no longer a minimum gift for Gift Aid.** This has led to inconsistencies between the rules for different reliefs. If Gift Aid income is applied for a non-charitable purpose, then it becomes taxable. There are different benefit rules for the three main donor reliefs. There are no benefit rules for payroll giving, there is a maximum benefit of £500 for Gift Aid donations, and for gift of shares relief, the value of any benefit is deducted from the relief.

140. HMRC guidance available at <http://www.hmrc.gov.uk/charities/guidance-notes/chapter3/sectionf.htm#gg> accessed 29 June 2010

But regardless of whether a commission is charged, all direct and indirect costs incurred in selling these goods will be non-charitable expenditure, and may affect the charity's entitlement to tax exemption. This would include costs such as advertising expenses and insurance cover for valuable goods, but can also include a share of any overheads relating to the sale of the goods. HMRC give an example of this on their website.^[141]

Case Study

- A charity begins to sell goods on behalf of supporters, from a shop which previously sold only donated goods owned by the charity.
- When selling donated goods only there was no trading position and all overheads were acceptable as charitable expenditure (realising the value of a gift)
- A proportion of those overheads will now relate to the non-charitable activity of selling goods on behalf of supporters
- The overheads must be apportioned between the two activities by the most appropriate method e.g. floor-space devoted to non-charity sales or proportion of turnover, etc.

Myriad guidelines and the prospect of penalties can deter many charities from pursuing new innovations. The opportunity for charities to offer benefits, albeit minimal, in return for donations upon which Gift Aid will be claimed has also created a 'greyish' area, with extensive guidelines adding to the complexity rather than cutting through it. Donations to charity may qualify for Gift Aid, providing the donor receives no more than minimal benefits in consequence of a donation. To take one example, if in consequence of a donation, a charity allows a donor the benefit of a right of admission to view charity property, then providing certain conditions are met, the value of that benefit may be disregarded and the donation may qualify for Gift Aid. A donation to the charity can be made by a donor of at least 10% more than the cost of admission to the general public and in return the charity can grant an equivalent right of admission to the donor, or the donor and his or her family.

These complex rules are the result of a kind of cat-and-mouse game as charities try to apply Gift Aid to new sources of income and the authorities in response try to update their guidelines. Larger charities are frequently better equipped than smaller ones to navigate the complex reams of guidance issued by the authorities. This is fuelling a growing gulf of understanding amongst charities, staggered according to size. Small charities tend to display the lowest levels of awareness about Gift Aid, primarily as a direct consequence of not having a dedicated administrative department to deal with Gift Aid and staff being responsible for a number of different activities.^[142] Medium charities are "commonly the more 'creative' claimers of Gift Aid". They might often work from the premise that if money received can be treated as a donation, then Gift Aid can be claimed.^[143] There is of course a risk with this approach, that HMRC would not accept that all such payments were qualifying donations.^[144]

Large charities were found to be the most aware of the Gift Aid process. The administrative departments of these charities were clear on the workings of Gift Aid and also collaborated with communications and marketing teams to help boost donors' understanding of Gift Aid. Larger charities would also be less likely to try 'creative' adaptations of Gift Aid without first checking with HMRC, in order to avoid any difficulty in the future.^[145] The fact that the cost of communication and reaching out

141. HMRC guidance available at <http://www.hmrc.gov.uk/charities/guidance-notes/chapter3/sectionf.htm#gg>

142. Hall, Pettigrew and Sweet, 'Key Barriers to the Adoption of Gift Aid', Research Study conducted for HMRC and CAF, March 2008, p14

143. *Ibid*, p16

144. *Ibid*

145. *Ibid*

to more people is becoming cheaper should mean that small charities should be competing for donors with larger charities on an increasingly level playing field. But the apparent ‘tiering’ of knowledge of Gift Aid amongst charities according to size means that smaller charities are disadvantaged by new innovations when they should be the greatest beneficiaries. Reform must seek to counter that trend; to put more power in the hands of those who have the least.

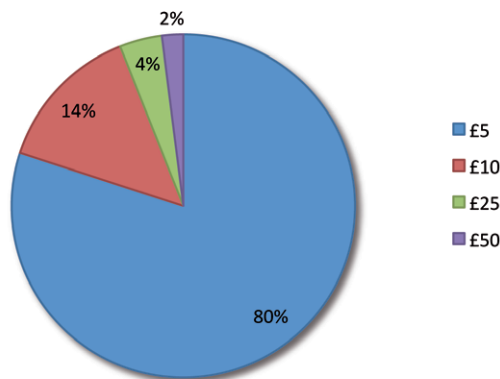
4.2 Barriers from Charities Themselves: Failure to Migrate

Many government initiatives to push services online fall under the umbrella campaign of the above-mentioned ‘Race Online 2012’, whose campaign promises to “tap into the incredible work that local charities do so that they can help us get to some of the people [who are not currently online] who would otherwise be too difficult to reach”.^[146] This, we submit, is a rather ambiguous statement. Clearly the Government understands the vitally important role that charities play in our society; but it perhaps also fails to realise that many charities themselves need help to embrace the online world.

To survive in the Digital Age charities must adapt or wither. Retail, entertainment, banking and even public services are migrating online and using electronic systems in their day-to-day operations. As we have argued above, there are problems specific to the processing and claiming of Gift Aid, which means that just as it costs HMRC to process each Gift Aid claim, it is often unprofitable for charities to claim Gift Aid on small donations. The recent Gift Aid Simplification Survey^[147] found that 80% of charitable organisations do not claim Gift Aid on any form of donation below £5. For small charities the cost of claiming Gift Aid on small donations is proportionately more, and so Gift Aid is not claimed on nearly 15% of £10 donations – precisely the opposite of how we need to be thinking as people’s giving behaviour changes.

Fig. 19

Value of donation below which small charities do not claim Gift Aid



We have argued that the Gift Aid system is not flexible enough to adapt to these changes. However, it would be wrong to argue that systemic reform will be enough. The Gift Aid process can be streamlined and the costs of claiming can be reduced but equally important is the need for a change in charity

146. Race Online 2012 Press Release, op. cit.

147. Gift Aid Simplification Survey – Headline Findings (2010, CFDG, CTG, CAF, IOF, CLAS, SCC, Stewardship)

sector attitudes towards using new technologies for fundraising and day-to-day operations. A survey of small charities carried out for this report found that approximately 41% used paper-based methods to process Gift Aid. 'Failure to migrate' leaves these charities badly placed to capitalise on new fundraising techniques and to take full advantage of any opportunity to reduce bureaucracy and simplify the process of claiming Gift Aid. The twin shadows of uncertainty and unwillingness to embrace new technologies loom over the sector.

4.2.1 Attitudes and Prejudices

Consider the situation with text donations. A survey of small charities for this report found that no respondents had received donations via SMS/text donations, citing reasons such as 'little connectivity' and not being 'geared up' for Gift Aid.^[148] A report on text donations by CAF, the Institute for Fundraising and nfpSynergy suggested that "the charity sector has not yet been convinced by the mobile phone services available for fundraising and communications work".^[149] As we have seen in Chapter 3, O2 and Vodafone have both announced that they will pass on 100% of donations made via charity text codes; they have demolished this particular barrier to greater take-up. But charities must also reform attitudes and overcome prejudices.

The report on text donations noted that "charities are missing out on gaining supporters by not targeting younger audiences through the mobile phone".^[150] It is worse even than this. In Chapter 3 we noted that the average age of users of social networking sites is 37. A recent report by marketing agency Bluefrog further argued that "the over-55s are close to becoming the largest age group online... Charities are getting better at communicating with them online, but they still need to give more consideration to their needs".^[151] The report found that more than one third of charities contacted did not respond to requests made by researchers posing as potential legacy givers, who used their websites to request more information about leaving legacies. It is not only younger audiences that charities are neglecting by failing to embrace new technologies but potential big ticket funders as well.

4.2.2 Risk Aversion and the Effects of Scale

The personalised nature of social networking is oft mirrored by the experiences of smaller community-based charities: they are able to solicit lots of small donations but often struggle to make these gifts tax-efficient. The first obstacle to increased take-up of Gift Aid on these particular streams of income is the obtaining of the Gift Aid declaration. The second obstacle – which is more an attitude than a physical impediment – is excessive risk-averseness amongst smaller charities.

Peer-to-peer fundraising is just one example of where these two problems manifest themselves. In order to comply with HMRC rules, the online fundraising site JustGiving.com establishes Gift Aid eligibility by asking donors three questions, each unlocked by the one before.

