Submission to NCVO Charity Tax Commission Call for Evidence

Charities Aid Foundation

July 2018
The purpose of charity taxation

CAF makes giving count and exists to support the not-for-profit sector. We donated more than £500m to charities in 2016-17, and are a major facilitator of payroll giving, corporate and individual giving.

Charity and taxation are inextricably linked. The tax system incentivises and encourages charitable giving by individuals and companies, and contributes significantly to maintaining the space in which civil society can operate.

Britain enjoys one of the best tax and regulatory environments for civil society anywhere in the world; and it represents a model regarded as an exemplar by many other countries. Tax reliefs are well-understood, well used and widely supported and contribute hugely to civil society, both in financial terms and as a sign of society’s support.

A principle of “first, do no harm” when it comes to tax policy seems a sensible approach.

The question of whether private donations to charitable causes should be taxed challenges us to clarify our attitudes towards private wealth and goes right to the heart of how we as a society view the role of philanthropy.

Many countries around the world offer some sort of tax incentive for individual giving, and there is clear evidence from CAF’s research that this correlates with increased levels of participation in charitable giving. For a comprehensive analysis see CAF’s report *Donation States: an international comparison of the tax treatment of donations* (https://www.cafonline.org/docs/default-source/about-us-publications/fwg4-donation-states).

The reliefs offered by the tax system certainly provide financial advantage to charitable activity, and encourage charitable donations. However, their role is much wider than the merely utilitarian and forms part of the social contract between government and citizens. It provides a powerful sign that civil society and voluntary action, in all their forms, are a vital part of our society and democracy.

Ensuring the plurality and freedom of civil society is fundamental to our democracy. That is why tax reliefs are rightly available to all charitable causes and all organisations which meet the broad criteria of charitable activity.
From this it follows that the tax system should follow the definition of public good or charitable cause – not lead it. Tax reliefs and concessions are a consequence of the state’s desire to support a plural civil society, not a policy lever to support individual causes or sub sectors of civil society.

While there may be debates about the limits of what is regarded as charitable, and the optimum types or sizes of organisation, that should not be led by the tax system.

**Justifying tax reliefs for charity from first principles**

Britain’s tax system has grown up over many years. Thus it is important to be clear about the principled justification for the tax treatment of charities and donations.

The framework used here for categorising the possible justifications for tax breaks on charitable giving is devised by Stanford University philosopher Rob Reich who argues, rightly in our view, that a pluralism rationale is the only defensible justification for tax incentives. (For more detail on the theoretical and historical context around tax incentives for donations, see Davies, R. (2016) Public Good by Private Means: How philanthropy shapes Britain https://www.cafonline.org/my-personal-giving/long-term-giving/resource-centre/public-good-by-private-means)

Under this argument, rather than justifying the tax break because of any specific social good produced by a particular charitable gift, it should be justified more broadly on the basis that there is inherent value to society in having a thriving charitable sector – i.e. the public good is civil society itself. Hence any decent liberal democracy should support the ongoing health of civil society by offering tax breaks to those who want to contribute to it.

Alternative potential justifications fail:

- A tax base rationale simply argues that people should only be taxed on personal consumption or wealth accumulation, and money given away to charity does not count as either. However, it does not take into account the purpose for which money is given away. There is no basis on which to differentiate between charitable giving and any other form of discretionary spending, and this is doubly difficult if people benefit in some way from the gifts they make.

- A subsidy rationale argues that it is appropriate for the state to offer tax breaks for people to be charitable because by doing so it stimulates greater social value than the state could have produced on its own. The underlying reasoning here is that the state collects taxes in order to
pay for public or social goods, and charities and civil society organisations work to produce these same goods.

However, voluntary donations are based on the motivations and priorities of individuals, and cannot directly replace state provision. The total value of voluntary donations in any one year in the UK tends to be around £10–11 billion, whereas Total Managed Expenditure by government in 2016/17 was an order of magnitude higher, at £772 billion. The annual budget for the NHS alone, at over £120 billion, is more than 10 times higher than the total of voluntary donations. While some might again argue that philanthropic giving would increase if state spending were cut back, it seems unfeasible to suggest that any increase would be of sufficient size to even begin to bridge this gap.

It is clear that philanthropy should not be seen as a substitute for public spending, because both its nature and scale make it ill-suited to the task.

