

Written evidence submitted by the Charities Aid Foundation

1. About CAF

1.1 The Charities Aid Foundation's ("CAF") mission is to 'make giving go further' and to motivate society to give ever more effectively and help transform lives and communities in the UK and around the world. We work to stimulate philanthropy, social investment and the effective use of charitable funds by offering a range of specialist financial and philanthropic services to charities and donors, and through advocating for a favourable public policy environment. In 2019/20 we distributed [£702m to charities in the UK and 110 countries around the world](#).

1.2 CAF's research team publishes landmark reports such as [UK Giving and the World Giving Index](#), and has provided analysis and insight on the [impact of COVID-19 on the charity sector](#). CAF's in-house think tank, Giving Thought, undertakes policy research and analysis to understand the macro trends affecting philanthropy and the work of charities. We also campaign on a range of issues affecting charities and civil society, and have [submitted evidence to the National Council for Voluntary Organisations \(NCVO\) Charity Tax Commission](#).

1.3 The ability of charities to raise resources and achieve financial independence is a pre-requisite to building a civil society that is able to be both effective and sustainable in the long term. Charitable donations are a vital source of funding for many civil society organisations (CSOs) and the UK tax system provides crucial incentives for donors to support the causes and organisations they care about. This support for giving is a crucial element in supporting a diverse civil society and, and sends an clear and important message that the government recognises the value this plays in maintain the health of our democracy. This is why we have a vital interest in ensuring that the future design of the tax system is harnessed to maximise its impact on charitable donations, in particular in the light of the impact of COVID-19.

2. The impact of COVID-19 on civil society

2.1 In this time of unprecedented uncertainty and instability, civil society continues to do vital work across society. It is at the heart of community responses to the crisis: helping the most vulnerable to withstand the impacts of the pandemic; releasing pressure on our national service; continuing to provide vital services, and connecting people and communities across the country.

2.2 All the while, CSOs are facing the double hit of a drop in income (due to cancelled fundraising activities, closure of charity shops, changes to funders' activities etc.) at the same time that demand for their services is increasing due to the impact of COVID on their beneficiaries. Social distancing and other measures are also forcing changes in operations and resulting in increased costs. CAF's [charity polling](#) three months into lockdown found that demand for charity services was still increasing, and that still [half surveyed were reporting](#) that they would not survive more than a year without further support.

3. The importance of philanthropy and individual giving to the COVID-19 recovery

3.1 From our position in the sector we see how philanthropy and charitable giving can play a crucial role in supporting civil society through the current crisis, and in helping it to recover and rebuild over the longer term. However, mobilising generosity on the scale necessary will require additional Government support and stimulus. Without appropriate support many CSOs will have to close, or severely reduce their services over the coming months. Charities are providing vital support to the most vulnerable where the state and private sector cannot or do not provide them. If these services will shut down, it will have potential knock-on effects on public services as well as the wider economy as whole

(not only because of employment in the sector going down but also beneficiaries being less supported and enabled to enter the labour market or engage in further economic activity).

3.2 The initial £750m charity support package, and furlough scheme, were both welcomed and will help CSOs, but the gap between support provided and the need is vast (with [a potential £10.1bn funding gap for the sector opening up for the second half of 2020](#)). And while direct Government stimulus for the sector will be crucial, the importance of philanthropy and giving in a post-COVID-19 world cannot be underestimated. For that reason, it is important that the tax system supports and facilitates giving. Where tax relief mechanisms giving for individuals are available they should be promoted as part of the government's ambitions to build a stronger culture of giving and philanthropy in our country that can act as a vital source of support for ensuring the sustainability of civil society now and in the future. It is important, also to acknowledge that in order for donors to receive tax reliefs they need to give away a significant amount more than they receive in relief.

3.3 Work is ongoing between CSOs and HMRC to improve eligible Gift Aid take-up and ensure that Gift Aid is fit for the future; harnessing the opportunities that digital payments and technology can offer to increase levels of Gift Aid usage while at the same time reducing ineligible claims. However, whilst this could bring significant benefits over the longer-term, more immediate support for the sector is required right now due to the impact of COVID-19. In particular the existing Gift Aid scheme provides a simple way for the Government to offer additional support for the charity sector at this unprecedented time by helping to maximise the value of donations made by people around the country to the organisations and causes of their choice.

4. Introducing a short-term change to the tax system with lasting impact: the Gift Aid Emergency Relief Package

4.1 Recent sector research shows that charities surveyed are on average having to plan for a [24% loss to their total income for the year ahead](#). A coalition of leading voices in the UK charity sector (among them CAF) have called on the Government to temporarily increase the level of Gift Aid that can be claimed on donations. A Gift Aid Emergency Relief Package can go some way to keeping charity services running and enable many charities to get through the crisis that otherwise would have to shut their doors.

4.2 The proposed Gift Aid change would mean that a £100 donation from a UK taxpayer would increase to £133.33 (from £125) for the charity once Gift Aid had been claimed. Raising Gift Aid from one-quarter to one-third on donations could secure an extra £450m for charities and benefit over 70,000 charities, as they return to fundraising activity and re-open charity shops.

4.3 Over 300 charities have pledged support for the campaign and we would urge the Treasury Committee to support calls for this important temporary relief package, which would increase the value of individual giving and potentially hopefully incentivise an increased number of donations. A temporary change to rate at which Gift Aid is calculated has precedent with the introduction of Gift Aid Transitional Relief in 2008.

4.4 The package has two elements:

(1) The introduction of Gift Aid Emergency Relief (modelled on the previous successful Gift Aid Transitional Relief scheme (in Sch 19, Finance Act 2008)). This would get much needed funds to charities across the country by temporarily changing the way that Gift Aid is calculated. The proposal is for this to take effect from the beginning of the 2020-21 tax year and stay in place for two full tax years. As this makes use of the existing Gift Aid claiming processes that charities already have in place with HMRC, this can happen quickly and easily and thus will enable more cash to be delivered to charities as effectively as possible.

(2) Changes to Gift Aid Small Donations Scheme, to remove barriers for entry to ensure wider access across the full charity sector and increase the amount that can be claimed.

4.5 Gift Aid claimed by charities was worth £1.35bn in 2018-19. If the effective tax rate at which Gift Aid was paid increased to 25%, this level of donations would secure an additional £450m to support the work of charities. It would seem likely that charities will see a fall in donations on which they can claim Gift Aid. If, for example, the level of donations fell by 20%, as some charities are predicting, then the measure would then only cost £360m. This is less than the net amount of eligible Gift Aid that has previously gone unclaimed each year.

More information on the proposal, a detailed briefing and a list of supporters that includes small, medium and large charities can be obtained on our campaign website for the [Gift Aid Emergency Relief Package](#).

5. The COVID-19 pandemic has brought enormous and unprecedented challenges for our society

5.1 As a result, the government has already introduced emergency packages of support for many industries and sectors, in recognition of the difficulties they face and the value they bring to our economy. Charities have benefitted from some general measures, such as the furlough scheme, as well as a dedicated £750m package of support. However, it is clear that that the sector requires further support if it is to weather this storm.

5.2 A temporary increase in the rate at which Gift Aid is paid represents a simple, practical means of ensuring that more money gets to charities at this vital time, and one that has clear precedent in the recent past (in the form of the Gift Aid Transitional Relief scheme). Furthermore, this would not only utilise existing distribution methods; as it would in effect act as a match for individual giving, it could also act as a powerful tool for further fundraising that could bring in even more money for charities.

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