- (1) Are you a UK Taxpayer?
- (2) Are you buying something in excess of the allowed benefit? (i.e. is the transaction a payment for goods or services and not a freewill donation?)
- (3) Are you connected to the fundraiser where the charity contributes to the cost of fundraising?

148. Survey of small charities by Small Charities Coalition for this report.

149. 'Sending out an SMS – The potential of mobile phones and text messaging for charities and non-profit organisations', CAF, The Institute of Fundraising and nfpSynergy, 2009, p27

150. *Ibid*

151. 'Charity Websites Failing Readability Tests on Legacy-Giving Details', Third Sector Magazine, 6 July 2010

As noted in chapter two, we learned at ResPublica's first expert roundtable discussion that every additional field of information required of donors in order to validate their donation for Gift Aid directly resulted in less take-up of the scheme. This is particularly acute when donors are asked complex questions to ensure that they are abiding by rules, which often baffle charities themselves.

To take one example, consider a single charity running 50 managed events in one year. Assume that for every event there are 100 fundraisers, and for every fundraiser there are 25 donors making a single donation through the JustGiving.com website. If all donors were asked three questions that would amount to 375,000 individual questions about Gift Aid on behalf of the one charity. A more conservative estimate would still put this figure at around a quarter of a million questions.

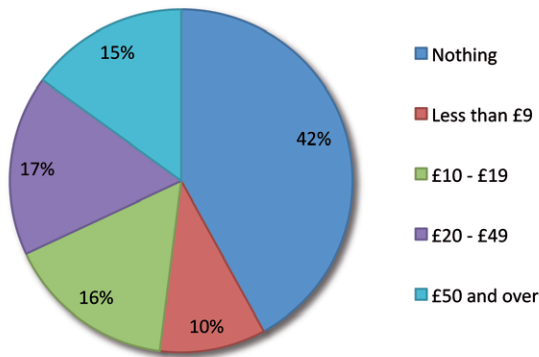
A positive solution to this problem would build on precisely the attributes that currently appear to be acting as barriers. Research supported by CAF and HMRC found that "charities often tended to over-regulate themselves... Where charities felt unsure about claiming Gift Aid on a donation they had received, they would not act for fear of interpreting the rules incorrectly, rather than 'bend' the rules for their own situation."^[152] Charities' own risk aversion might itself offer the opportunity for HMRC to work with them.

4.2.3 Leadership and Charities as a 'Sector'

According to the recent Gift Aid simplification survey, just 15% of charities that responded would be willing to make a one-off payment of over £50 for an online Gift Aid filing system and 42% indicated that they would not be willing to contribute anything at all.^[153]

Fig. 20

How much charities would be willing to pay towards initial download of a database



While the landscape of social action is constantly evolving, the financial climate that charities are operating in has already been dramatically altered. Many charities face the serious prospect of going bankrupt for lack of funds. The recession has depressed levels of charitable giving, coinciding with an 11% decrease in the total amount given in the UK. The crucial importance of donations as a source of

152. Hall, Pettigrew and Sweet, 'Key Barriers to the Adoption of Gift Aid', Research Study conducted for HMRC and CAF, March 2008, p17

153. Gift Aid Simplification Survey 2010, op. cit.

income is underscored by recent news that the Office for Civil Society will cut £11m from its 2010/11 budget.^[154] And figures compiled by National Council of Voluntary Organisations demonstrate that many charities will struggle to stay afloat as the government slashes the £13bn it spends each year on the charity sector.^[155] Ben Kernighan, NCVO deputy chief executive, concluded that the “scale of the cuts risks making a lot of groups go bust very quickly”.^[156]

In the digital age, thousands of little contributions can make a big difference. If charities accept the possibilities of the virtual, the per capital contribution to make sure they are supported need be relatively small. ‘Charities working together’ currently remains the exception that proves the rule. A recent report from Capacitybuilders on the impact of the economic downturn on the voluntary sector found that over 50% of charities considered responding with a merger or a partnership. However, just 5% had completed a merger in the last two years, and 18% had abandoned attempted mergers before completion. The report identified a number of barriers including fears of takeover or loss of identity amongst staff and trustees, loss of local presence, the challenge of understanding each organisation’s financial position and dealing with difficulties such as pension liabilities. Working together to embrace the digital future is the future of the sector. Sector leaders, representatives and charities themselves all have a role to play in making reform happen that sets us on the road to the future.

4.3 The Cost of Reform

The state of the public finances dictates that any reform must, in so far as it is possible, be cost-neutral. So when we look to compensate for the predicted shortfall in income for charities we must look at:

- (1) increasing the number of donors using Gift Aid, and
- (2) reducing the costs to charities that processing Gift Aid claims entails.

Increasing the number of donors using Gift Aid on their gifts will mean increasing the tax foregone by the Treasury. Reducing the amount of money charities spend on processing Gift Aid will cost the Treasury nothing, subject to (1), and moreover it will allow charities’ vital resources to be channelled to more fundamental activities. With the public finances as parlous as they are, we must be open about the costs and consequences.

4.3.1 The Cost of a One Pound Donation and the Potential Costs of Reform

The UK’s national debt stands at approximately £903bn, equivalent to 62.2% of GDP.^[157] The Chancellor George Osborne announced in the emergency budget that all Whitehall departments bar two will face cuts to their overall budgets of roughly 25%. Hence there is enormous pressure on government departments to cut their outgoing costs.

In order to focus our thinking on the kind of solutions that will work, we built a simple behavioural model to understand the costs of successful reform, which calculated the costs to the exchequer of having more higher rate and basic rate taxpayers claiming the relief on various sizes of donation.

154. Office for Civil Society announcement 29 July 2010

155. <http://www.ft.com/cms/s/0/f1cae390-a0c0-11df-badd-00144feabdc0.html> accessed 6 August 2010

156. <http://www.ft.com/cms/s/0/f1cae390-a0c0-11df-badd-00144feabdc0.html> accessed 6 August 2010

157. ‘UK Budget Deficit Lower Than Feared’, The Guardian, 18 June 2010

i) High Rate Taxpayers (HRTTP) The table below shows the relative cost of set donations for donors, charities and the Treasury.

Table 1 Relative Cost of Donation for HRTTP

Cost to the Donor (£)	Income for Charity (£)	Cost for HM Treasury (£)
0.60	1	0.40
1	1.66	0.66
1.5	2.5	1

ii) Basic Rate Tax Payers (BRTTP): The table below shows the relative cost of donation for the same.

Table 2 Relative Cost of Donation for BRTTP

Cost to the Donor (£)	Income for Charity (£)	Cost for HM Treasury (£)
0.80	1	0.20
1	1.25	0.25
4	5	1

As noted above, if more donors are encouraged to claim Gift Aid on their donations, this will be a cost to the Treasury in tax foregone. The chart below summarises the cost of reform to the Treasury if 400K new donors used Gift Aid (of which 100K are HRTTP and 300K are BRTTP). It also draws comparison between the low and high size of average donations.

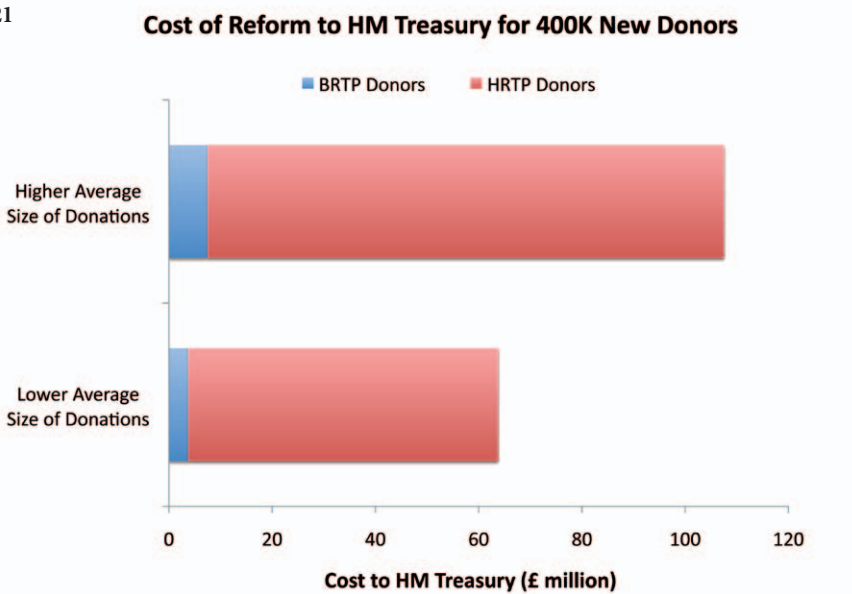
Table 3 Size of Lower and Higher Average Donations

	Lower Average Donation	Higher Average Donation
BRTTP	£50	£100
HRTTP	£1,200	£1,500

Table 4 Costs to the Treasury for adding 400k new donors, of which 100k are HRTTP and 300k are BRTTP, at high and low average size donation.