Rather than interpreting charitable tax reliefs as a subsidy designed to stimulate the private funding of public goods that the state would otherwise have to provide, we should therefore interpret it as a generalised benefit offered by the state to support a vibrant civil society. Thus tax breaks are not justified on the basis of the specific social value delivered by each individual philanthropic donation and how much that saves the state; but rather on the basis of the overall value of supporting a vibrant civil society.

This is something a mature democracy should want to encourage, and offering tax relief on donations is an effective way of achieving this aim.

This argument accounts for aspects of the value of charity that are not linked to delivery of services. In particular, it gives us a way of understanding why it is entirely justifiable for the campaigning work of charities to be supported by charitable tax breaks on donations, when that campaigning clearly does not replace something the state would otherwise do itself. It is justifiable because there is an inherent value in a vibrant civil society, which includes its role in holding those in power to account through advocacy and campaigning. Of course, it is not always comfortable for governments to acknowledge this; particularly when they themselves are more often than not the targets of this campaigning. It requires politicians to take a mature, long-term view that is focused on ensuring the conditions for healthy democracy, rather than simply making life easier for themselves at that particular point in time.
Thus, while government can and does legitimately set broad ground rules for what constitutes “charitable” civil society activity, is it dangerous to create a situation where tax breaks are dependent on supporting a particular policy or priority. If a vibrant civil society is something to be valued, the state should leave it to the wider society to determine what causes are supported. Given that there are in excess of 160,000 registered charities in England and Wales alone, working on a vast array of causes, this argument in principle is clearly borne out in practice.

It follows from the argument put forth above that it would be inappropriate to introduce additional criteria beyond charitable status - such as the size of organisations or the causes they support - on which to base differential rates of tax relief. Not only would any such proposed measures be arbitrary, they would also run counter to the fundamental principle that civil society is a reflection of the individual choices of citizens and would furthermore be subject to political control by the government of the day. We have seen this happen in other countries, where the space for civil society has been restricted by governments reserving tax reliefs for their own priority causes.

There are other, more pragmatic, considerations too. Having differential tax reliefs for organisations of differing sizes would great perverse incentives. It would encourage large organisations to split, removing existing economies of scale, whilst also creating a powerful disincentive for charities to merge, thus reducing the potential for appropriate rationalisation and efficiency savings.

There would also be major technical barriers to implementing any form of differential incentives. Foundations and intermediaries such as CAF and online fundraising platforms rely on a unitary tax treatment of charities to allow donors to direct tax relief such as Gift Aid to any charity. Removing that certainty and creating artificial divides between charities would create major bureaucratic barriers both for charities and tax authorities. Given that platforms of this kind account for a significant proportion of individual giving, any changes to charitable taxation which severely impinges their ability to facilitate donations and thus enhance the funding of the wider charity sector would be a major source of concern.

In our detailed comments below, we have not attempted to cover all the questions raised, but have concentrated our comments where we felt our input would be most useful.

We have conducted significant research in this area and would recommend our study Donation States as an exploration of the issues, based on analysis of international tax regimes as they relate to charities https://www.cafonline.org/docs/default-source/about-us-publications/fwg4-donation-states
Comments on individual tax reliefs

1) **VAT**

VAT for charities is an area overdue for simplification and reform. The overriding issue faced by those dealing with the VAT regulations is the complexities and subtleties of the VAT treatment of differing services. The multilayered nature of VAT regulations makes it a complex and difficult area even for large charities to navigate, and the risks of making an error which could result in a significant unexpected loss are large.

It is possible that Brexit may open opportunities for a wider review of the UK’s VAT regime. We would advocate, in any case, a piece of work bringing together charities and tax authorities to simplify and streamline the existing VAT rules in order to reduce the administrative burden and uncertainty both for charities and for tax authorities.

There is a separate but linked issue of principle about irrecoverable VAT for charities, which cannot pass on the burden of VAT to the end consumer of their services. We would advocate reviewing this area to ensure consistency and fairness between sectors, but would be anxious not to allow reform of the wider issue – which would have significant implications for the Treasury as well as the charity sector – to be a barrier to shorter term simplification which could have immediate benefits for many in the charity sector.

2) **Gift Aid**

Gift Aid is a popular and well used tax relief, which maintains a strong link between people’s personal taxation and their personal giving and sends a clear signal that giving is a desirable social norm. As described above, the fact that Gift Aid can be applied to any registered charity increases giving by allowing the growth of a wide range of grant making foundations, charitable intermediaries and fundraising platforms.

There are many measures which could be taken to improve the efficiency and take up of Gift Aid. While there are a small number of studies that might appear to question the efficacy of Gift Aid much more research would be required before making any substantive policy changes.
Gift Aid is the most valuable individual incentive we have in the UK. Many charities see the basic rate tax they are able to claim on behalf of donors as a vital source of additional income, and some also regard the additional higher rate personal relief as an important tool when dealing with wealthy donors.

Gift Aid is a hybrid of a credit-type incentive, where the basic rate rate of tax paid is refunded; and a deduction-type incentive, where a higher-rate taxpayer declaring through self-assessment gets their tax bill adjusted to account for the additional marginal rate tax they have paid on their donations. The fact that the basic rate incentive goes to the charity rather than the donor is unusual - both in comparison with donation systems elsewhere in the world and in comparison with the other tax reliefs available for giving in the UK (e.g. payroll giving, share giving).

**Criticisms of Gift Aid**

Whilst Gift Aid is broadly seen as a successful policy, and is well-loved by many fundraisers and charities, it has also come in for a fair amount of criticism on the grounds that it is not entirely effective. The National Audit Office concluded in a 2013 report, for instance, that “Gift Aid is an important source of income for many charities. However, the exchequer departments cannot demonstrate that these incentives are working, or that the increased cost to the taxpayer has resulted in a rise in donations to charity.” More recent research by the National Audit Office/University of Birmingham Tax Centre in 2017 once again cast doubt on the efficacy of Gift Aid, by questioning whether it is effective either as a means to get existing donors giving more or as a means to get non-donors giving in the first place (which one might suppose are two of the key policy objectives).

This research has to be taken seriously, as it represents the best evidence-based assessment of Gift Aid to date. However, it does not in itself provide reason to make wholesale changes to the system at this point, as it leaves a number of important questions unanswered. In particular, the impact of removing the personal relief for higher rate taxpayers, or changing the system so that too can be reclaimed by the recipient charity, is unclear.

Whilst the available economic analysis suggests that doing so could result in more money going to charity overall, this does not take into account any possible behavioural impacts that might result from the shift in messaging that such a change would represent, and it also does not assess in a fine-grained way the particular impact on High Net Worth donors. This is important, because these donors represent a sizeable portion of the overall money contributed to charity each year, and many of them
factor in the personal relief available through Gift Aid to determine how much they can afford to give, so any negative impact on this cohort of donors could have a disproportionately damaging effect on overall levels of giving.

Given these concerns, the obvious conclusion to draw from existing evidence that questions the efficacy of Gift Aid is that more research needs to be undertaken before making any substantive policy changes, so as to avoid any unintended negative consequences. In general, a principle of “do no harm” when it comes to tax policy seems a sensible approach. Apart from anything else, we saw in 2012 the result of attempting to push through poorly-considered changes to the charitable taxation, when then-Chancellor George Osborne was forced to abandon plans announced in that year’s Budget to place a cap on the personal income tax relief available through Gift Aid.

**Improving the current system**

Pending any further research into Gift Aid that can make a compelling case for fundamental changes to the system, there are things that could be done to make the existing system work more effectively. In particular, this means finding ways to address the estimated £600m of potential Gift Aid payments that, according to HMRC research, goes unclaimed each year. The HMRC research identified the two key causes of this problem as misunderstanding of Gift Aid and lack of consistent opportunity to make claims effectively. Efforts to remedy the situation are thus likely to fall into broadly two categories: those that focus on increasing awareness and understanding of Gift Aid, and those that seek to address technical issues and barriers that prevent people claiming relief on eligible donations.

When it comes to the former, continuing government and charity sector promotion of Gift Aid can play a role. However, we should note that the HMRC research suggests that awareness levels of Gift Aid are actually quite high - it is only when you test people’s understanding that the figures drop much lower. This suggests that whilst the Gift Aid brand has been successful, people often struggle to understand what the system actually is and how it works, so there is a lot more to be done in terms of public education.