	Cost at Lower Average Size of Donation	Cost at Higher Average Size of Donation
BRTTP	£3.75m	£7.5m
HRTTP	£60m	£100m
Total	£63.75m	£107.5m

Fig. 21



At this number of extra donors, our model predicts approximately £100m in extra foregone tax. Set against the cost of transitional relief, approximately £300m over three years, this throws the scale of reform into relief.

We submit that optimising a system to secure more charitable donors is a better use of Government money than tinkering with tax thresholds. It is in society's long-term interest to nurture the donor/charity relationship through getting more people to participate in civil society. Modernisation can deliver a better system in lieu of measures such as transitional relief. Secondly, we must also bear in mind that these costs to the exchequer will inevitably be counterbalanced by savings. Money that flows to charities helps provide services that make society stronger and reduce demand on the state. Accurate measurements that track this saving are beyond the scope of this report, but we must not forget who benefits from getting Gift Aid right. These principles inform the implementation schedule we posit in the next chapter.



Part Five

Digital Giving: Recommendations

A Six Step Plan Towards Digital Giving: Action Plan for Government and for the Charitable Sector to Modernise Gift Aid and Reduce Bureaucracy

1. It runs entirely against the grain of the modernising aims of the Government that claims for Gift Aid cannot be lodged online. The savings and benefits in terms of convenience and bureaucracy are numerous and the argument is compelling. Any reform will be incomplete without this change. As such, we recommend that the Office for Civil Society work with the charitable sector to create a system so as to allow Gift Aid to be claimed online, based upon the system we have co-created in this report. In order to achieve this, we submit that the Minister for Civil Society convene an implementation team, The Digital Giving Steering Group, comprised of government officials, charity sector representatives and private sector stakeholders, whose aim is to create a matched funding stream for charity sector investment in such a system and so a working coalition for digitising Gift Aid. The system should allow Gift Aid to be claimed on text message donations and other small quantum donations whose role will become increasingly important as the effects of the digital age take hold. Potential funders from the sector such as CAF or appropriate charity umbrella bodies should be part of the team. The Digital Giving Steering Group should work towards creating a feasibility study in conjunction with HMRC, Ofcom and others, acquiring matched funds for sector investment in such a system from the Big Society Bank, Big Lottery Fund, or from savings made elsewhere, as specified in this report. The aim of this group would be to practically implement the system, so cutting bureaucracy and spurring modernisation as a result.

2. We welcome the upcoming review for the Office for Civil Society by Lord Hodgson on cutting bureaucracy for small charities and urge it to consider three specific items relating to modernising Gift Aid: methods by which small donations can be claimed so as to relieve the need for an audit trail; simplifying guidance governing the offering of benefits by charities to donors; and conducting a cost-benefit analysis of the Self Assessment Donate mechanism, asking whether the costs could be better spent **redirected towards modernisation and bringing the system online, as the only sustainable approach to reform.**

3. We recognise the need for HMRC to protect the integrity of the national accounts and maintain an audit trail for donations. As such, we recommend HMRC amend its guidance only slightly in light of the proposed system so that **Digital Gift Aid is presumed to be the primary method of claim** and that a mobile telephone number or personal email is 'good enough' identification for a donor. No primary legislation will be required.

4. We need structures in Whitehall to ensure that the Government listens to the radical pace of technological change and amends its practices accordingly. We propose that the Digital Giving Steering Group be the anchor between two units. **A Digital Giving Unit, located in the Office for Civil Society, whose function is to work with technology companies and charities developing innovative fundraising forms and so suggest pro-sector, pro-social reform in light of the future giving environment, and the rise of digital fundraising (a policy function).** And HMRC, whose Gift Aid team's resources would be freed somewhat by the migration online, and whose job, made easier by the online migration, should be to reiterate the system and implement specific policy ideas that have benefit to charities while retaining the integrity of the system (a consultancy function). HMRC's eventual role should be to use the system to access Gift Aid data without having to go through charities at all, thus completely modernising the process.

5. We also need structures that enable a radical increase in uptake of Gift Aid, especially as donor behaviour fragments and more people give in smaller parcels to more causes that matter to them. An online system allows that infrastructure to develop. We recommend the Digital Giving Steering Group examine ways that the system can be turned **into a civic platform** and opened out, either with database improvements created open source, or indeed by encouraging retirees, volunteers and trustees to log on and give advice on how the system works. In concert, we recommend a civil society driven campaign that aims to influence people to ‘Gift Aid more’, working with technology companies and social media sites to spread the message from peer to peer, rather than centrally. A similar campaign should be extended to payroll giving and to other forms of digital currency, explored in this report, such as digital units.

6. Finally, we recommend that the treasury exercise its option not to continue with transitional relief on Gift Aid. Government efforts should instead be focussed on redoubling efforts to making Gift Aid ready for the future. This will save the exchequer approximately £300m over a three-year cycle. If matched funding is not forthcoming, we would suggest Government investment in the system be made in light of this figure, as well as possible savings from the self-assessment scheme, as a radical offering and a means to move this most important of tax reliefs into the future.

There is no doubt that technology will make a huge difference to the way charities operate, but until these benefits are harnessed, it will be a double-edged sword. Neglected, it will undermine them as the rest of the world migrates online. Embraced and harnessed to its full potential, it has the power to change the way in which they communicate, raise funds, operate, and deliver services – and so help them to help more people and improve more lives.

The threats that charities face do not, of course, begin and end with the spectre of technological incapability. Innovative businesses and social enterprises are already using the power of the web to directly connect donors to causes. The rapid rise of such social enterprises, supported by politicians who welcome market-based solutions to stubborn social problems, poses an alternative threat – and opportunity. Particularly on the issue of structural reform to Gift Aid, the charity sector must bear in mind that any move to redefine Gift Aid as government spending leaves it vulnerable in the future to being redirected and applied elsewhere to encourage change-making models that the government of the day feels are more cost-effective than the model offered by charities. As such, we must proceed with diligence, tracking the costs and benefits of each measure we seek to implement, both to the exchequer and to charities and those people who use the services charities provide.

5.1 Simplification Online

Quickly scan through responses from charities to any survey asking them how to improve Gift Aid and the overwhelming response will be “simplify it”. There are approximately 169,000 charities registered in the UK; 96% of these are small charities, classified as having an annual turnover of less than £1m. Approximately 41% of these still use a paper-based system for processing Gift Aid.^[158] This can be attributed to a host of factors, including lack of resources and knowledge, to the fear of new technology, and concerns over the reliability of storing important information on computers. Moreover, the current state does not match aspirations: according to a recent survey, 84% of small charities claim to be

158. Survey of small charities by Small Charities Coalition for this report.

interested in making Gift Aid claims electronically.^[159] Yet HMRC, for a variety of reasons, have still not made the most basic of modernisations to the system: allowing Gift Aid claims to be filed online, a reform that could have a dramatic and profound effect.

Forty-three percent of charities feel that they do not currently maximise their potential income through Gift Aid.^[160] A recent survey on simplification of Gift Aid found that the vast majority of charities (81%) predicted that an online Gift Aid management system would lead directly to savings on paper storage and reduce the time spent maintaining records of donations;^[161] The big question, therefore, is not whether this is desirable, but how this is done.

An online system for filing Gift Aid claims would not only offer savings to charities; it would moreover reduce the £5 HMRC currently spends^[162] on processing each Gift Aid claim they receive, and enable HMRC's accounting to be more accurate. Everybody benefits from the right online system, and this must be the first item for reform. Without this reform, other measures will fail to prevent the relief increasingly being consigned to irrelevancy.

5.1.1 Approaches to Online Claiming

The real question is not whether but how we implement an online system. The Charity Tax Group (CTG) has proposed one such system, available for free download by charities, which would require a “modest investment by government”. This system would work as follows. Once charities download the free database, they would be able to enter relevant information from Gift Aid declarations and donations into the database. The database would be auditable and could produce the forms needed by charities to claim Digital Gift Aid.

The idea is a good one, however there are several implementation questions that remain unanswered. The first issue is, who pays. Only 15% of charities surveyed would be willing to make a one-off payment of over £50 for such software, and 42% would not contribute anything at all towards the initial cost.^[163] The position of the 42% who would not contribute anything at all appears unrealistic, particularly in the current economic climate; and if such a system is to become workable, it will be for groups such as the group of representatives and technologists convened in the writing of this publication, or for groups such as the Gift Aid forum, to work with charities to outline the benefits of embracing our digital future in this way. The second issue is that the system as configured requires HMRC to remove the requirement for an original (or scanned copy of the) Gift Aid declaration.

Allowing Gift Aid declarations to be destroyed would certainly ease the burden and audit-risk attached to storing vast amounts of paperwork for charities, but as the CTG proposal notes, “100% proof that the written declaration had existed and had been correct would not be available”. This lack of an auditable trail, given the problems of fraud and the need to protect the integrity of the national accounts, is in our view impractical. We agree with the principle of an online system; however, migrating the system online will require an organisational shift in HMRC such that doing away with the declaration simultaneously may leave the system vulnerable. Moreover, as we show in section 5.2., an online Gift Aid management system can create an audit trail and do away with the storage of paper declarations if a simple modification is introduced.

159. Survey of small charities by Small Charities Coalition for this report.

160. *Ibid*

161. Gift Aid simplification survey, *op. cit.*

162. FOI: During 2009/10 HMRC employed 149 staff in its charities business; however, of these only 22 were directly engaged in processing claims.

163. Gift Aid simplification survey, *op. cit.*

5.1.1.1 A Universal Declaration

The 2008 Government consultation on Gift Aid evaluated the merits and drawbacks of a so-called universal Gift Aid declaration with a central database of donors whereby donors made one universal Gift Aid declaration – applicable to all donations to every charity – that was held in a central database accessed by all charities. Charities would check a donation against the database to positively ID the donor before processing the Gift Aid claim.

This idea would simply reduce the need for charities to obtain a Gift Aid declaration, but leave the burdensome process of claiming Gift Aid and maintaining records intact. The Government response to the consultation drew attention to data protection constraints and questioned who would be responsible for administering the database and what the operating costs would be, as well as to whom these costs would fall. The Government also questioned whether this would actually reduce the administrative burden for charities given that they would still need to obtain and retain records for each donor and then cross-check them against a database. Concerns were also raised by a number of charities that a centrally administered database would have a detrimental impact on their relationship with their donors.^[164]

The concept of a universal Gift Aid declaration also encounters problems if a donor – for a variety of reasons – wishes to apply for Gift Aid on some of their donations but not others. In particular, for donors making large donations, they may not have paid sufficient income tax in that specific year to cover their Gift Aid claims. Ultimately, the cost-benefit ratio of creating a central database of donors, which would still require charities to process and store every single Gift Aid donation, is not sufficient to warrant further exploration at this juncture.

5.1.1.2 A Unique Gift Aid Donor ID

A unique Gift Aid donor ID would eliminate the burden of paperwork for charities and set the foundations for a Gift Aid system which is capable of incorporating the new methods of payment and interaction between donors and charities outlined in Chapter 3. Here is how the system would work:

- Donors would use an online website run by HMRC to make a Gift Aid declaration to cover all future donations to all registered charities and CASCs until further notification. This declaration could also be made in paper form and sent to HMRC.
- Donors would receive a personal Gift Aid donor card, which could be physical but could also have a digital only option, with a unique ID number or code which is linked to their National Insurance (NI) number.
- Donors could make charitable donations in a variety of ways. The ID would replace the need for donors to fill out information fields such as surname and address on cash declarations. Via online and by mobile phone, the donor would enter his/her unique ID in the required box or in the body of the SMS/Text message. The donor card could act as a pre-loaded account, whereby donors could swipe their donor card in order to make a donation; at the same time the card would transfer the relevant information to the system run by HMRC so that charitable donations under Gift Aid were directly linked with the individual donor's tax records.
- This would mean that donations via new methods such as online and by mobile phone that carried appropriate identification could completely eliminate the need for paperwork or processing by charities. On cash donations or gifts in kind, charities would simply need to register and enter the value of the gift alongside the donor ID.

164. See e.g. http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/F/F/bud08_giftaid_335_.pdf p9

- Gift Aid would be automatically paid out to charities on a regular (monthly) basis. Higher rate personal relief could be allocated to the donor or redirected to the charity at the year-end.
- At the end of the tax year, donors could indicate – via their self-assessment tax return or P810 tax review – whether any tax relief paid at the higher rate would be reclaimed at year-end or redirected to charity.

There are at least two prominent barriers to the adoption of the unique donor ID system.

- To create the system would require considerable investment, and it is not clear that charities would be willing to pay (even partly) for this, nor that HMRC would be in a position to spend the money necessary to fully develop this.
- Linking an ID number directly to a donor's National Insurance number raises issues around data protection, donor privacy and the possible scope for fraud. It also necessitates that HMRC manage the system. It is doubtful that HMRC would be in the position to invest and run a system such as this in the immediate future. Furthermore, after a number of high-profile serious data breaches involving HMRC – such as the loss of confidential information of 25 million child benefit claimants¹⁶⁵ – many donors may question whether HMRC would indeed be best placed to operate the system.

The likelihood of the system being realised in the form outlined above is slim. That said, the evaluation of its benefits and drawbacks is enlightening and serves to inform our central recommendation. The thinking behind it is quite simply this: the idea is a good one. But in an age of multi-point internet access, why locate the database anywhere in particular; why not save money, increase efficiency and use the 'cloud'?

5.1.2 Digital Gift Aid: The 'Cloud System'

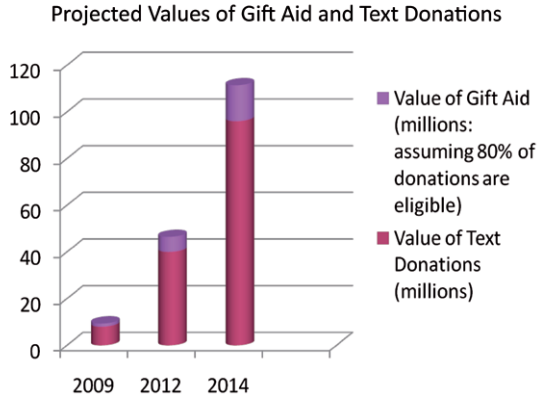
Contactless payments, smartphones and mobile apps may perhaps shine a light on the future of charitable giving, but as this paper has shown, the sector as one has not even fully embraced established technologies such as text donations. Currently, Gift Aid is claimed on less than 5% of text donations. If Gift Aid was claimed on 60% of donations this would generate an annual sum of approximately £1.1m.

Is it possible to harness this income? As part of the process of creating this report, we have devised a model system by which these and other infelicities could be cured. We sought out technology companies to work with us on implementing the parameters and the result has been that we have co-created a service with Icen Mobile, the team that created M-PESA, the world's largest mobile payments service. This service would concentrate on making all text donations – potentially worth £96m per year by 2014 – tax-efficient, but would easily facilitate the processing and management of Gift Aid claims for future technologies.

This system is ready to implement. However, perhaps even more exciting is the fact that, while this idea was deemed unthinkable just a year ago, by migrating online the problem of claiming on text message donations is solved. We submit that several other problems with the current system could be similarly be cured by this simple but radical step.

165. See e.g. <http://news.bbc.co.uk/1/hi/uk/7103911.stm> accessed 10 July 2010

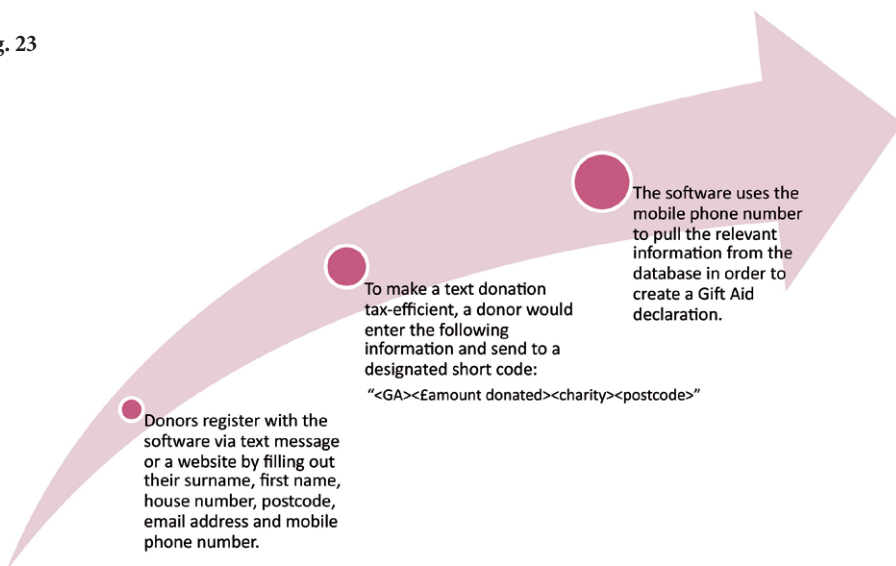
Fig. 22



The service is an internet, email and mobile one hosted securely (in the cloud) and accessed by charities, donors and potentially government institutions such as the HMRC. The service will hold donors' Gift Aid declarations and link donors to their mobile phone numbers, email and home addresses. In the longer term, with sufficient security procedures in place, credit and debit card details may also be linked to the donor's account to facilitate higher value gifts. Below we outline how the system works from the donor perspective.