We should also look for opportunities to prompt Gift Aid usage at appropriate points, using principles from the field of behavioural economics. Research from the UK Government Behavioural Insights unit in 2013 (supported by CAF) tested a number of different scenarios in which small changes to the timing of choices about giving, or the way in which they were presented, had a significant impact on people’s likelihood of donating. Given that behavioural insights have been adopted in many other
areas of government and public policy in the UK and elsewhere, it would be good to explore further the potential for using these techniques to increase the take-up of Gift Aid among potential donors.

In terms of reducing technical barriers, one area of consistent focus for a number of years has been the possibility of developing a universal Gift Aid declaration (UGAD). In the current system, a donor has to make a new Gift Aid declaration for each eligible donation (or for each recurring donation to a specific charity). The idea behind a UGAD is that a donor would be able to make a single declaration covering all subsequent donations to any charity (until their tax status changed), which would be linked to a unique identifier of some sort and they would then simply need to provide this identifier in order to confirm the eligibility of their donation for Gift Aid. Previous efforts to take this idea forward have become stuck for various reasons—including the question of what an appropriate unique identifier might be, however, developments in technology (such as blockchain or distributed ledger technology (DLT)) may offer new opportunities to re-examine the idea of Universal Gift Aid. Given existing cross-governmental interest in DLT, this is something that would be worth exploring.

If the technical challenges of developing a UGAD can be solved, there are clear immediate benefits in terms of the way in which it would reduce the ‘friction’ of using the system and this might make it easier for donors to claim more of the Gift Aid for which they are eligible. There are also potential future benefits, in that a system of this kind is much better suited to online or digital context, where a unique identifier can be seamlessly integrated into the platforms and interfaces people are using for their giving.

These new contexts may involve highly reactive donations, for instance those made via voice-activated assistants (such as Amazon’s Alexa or Google’s Home) in response to some external stimulus. In order to make Gift Aid work for these situations, it needs to be effectively frictionless. Similarly, the future is likely to see an increase in ‘micro-donations’ of various kinds. Once again, Gift Aid will only work for these types of donations if we can make it possible to automate it to a large extent.

Hopefully these examples demonstrate that whilst we obviously do not know what the future might bring, if we want the Gift Aid system to remain relevant we need to be aware of developments in technology and how they might affect the ways in which people are able to give to charity.
3) Gift Aid Small Donations Scheme (GASDS)

The Gift Aid Small Donations scheme is an attempt to overcome some of the issues with registering for and claiming Gift Aid as discussed above. We submitted a joint response with NCVO and the Charity Finance Group (CFG) to the original consultation on the establishment of the GASDS back in 2012. In that response, we argued that whilst we were broadly positive about the policy aims behind GASDS, we had some shared concerns about the limitations of the scheme, and our view remains largely the same. Specifically:

1) GASDS is primarily aimed at churches and other religious organisations, as a way of enabling them to collect a Gift Aid-like top up on small cash donations for which it is extremely difficult to collect standard Gift Aid. It also applies to other charitable organisations where fundraising is physically linked to a building that serves a community purpose. As such, it meets a clear need. However, it is important to retain sight of this original policy objective when assessing the success or otherwise of the scheme, and to acknowledge that it is not designed to act as a supplement to, or replacement for, Gift Aid across the board.

2) GASDS is complex, and this may prevent many small charities that could take advantage of the scheme from doing so. Given that many of these organisation face a constant battle when it comes to funding, and the top-up available through GASDS could provide a vital source of additional revenue, continual efforts need to be made to support such organisations to access the scheme.

3) Even if GASDS is successful in meeting the narrow policy aim for which it was established, it is vital that this is not seen as a justification for failing to consider wider reform of Gift Aid to deal with the challenges outlined earlier.
4) **Inheritance Tax**

The principle of an additional tax relief to encourage donations to charity from people’s estates is one we supported.

There is some evidence that suggests the increased tax incentive introduced in 2012 has been effective. Figures from the Financial Times suggest that inheritance tax relief for charitable donations rose by 79 per cent to £840m in the five years to April 2017, which may indicate a positive effect although demographic factors and increasing house prices may be a significant contributory factor.

We know from the previously cited research conducted by the Behavioural Insight Unit that “nudge” interventions can also be effective in encouraging people to think about legacy giving.