- Donors would register direct with the software (via SMS or online). They would fill out sufficient information to form a Gift Aid declaration and provide an email address and mobile phone number.
- An alternative is that charities obtain Gift Aid declarations (with mobile phone numbers and email addresses) from donors and then enter them into the software.
- When making a donation via SMS, a donor who wanted to Gift Aid their donation would send the following to a shortcode number provided by the charity or emergency appeal:
 <"Gift Aid" (or "GA")><£amount><charity>
- The donor will also be asked to add their post code details to the text message too as a form of security.

Fig. 23



The software would use the mobile phone number to create a Gift Aid declaration to cover that donation by pulling the relevant information from the software. By entering “Gift Aid” or “GA” the donor certifies that s/he wants Gift Aid to be applied to the donation. Similar services can also be made available for donations via web sites, Credit Card, Debit Card, Paypal, etc, as well as through additional line items on professional and magazine subscriptions, or through Mobile Apps via iTunes and so on.

5.1.2.1 A Civil Platform Around the Online Service

The internet creates networks around networks. There is no reason why the online site should not further reduce the demand on the state by incorporating a consumer portal for the donor community. This could incorporate, for example, a social network that links in to existing popular social networks such as Facebook and allows people with knowledge of the system or people who wish to programme different functionalities to work with others who require these services peer-to-peer, rather than directed from the centre.

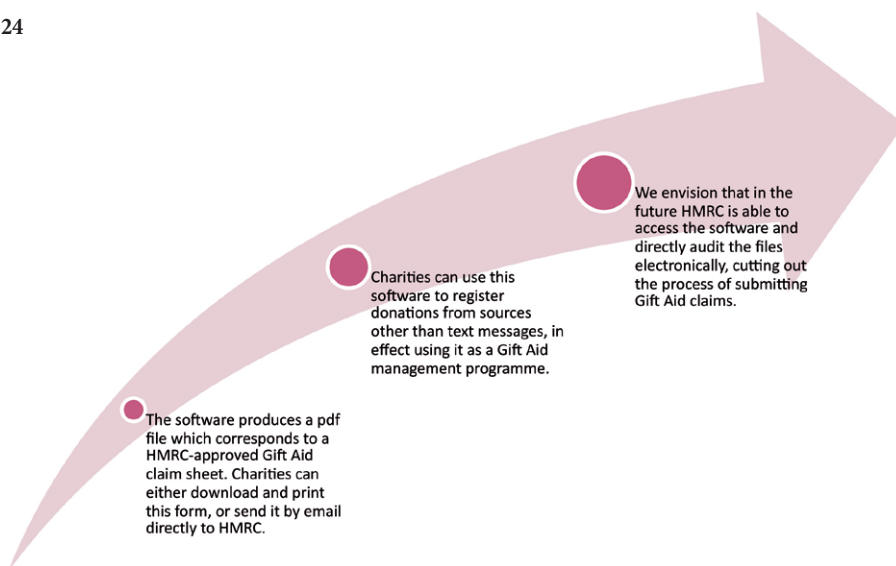
5.1.2.2 Evolving Role for HMRC

Following implementation and use by charities, there is no reason why HMRC themselves should not use the outputs produced thereby, thus eliminating one element of bureaucracy entirely. To explain this, let us consider how the system would work for charities:

- The service is able to produce a file to email or print which corresponds to a HMRC-approved Gift Aid claim sheet, detailing all donations that have passed through the software. Charities log in to the secure web site and download campaign files in order to email them or send them in hard copy to HMRC.
- The records of such a file may come from many different sources, not just automated outputs from SMS and email systems; for example, they may be hand generated from other information sources and input by the charity for their own record-keeping purposes.

HMRC may thus wish to adopt the service as it is, removing the need for charities to produce such reports by automatically registering these details with HMRC when the campaign file is uploaded.

Fig. 24



5.1.2.3 Extending the System: the Possibilities

As institutional comfort with digital giving grows, the possibilities of migrating online will become more apparent. It will be for the steering group, combining the work of those who manage and farm the system with the latest insights, to articulate the case for system reiteration. For example, the system we have devised would also work for street donations:

- Currently it is almost impossible for Gift Aid to be claimed on charitable donations collected in the street for example, because of the time constraints involved in completing paperwork.
- With this software in place, people who were registered with this service, when donating in the street could simply be asked to text < “GA” + £Amount donated > to a short code prominently displayed. The software would then be able to apply Gift Aid to this donation. If the donor was not registered with the site, they could be asked to add their surname, house number and postcode to the SMS which would form a valid Gift Aid declaration. Alternatively, they could be sent an automated SMS link asking them to register for Gift Aid with the service.

5.1.3 Further Implementation Questions

It is clear that, given the scope for radical, necessary reform, interested parties such as HMRC, the Gift Aid Forum and other sector representatives must adopt the principle that the presumption should be that Digital Gift Aid should be claimed online. This in turn would support the goals of UK Race Online 2012 and would orient Gift Aid reform towards the future. Initial implementation questions are as follows:

Who contributes financially to the system and how much do they contribute?

The cost of this system, is vastly outweighed by the benefits it will bring. Technology offers charities the potential to boost their revenues through Gift Aid by a considerable amount, but as the group who will reap most rewards, charities who believe in the idea must be prepared to contribute. We recommend that this be something that umbrella bodies and sector representatives should lead on in conjunction with Government but in active partnership with private sector actors and technology specialists, so evolving the scope of the many groups that have been convened to address Gift Aid reform over the years. This ‘Digital Giving Steering Group’ would conduct the below feasibility study, put together funding applications for the Cloud system, measurements for success and report on the progress of this and other projects pertaining to Digital Giving, with tangible milestones and goals. It is proposed that a Digital Giving Unit with its own implementation team be established, and linked to the government’s UK Digital economy initiatives, so as to expedite the implementation of this system and similar future innovations that can be of benefit to online civil society, with the steering group forming the link between the unit and HMRC.

Is it feasible from the point of view of the structures of Government?

A feasibility study would need to be conducted with various stakeholders such as HMRC, HM Treasury, the OCS, Ofcom, the Charities Commission, the Mobile Data Association and Mobile Network Operators.

How do we engage civil society to improve it?

A new structure or platform, by itself, is only part of the story. It would be important to establish mechanisms to allow volunteers and retirees, especially from the IT and accountancy sectors, to be able to provide advice to charities and donors using this service. Online video conferencing can complement telephone and face-to-face advice. An online service breeds comment and contribution from the networks, from Twitter feeds, from those who have time to invest their ‘cognitive surplus’, as technology academic Clay Shirky put it. The civil platform needs to take advantage of these communities.

What is the role of HMRC?

HMRC should work with the system provider to develop capabilities on their side to accept Gift Aid claims from the system in the smoothest and least expensive way. Ultimately it would reduce the cost to government if HMRC were able to access, process and account for Gift Aid claims directly from the Cloud, and to engage the help of volunteers and amateurs to make the multi-point system work even better. Cloud systems can have many levels of user access, with different users able to alter or work with the system in different ways. This could be controlled by HMRC or the contracted company so as to make sure the system is secure and open to improvement. We recommend that the recently-formed de-regulation Task Force led by Lord Hodgson conduct a cost-benefit analysis of Self-Assessment Giving ('SA Donate'), and consider whether that money would be better spent by HMRC investing in the development of online Gift Aid management software similar to the 'Cloud System' which we have outlined above.

5.2 Further reducing the Administrative Burden

Migrating online and enabling innovations such as text message take-up is the primary recommendation of this report. We also present here a rounded view on how modernisation can actively relieve the bureaucracy burden around Gift Aid in almost all of its forms. Digital Giving can mitigate many of these problems.

Fig. 25



5.2.1 The Email Audit Trail

Digital Giving does not do away with the need for checks and balances. HMRC requires an auditable trail linking an identifiable donor to their Gift Aid declaration, the donation they make and the subsequent claim by the charity. One of the main drawbacks of the CTG proposal was the elimination of part of this audit trail.

However, embracing the online world allows us to maintain the auditable trail but remove the burden of storage for charities by allowing all paper declarations from donors with email addresses to be transferred into oral declarations that are valid under current Gift Aid guidelines.

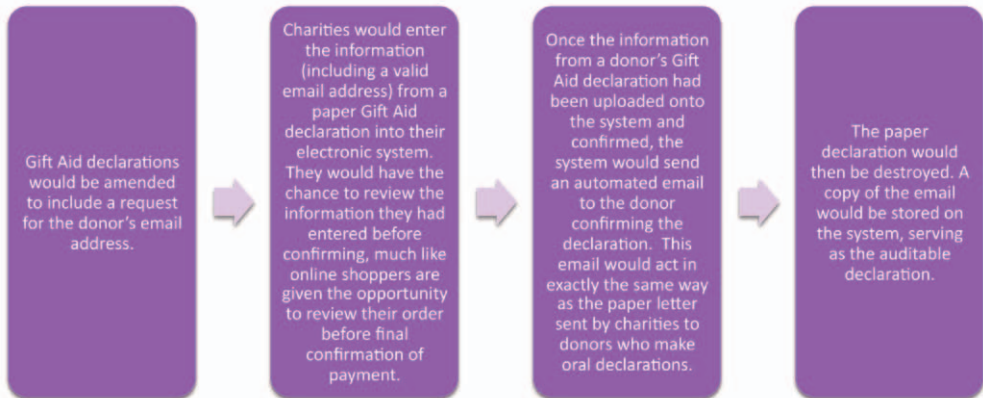
There are three types of Gift Aid declarations that charities can produce to satisfy a HMRC audit:

1. The original Gift Aid declaration form
2. An (electronic) copy of the original Gift Aid declaration form, or a
3. Copy of the letter sent to a donor to confirm that an oral Gift Aid declaration has been made

We recommend that charities be allowed to use the third of these options to create an auditable trail that can be stored online and yet still meets the requirements of HMRC.

Our system would work as follows:

Fig. 26



Emails serve widely as a means of communication and confirming identity between customers and banks, utility companies and even government. People are able to pay their council tax online and communicate with their local council office via email. Emails are the unique identifier for PayPal payments. Gift Aid is the exception, not the norm. There is no reason why the letters confirming that a Gift Aid declaration has been made must be in paper form. An automated email sent to a donor as confirmation would then be stored by the online system in anticipation of an audit. Furthermore, unlike a hard copy letter, emails provide the opportunity to put in place a system to track whether and when the email has been opened by the recipient or not. The email could even ask the recipient to confirm that they had indeed made a declaration.

If this modification were accepted, it would completely eliminate the need for hard copies of records and claims to be stored for donations made by people with email addresses. The fear of losing records or making mistakes in processing Gift Aid would be eliminated. It is a small optimisation – but potentially a radical one.

5.2.2 Digital ‘Loose Change’

The current system, which requires a Gift Aid declaration to cover every small donation, will remain unprofitable for most charities no matter what kinds of efficient technologies are introduced to manage the process. The collection and processing of data on small claims will remain in many cases too laborious to make it profitable.

In the era of the above-mentioned ‘long tail’, technology is rapidly addressing these problems. Donors could be asked to text their donation rather than give cash, which would mean the donation could be traceable and possibly processed under Gift Aid if the donor is identifiable and a declaration has been obtained (beforehand, during the donation itself or retrospectively). Rather than putting one pound into the box during the annual Poppy Appeal, donors could be asked to send a text to a short code number.

The rise in popularity of smartphones and contactless payment methods will offer additional ways to make small tax-efficient donations in the future. We outlined these developments and their potential in Chapter 3, and the online ‘cloud system’ this report recommends will be easily modified as the application goes through beta testing and new iterations in the future to evolve and incorporate these developments.

In the meantime, small cash donations and collections still pose a problem for Gift Aid. There are numerous tales of small community groups and charities being unable to apply Gift Aid to cash collections. For example, a collection held during a funeral service offers no opportunity for fundraisers to ask donors to Gift Aid their declaration, and yet the money raised and potential bonus via Gift Aid is incredibly valuable. But the barriers identified in chapter 4 can be part of a solution.

5.2.2.1 Trusting Charities with Small Claims

The introduction of a ‘fit and proper person’ test for ‘managers’ of charities in the 2010 Finance Bill provoked widespread dismay. The legislation has been modified so that HMRC will now “assume that all employees and trustees of charities are ‘fit and proper persons’ unless it is shown otherwise”.^[166] The modification echoes the Coalition Government’s expressed desire to make it easier for people in the UK to set up and run charities, but it also taps into something more vital: trust. HMRC are, to an extent, trusting the managers of charities.

Research supported by CAF and HMRC concluded that “charities often tended to over-regulate themselves... Where charities felt unsure about claiming Gift Aid on a donation they had received, they would not act for fear of interpreting the rules incorrectly, rather than ‘bend’ the rules for their own situation”.^[167]

166. ‘HMRC will Assume Charity Employees are Fit and Proper Persons’, Third Sector Online, 12 July 2010, available at <http://www.thirdsector.co.uk/News/FinanceBulletin/1015647/HMRC-will-assume-charity-employees-fit-proper-persons/B12708392F3EB836EBF2FC24214C1D5C/?DCMP=EMC-FinanceBulletin>

167. Hall, Pettigrew and Sweet, ‘Key Barriers to the Adoption of Gift Aid’, Research Study conducted for HMRC and CAF, March 2008, p17

Self-certification would mean no Gift Aid declarations for donations under £10. Research supported by CAF and HMRC found that “those [charities] who knew most about donor awareness were often very small charities who knew their donors in a personal or community capacity”.^[168] Charities would be trusted to claim Gift Aid on eligible donations.

One option would be to relieve charities of burdensome bureaucracy and lower costs for HMRC, who would not have spend money auditing relatively small claims, by taking small cash donations out of the audit process completely. An individual donation limit of £10 and an aggregated total of £500 would be set. No Gift Aid declarations would be necessary. Instead, a percentage reflecting the average number of total UK donations made with Gift Aid in the current or previous year would be applied to the aggregated claim. This would mean that if 50% of all charitable donations made in the UK were made with Gift Aid, then an aggregated claim by a charity for £300 would see Gift Aid applied to £150 of this. This is about making the life of charities easier by trusting them, and in the process reducing costs for both charities and governments.

The question that must be asked is, does the current system, in an effort to guard against fraud, disproportionately penalise small Gift Aid claims, and if so, are the costs involved to charities (collecting, processing and storing information) and HMRC (auditing small claims) proportionate considering the relatively small amounts of money involved?

We suggest that this option for reform and its wider implications be examined by the recently-formed de-regulation Task Force headed by Lord Hodgson, whose remit is to work through the “full range of burdens that fall on small civil society organisations” to reduce the red tape constricting the charity sector. This report has shown the prevalence and importance of small donations. Every pound donated, whether it forms a small donation or a larger one, is of equal value. A modern Gift Aid system would acknowledge this and allow donations of small change to be tax-efficient.

5.2.2.2. Streamlining Gift Aid Eligibility Questions

The evidence suggests that charities can be relied upon to self-regulate their Gift Aid claims. Chapter 3 highlighted the potential of peer-to-peer fundraising and individual autonomous fundraisers tapping into and monetising their social networks online. However there are a number of barriers preventing this potential from being fully realised. Chapter 4 outlined the extensive number of increasingly complex questions that the JustGiving fundraising website needed to ask donors to establish eligibility in order to comply with HMRC rules. This compliance results in JustGiving having to ask donors approximately 250,000 questions in relation to just 50 events. Our roundtable found widespread feeling in the charity sector that for every additional question asked of donors in relation to Gift Aid declarations and tax, the percentage of people seeing the process through to the end diminished.