This is an area where more research and evaluation would be very beneficial given the opportunity to encourage people to give to charity as part of the historically important transfer of wealth as the baby boom generation passes away.

5) **Social Investment Tax Relief**

The introduction of a dedicated tax relief for social investment in 2014 was an important sign of the government’s support for social investment and the UK’s ambitions to position itself as a global leader in this field. However, as we outlined in our original response to the consultation on SITR back in 2013, there have always been concerns that the eligibility criteria for the relief are too narrow and the limits on investment too low; and that as such there is a significant risk that the policy will fail to have the impact that it might otherwise have had.

These concerns appear to have been borne out to a large extent so far: uptake of SITR has been disappointing, with research by Big Society Capital for DCMS suggesting that only 60 deals had so far been completed using the relief. This compares extremely poorly to the estimate of 30,000 organisations that could be eligible for SITR.

The lack of uptake of SITR suggests that far more needs to be done to increase awareness, and that serious consideration needs to be given to the question of whether the eligibility criteria should be widened in order for the scheme to meet its policy aims of supporting the growth and development of the social investment market.
6) Cross-border giving

Cross border giving within Europe has a significant impact on charities in the UK. Significant sums are donated by UK citizens to charities in EU countries each year through CAF. The obvious and immediate question is what the impact of the UK leaving the EU in 2019 will be on this important flow of philanthropic money.

As alluded to in the question, following the Persche ruling in 2009 it has been possible for UK donors to make donations to organisations in other European countries and claim UK tax relief on their donations, provided the recipient organisation is recognised as a charity within the country in question and would also meet the requirements to qualify as a charity in the UK. However, it has never been particularly easy in practice to make use of this ruling. Many European countries have imposed additional criteria that effectively make it impossible to apply the ruling, whilst here in the UK, HMRC has never published a list of European charities it has deemed eligible under the ruling, so any donors wishing to apply the Persche ruling must do so on a case-by-case basis, which is highly onerous. Furthermore, it is entirely unclear at this point what will happen following the UK’s departure from the European Union, as the question of whether the UK will remain subject to the European Court of Justice (which issued the Persche Ruling) is a major point of contention in the negotiations.

Cross-border giving within Europe is not solely reliant on the Persche Ruling, however. The Transnational Giving Europe (TGE) network has existed since well before that verdict was issued to enable tax-effective cross border giving within Europe by linking together foundations and grantmakers in different countries under a series of reciprocal agreements to take donations in one country and then pay out an equivalent grant in another country. CAF is the UK member of TGE. In 2017/18 CAF received Euro 4.2 million through the TGE network, as compared to 1.8 million in 2016/17, and we distributed Euro 815,000 compared to Euro 660,000 in 2016/17. This growth indicates the potential to promote cross border giving post Brexit, as people look to stay connected to their European neighbours, and the TGE network may come into its own as the primary means of doing so.

CAF’s Global Alliance of offices operates in the US, Canada, Brazil, India, Russia, and South Africa and it is worth saying that giving to EU countries is far from the only cross border philanthropy in and out
of the UK. Giving between the US and the UK is highly significant, and there is potential to grow cross border giving to many countries through diaspora communities and support for charitable organisations in countries around the world. This is an area where further work would be beneficial to promote both cross-border giving and the development of civil society around the world.


7) Payroll Giving

Payroll Giving uptake has risen steadily over the last 30 years (maintaining a real terms annual growth rate of 9.7%; just ahead of the rate of growth of employee numbers at 5.9%). It has also seen marked spikes in response to a couple of specific initiatives designed to increase participation (e.g. The Children’s Promise Millennium Final Hour Appeal in 1999, the SME Employers Grants Incentive which ran from 2004-2009, or the government Matched Giving scheme which ran from 2004-2007).

Despite this growth, Payroll Giving remains a small part of the overall charitable giving landscape: CAF’s 2017 UK Giving report found that 3 per cent of donors had given via the payroll in the last month, compared to 58 per cent who had given cash or 31 per cent who had given via direct debit.