If we assume that Gift Aid take-up is mainly a product of three main controllable factors:

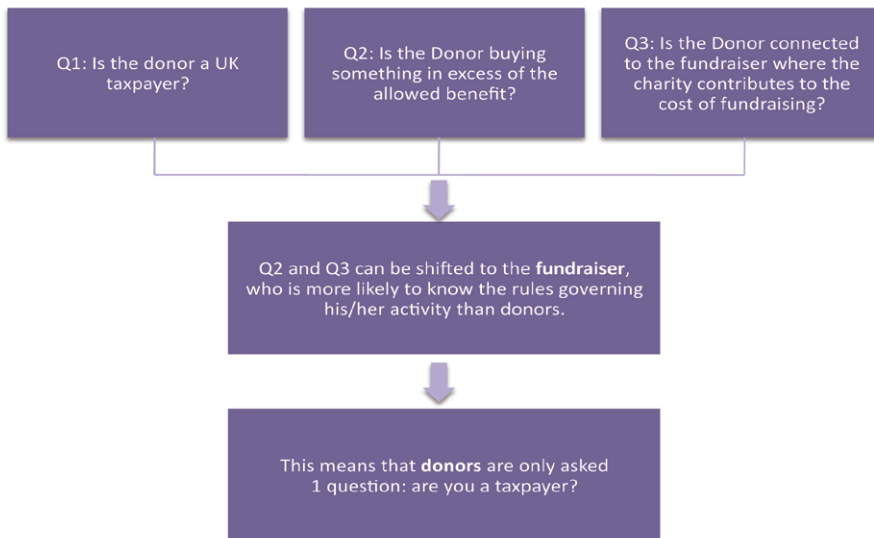
- the number of eligibility questions that people are asked,
- the number of people who are asked them and their Gift Aid/tax knowledge, and
- the complexity of the questions,
- then simplifying this process would mean asking the simplest questions to the least number of people who have the greatest Gift Aid knowledge. This ought to result in increased take-up and accuracy of most claims.

168. Hall, Pettigrew and Sweet, ‘Key Barriers to the Adoption of Gift Aid’, Research Study conducted for HMRC and CAF, March 2008, p17

Currently donors are asked whether they are buying something in excess of the valid benefits allowed under Gift Aid and whether they are connected to the fundraiser where the charity contributes to the cost of fundraising. A simple solution would be shift the responsibility of asking these questions to the fundraiser. Currently if a fundraising event has been found by HMRC to have broken eligibility criteria, the charity is liable to repay the Gift Aid claimed. Under this recommendation the charity would still be liable to repay Gift Aid claimed incorrectly, but the eligibility questions would be shifted to the fundraiser rather than asked of the donors. This means that the fundraiser would vouch that their activities are meeting HMRC criteria. The result would be that donors were only asked one question: whether they were a UK taxpayer. In this scenario, 20,000 questions would be asked rather than the current 250,000.

Fig. 27

Three questions that donors must answer on online fundraising sites in order to establish Gift Aid eligibility



5.3 Awareness: Capturing the Potential of Payroll Giving

In looking to the future and the new technologies that will be available to us, we must not assume that the tools that currently exist are inherently outdated and of little use. It may well be the case that they are simply not being used in the right way. We submit that payroll giving falls into this category. As a mechanism for tax-efficient giving it is incredibly effective. As a mechanism that goes against the grain of giving behaviour, it needs to be adjusted. This report argues that giving behaviour is rapidly and radically changing, but that does not necessarily entail the extinction of committed regular giving. It simply means that in order to maintain regular giving, charities must engage with donors in new ways. Encouraging a social norm of giving is of vital importance, but charities must recognise that in order to retain regular givers, they must continuously re-evaluate how they engage and communicate with those donors to maintain the charitable bond.

In Chapter 3 we saw how Cancer Research UK, through its website, MyProjects, was able to engage donors in a new way and the resultant increase in numbers of new donors and the value of donations. This maps out how charities build relationships with donors in the future. There is a sector-wide question about how charities with fewer resources than Cancer Research UK can join this migration to an online interactive community. This question must be answered, not least because it is imperative that other charities with fewer resources be able to follow in the footsteps of the major organisations.

Payroll giving can form the mechanism by which donors give money to the charity, while interactive websites and mobile apps offer the methods of communication. We recommend that the Government examine ways in which workplaces can promote the use of payroll giving amongst employees, through a multi-source awareness-raising campaign involving new and traditional media. However, for this to be successful, charities should realise that they must deploy new ways of interacting with and building relationships with donors. Without the personalised bonds between charity and donor, the mechanism, despite its efficiency, will remain sadly underused.

5.3.1 Charity Sector

This is a critical period for charities. In order to navigate through the various challenges that they face, attitudes must change, technology must be embraced, and the changing landscape of communications, networking and fundraising acknowledged. The Gift Aid simplification survey uncovered a worrying unwillingness on the part of charities to invest in the future; to invest in technology that would reap dividends once implemented.

That said, the playing field for charities must be levelled so that larger charities – who, because of their size, are able to invest heavily in Gift Aid management systems and employ dedicated teams – are not favoured by the system. This does not entail pinning back the work of larger charities, whose innovations in applying Gift Aid to new sources of income trailblaze the way for smaller and medium-sized charities. It means giving smaller charities access to the technological systems available so that they can manage Gift Aid forms with ease and capture new methods of donation, and crucially, give them the confidence that they are abiding by the rules. The 2010 Budget introduced changes to the claim and payment process of Gift Aid for charities, now urging charities to use the new ‘intelligent’ R68(i) form online, which automatically calculates repayments due. Charities without access to the internet must continue to use paper forms, but the signal from HMRC is clear; embrace the internet and online technology in order to ease the burden of excessive administration and bureaucracy. For smaller charities in particular this can be daunting.

A 2008 government consultation with the charity sector found that specifically small charities suffered from limited administrative and technical resources and difficulties associated with the complexity of Gift Aid reclaims.^[169] Many respondents felt that small charities needed specially targeted guidance to encourage them to use Gift Aid. Suggestions included a basic Gift Aid starter pack, tailored advice and a ‘buddying’ system.^[170] Encouragingly, the vast majority of respondents to a survey of small charities found the guidance from HMRC on Gift Aid helpful.^[171] This is a matter of delivering the advice that is already out there in more supportive and engaging ways. This is a task for existing organisations such as the Institute for Fundraising, the Charities Aid Foundation and networks such as the CVS.

169. Available at <http://webarchive.nationalarchives.gov.uk/> and http://www.hm-treasury.gov.uk/media/F/F/bud08_giftaid_335_.pdf p11

170. Available at <http://webarchive.nationalarchives.gov.uk/> and http://www.hm-treasury.gov.uk/media/F/F/bud08_giftaid_335_.pdf p11

171. Survey of small charities by Small Charities Coalition for this report.

The Government should examine necessary mechanisms for allowing more retirees and volunteers, particularly from the accountancy and ICT sectors, to be able to give more advice to charities in need. It could be for accounting institutions or a body such as OFCOM in the area of ICT that take a particular lead in this skills area, but we see a leadership role for umbrella organisations in the charity sector such as the Institute for Fundraising and the Charities Aid Foundation alongside dedicated organisations such as Media Trust.

We further recommend that the Government and the de-regulation Task Force examine how it can be made as easy as possible for people to volunteer time and share their ICT skills with charities. The internet will be a key educator as well as facilitator in Digital Giving, for example, allowing advice to be given via webcam when face-to-face advice is impractical.

Charities are expected to play a crucial role in the Big Society, but are they equipped with the necessary supporting structures and regulations to allow them to fulfil this role? Especially given the increased financial pressure that many charities will experience, what mechanisms are in place for mergers and takeovers in the sector when charities collapse?

Answering these questions is beyond the scope of this paper; however, it is clear that modernising Gift Aid is one of the key limbs of a successful strategy. Funding, investment for the future, foundations, regulation, capacity and mechanisms for mergers and takeovers all require strategic consideration and should form the focus of future research.

5.3.2 Public Awareness

Communicating the value of Gift Aid to the wider public is of utmost importance, not simply to boost the number of tax-efficient donations but also to raise general awareness of just how vital a source of income it is.

There are two related issues here. One is the lack of awareness of Gift Aid: what it is, why it is so valuable, and how it works. The other is the mix of vague awareness of the relief with an element of uncertainty and confusion about how Gift Aid impacts the donor personally, how they ensure they are eligible and the consequences of making a mistake. This uncertainty is a major barrier and is reflected by the fact that just 40% of people who are aware of, but have not used Gift Aid, hold a positive view towards it.^[172] Once people use Gift Aid, they perceive it in a far more positive light.