However, those donors and companies who do use Payroll Giving clearly find value in the system. Many donors who use Payroll Giving value it as an easy method of tax-effective giving; many companies who implement schemes see it as a vital part of their overall CSR and employee engagement strategies; and many charities who receive payroll giving donations view it as a crucial source of ongoing voluntary income. There is clearly also potential for the concept of payroll giving to facilitate giving on a much larger scale. In the United States workplace giving represents around $4bn a year to charitable causes https://www.charities.org/facts-statistics-workplace-giving-matching-gifts-and-volunteer-programs

From the point of view of the average donor, Payroll Giving is the only way they can get personal tax relief for their charitable giving at their highest rate of tax. When it comes to Gift Aid, the basic rate of tax goes to the charity rather than the donor, and whilst higher rate taxpayers can reclaim the higher-
rate portion as personal relief, this has to be done through self-assessment and as a result is often seen as too much like hard work for most people.

With Payroll Giving, however, the donations are simply taken out of your pre-tax income, so tax liability is reduced by the amount that you donate.

Another advantage of Payroll Giving is that it involves the employer by necessity. This means that employers have to be actively engaged and it gives them a useful framework within which to implement a wider workplace giving strategy. The companies that use Payroll Giving most effectively tend to do so within the context of a broader suite of things like employee volunteering, CSR programmes, fundraising, charity partnerships, or operating a corporate foundation. In order to encourage take-up of Payroll Giving, many of them also offer matching schemes which use the company’s own money to match employee donations through Payroll Giving up to a given amount. And these have often proved to be very successful.

The other benefit of Payroll Giving being linked to an employer is that this positions it very clearly as a method of giving that is based around the workplace. The value here is that it links the idea of charitable giving to the ideas of earning, wealth creation, the social role of companies and the individual responsibilities of their employees. In the context of the ongoing debates about what ‘responsible capitalism’ should look like, this represents an important means of ensuring that charitable giving remains part of the discussion.

Given that Payroll Giving continues to have value yet has, by most reckonings, failed so far to live up to its potential; are there things we could do to make it more effective?

There are a number of immediate practical possibilities, all of which revolve around making the method more appealing to charities and to donors. Currently, one of the potential challenges with Payroll Giving is that it introduces a number of intermediaries between donors and the charities who benefit from their donations. This can make it harder for charities to use it as a way of engaging with donors; and harder for donors to form strong relationships with the charities they do give to through Payroll Giving.

One way of overcoming this challenge is to use an account-based model; in which payroll donations are used to fund a charity account or donor-advised fund, which the donor can then use to make regular or ad hoc donations to whichever charities they want. From the individual donor’s point of view, the benefit is that they do not need to commit to a single charity or set of charities when setting
up their Payroll Giving; but instead can simply use their donations to top up a charitable “pot” and thereby retain flexibility when it comes to decisions about where they wish to donate their funds.

Another well-known challenge with Payroll Giving is that it lacks portability. Since it is the employer that has the relationship with the Payroll Giving Agency (PGA). When a donor moves employer, unless the employer or the employee themselves makes a specific effort to flag it up, there is often no way for the PGA or the recipient charity to know. Even if a donor wants to continue with Payroll Giving in their new job, this is unlikely to happen automatically; instead, they will have to confirm that their new employer offers Payroll Giving and then sign up again for a new scheme. This introduces unhelpful barriers which result in high attrition rates when people move jobs.

Once again, using an account-based model can help here: because the account is held by the PGA, and therefore establishes a direct relationship with the donor, it is easier for the PGA to keep track of the donor when they switch jobs. It might also be possible for the donor to set up PG payments into the account with their new employer (assuming that employer is registered with the same Payroll Giving Agency). The benefit of this approach over traditional Payroll Giving is akin to the benefit of having a workplace personal pension as opposed to a traditional employer-led scheme: if you move employers, you can often keep the same personal pension and get your new employer to fund it, and in the same way you may be able to get them to set up payroll donations to your personal charity account.

An account-based system could be made even more appealing for donors by including a search function and social media elements such as sharing information, posting and viewing comments and pictures, and allowing dialogue and feedback between donors, supporters and charities.

Another practical issue is differences in personal benefit rules between the Gift Aid and payroll giving regimes, something which can cause confusion for donors and charities.

As well as using account-based models and harnessing technology to make Payroll Giving more streamlined for donors, another possible way to increase take-up and usage is to incorporate insights from behavioural economics and other sciences. CAF supported a series of trials by the UK government’s Behavioural Insights Team back in 2013 (commonly referred to as the “nudge unit”). These trials looked at various different charitable giving scenarios, and found that seemingly minor changes to the way questions were asked or options presented (the so-called “choice architecture”) sometimes resulted in fairly significant increases in giving during a series of real-world experiments.
For example, asking people to commit up-front to annual increases in the amount of their donation proved very effective, and could do a lot to combat the erosion of value of many payroll and direct debit donations that come about as a natural consequence of inflation. Similarly, it was found that switching from a system in which employees have to opt in to workplace giving to one in which they are automatically enrolled (with an option to opt out) resulted in much higher levels of take up. It was found that harnessing peer group effects could be very effective in getting people to sign up: in one experiment, employees were sent emails from colleagues who were existing PG donors, encouraging them to sign up. Some of these included a photo of that colleague, and it was found that these proved especially effective in convincing people to join the scheme.

There are many more such findings already out there in the academic literature, which would benefit from being tested in a real-world context. There are also likely to be other effective “nudges” that could boost levels of involvement and engagement when it comes to workplace giving. The challenge for charities and others is that designing and running these experiments (either as Randomised Controlled Trials or as natural experiments of some sort) generally involves a fair amount of cost and economic analysis skills that most charities are unlikely to have. This is where companies who have a strong commitment to workplace giving could play a valuable role; in supporting and funding experiments to discover ways of boosting levels of engagement and thereby increasing the overall amount going to charity.
Additional Comments

Transparency
It is clear that charities should be transparent about their operations and keep their donors and funders appropriately informed about the impact of the work they carry out.

However, it is important to be clear about where the lines of accountability lie. As discussed above, Gift Aid and other tax reliefs enjoyed by charities in the UK are not subsidies paid to them by government for specific services. It is not Government expenditure as such, although that may in practice be the mechanism by which tax reliefs are distributed. They are taxes foregone by the Exchequer in the pursuit of a wider social good in support of a vibrant and diverse civil society.

Therefore, while charities are absolutely under an obligation to be accountable to their donors – whose tax relief they are receiving - and the wider public, they are not accountable directly to government, above and beyond the requirements of the existing reporting regime operated by the relevant charity regulator.

It is perfectly reasonable and sensible for government to provide data about the extent of Gift Aid usage, for example, as happens at present. Equally, it is incumbent upon charities individually and as a sector to explain and report on their use of funds.

Requiring charities to report specifically on the use of tax relief, separated from other sources of income, would create a huge administrative burden.

Government, civil society regulators and civil society itself should encourage good reporting on outputs and outcomes – but how that is achieved is beyond the scope of the tax system and is not an issue of tax compliance.

Technology
Developments in technology are having a substantive impact on the world of regulation and taxation. In the growing field of RegTech, there are numerous examples of technologies like blockchain and Artificial Intelligence being used to record data more securely and effectively and use it as the basis for developing new methods of predictive analytics, designed to identify risks before they happen and thus make regulation more efficient and effective. Blockchain technology could also introduce an
unprecedented degree of transparency, as it opens up the possibility of providing real-time financial information on a highly-secure yet public ledger.

HMRC has reportedly already begun to experiment with using AI to automate some of the checking procedures it uses for tax returns. As the government explores further ways of harnessing new technology to improve the tax and regulatory systems, we would encourage them to consider charity taxation as an important part of the picture.

Wider developments in financial technology are also raising new challenges and questions. Recent years have seen the emergence of new types of digital assets (cryptocurrencies such as Bitcoin are the best known examples so far, but the potential goes much wider). At this point, the legal and regulatory position regarding these assets is often very unclear, as is their treatment within the tax system. Given that there may be the potential to tap into these new sources of wealth for charitable donations in the near future, it will be important to get further clarity about how existing tax reliefs apply to them, if at all. In the case of cryptocurrencies, for example, as far as the existing information indicates they are not eligible for Gift Aid because they are not deemed to be cash, and would be dealt with in the same way as gift of land, shares or property for tax purposes. Hence they would be eligible for Capital Gains Tax relief on the full amount of the donation. They would not, however, be eligible for the additional income tax relief available on gifts of “qualifying investments”. If in the future, mainstream usage of cryptocurrencies becomes more widespread, there may be a valid question about whether the criteria for qualifying investments should be widened to include these new asset types. For more detail, see our evidence to the recent Treasury Select Committee Inquiry on Digital Currencies:


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