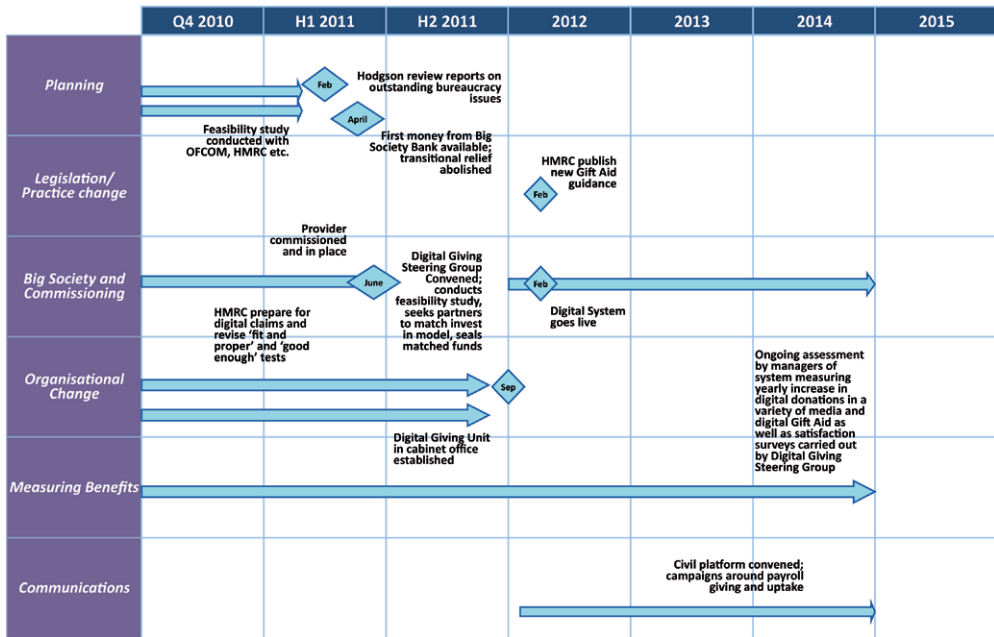
Past promotional campaigns such as giftaid it have been successful and have contributed to heightened awareness, but now is the time to tap into the dynamics powering the new methods of charitable giving and create another promotional wave for Gift Aid. This time it means harnessing the power of social media, twitter campaigns, Facebook groups and online videos, as well as more traditional forms of communication. Chapter 3 examined the incredible success of the Old Spice promotional campaign that was run predominantly via social media. That campaign was for body wash. Imagine how successful a campaign could be for charities and the powerful, life-changing stories that they tell. Government can play a supportive role in this particular recommendation, but the challenge of executing an engaging awareness-raising campaign will fall to charities, social enterprises and private sector partners, particularly in the advertising sector.

172. 'The public bond with tax-effective giving in the UK: A survey of the awareness of and attitudes to tax-effective giving', CAF Research Paper, April 2009, p8

Government can provide other structures. One example that we have considered could be based upon the challenge fund element of the former OTS' Grass Roots Grants programme. In conjunction with the Community Foundation Network, this asked a range of private actors across the country to match a £50m fund by the end of the programme. The OCS could create a similar Gift Aid Challenge Fund to raise a specified amount in 'gift aided' funds through private donations, on the basis of a smaller challenge pot from the OCS. If the challenge is met, the Treasury end up matching what the OCS have staked through the relief itself. This sort of high profile brokerage between the charitable and private sectors and indeed across Government departments can bring new resonance to the Gift Aid form. Such a programme would also offer a venue to launch the scheme in its new, modernised form.

5.4 Timetable and Implementation Considerations

Fig. 28. Timetable for Digital Giving: 3-Year Immediate Cycle



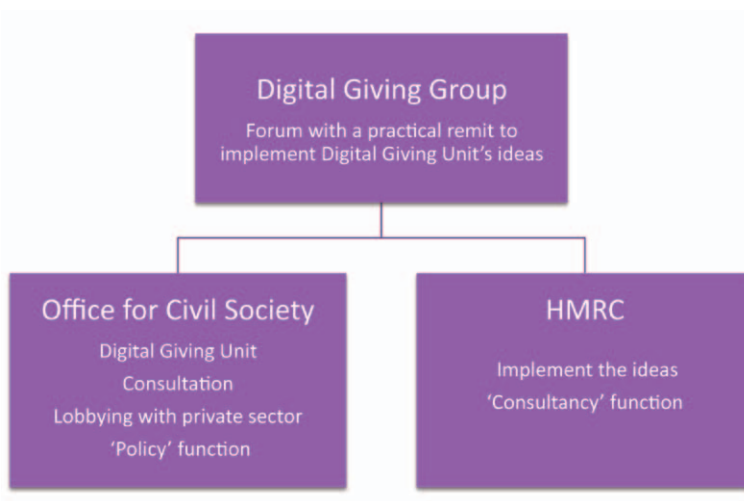
We have provided in this report a ready-to-configure system and implementation plan that is a tailor-made solution to the problems of the bureaucratic burden of Gift Aid. Above we propose a timetable for implementation of the basic reforms suggested herein.

How do we get this to work between departments? The key driver will be the above-mentioned Digital Giving Steering Group, whose remit will endure beyond the implementation of an online system for Gift Aid. We envision that they will form a necessary nexus between the Treasury and the OCS, whose Digital Giving Unit will track and suggest policy proposals in this rapidly developing space.

The OCS, with its partnerships with the sector, will be best placed to form new partnerships with private sector organisations such as technology companies that can place the innovations of the future within sector concerns. This will mean, for example, having a sector voice speaking to Apple when it launches its latest version of the iPhone and explaining the benefits of the above-mentioned NFC chip. The Digital Giving steering group will continue to suggest practical means to make these ideas an implementable reality.

Working with the OCS, who provide the policy heavy lifting and consultation, and HMRC, who are in a position to implement on the tax and incentive side, Digital Giving can and must take its place at the heart of the Government's agenda.

Fig 29. The role of the digital giving group as a driver of the Digital Giving agenda



Afterword: Towards 2020

A new Government is in place, and the work of the Gift Aid Forum is due to come to a conclusion. Looking back over the debates of the previous years is key; however, lasting beneficial change will be found not only in resolving the challenges of the past, but in looking forward to anticipate and account for the challenges of the future.

We argued earlier that the future is here, it simply has not been distributed yet. Placing Gift Aid on a footing whereby its future can be secured; whereby the system goes with, not against, the grain of rapidly evolving donor behaviour; and where its relevance and importance is embellished as we move through the social and economic turbulence of the next few years could be one of the most vital contributions to the Big Society we could make.

The recommendations we have devised and suggested here could serve to reshape Gift Aid; to future-proof this successful relief and so help safeguard our civil society. As such, we end with a roadmap to the future, a timeline showing how Digital Giving might take shape.

2010-12

- Rules governing small donations introduced by government for Gift Aid claims by charities and fundraisers using internet-based fundraising sites; necessary preparation work undertaken for launch of cloud-based Gift Aid system
- Groundwork across departments for Digital Gift Aid, including establishment of a Digital Giving Unit and Steering Group.

2012

- Introduction of a cloud-based system across the sector, making SMS text donations tax-efficient, capturing donations online and via smartphones and mobile apps. The roll-out of this system would be combined with a promotional campaign to raise awareness during a fundraising drive such as Comic Relief.
- TV-based campaigns for disaster relief allowable for blanket mobile donations of Digital Gift aid

2013

- HMRC would have capacity to accept claims for Gift Aid online and this would be synced with the Cloud software already in use
- Oyster cards developed as first example for donations of Digital Loose Change

2015

- Donors would be giving to charity using contactless payments, swipe cards, and mobile phones as well as newer methods. Gift Aid would be rolled out to cover new 'gifts in kind' such as the Digital Units noted in Chapter 3.
- Smart metering UK roll-out allows for Donations of surplus energy for charitable purposes
- International benchmarking study shows the UK Charity sector to be a global leader in Digital giving

By 2020:

- The vast majority of donations would be made electronically: online, via SMS, mobile apps and smartphones. HMRC would have the capabilities to access and audit the Cloud System directly, meaning charities would not have to submit Gift Aid claims. Electronic donations would mean minimal if not non-existent role for charities in processing Gift Aid claims: the only expense would be the continued running costs of the Cloud System.
- 'Loose change' would be donated via swipe cards and contactless payments, making it tax-efficient.



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"...We must respond to the Digital Giving challenge of this report to embrace radical yet practical reform of Gift Aid so that, with the active support of Government, civil society can play its full part in communities across the country and beyond..."

John Low, Chief Executive, Charities Aid Foundation

"...In this report, Asheem Singh and Samuel Middleton...have given us a spectacular and compelling vision of the social technology and giving environment of the future...I would say to Government, who have been searching for years for simple solutions to the problems of bureaucracy and administrative burden in the Gift Aid system, that here they will find simple, planned solutions that are 'ready to go'..."

Phillip Blond, Director, ResPublica

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