



# Charity Finance Group Consultation Response

## Gift Aid and Intermediaries

October 2016

## About Charity Finance Group

Charity Finance Group (CFG) Charity Finance Group is a charity and a membership organisation, with around 1,350 members. CFG's members collectively manage over £21.1 billion of the charity sector's income. CFG's goal is to champion best practice in finance management amongst non-profit organisations. For more information visit: <http://www.cfg.org.uk/>

CFG was part of the informal working group set up by HMRC and HM Treasury to consider this issue and we have been actively engaged in policy development around Gift Aid for many years. This response is based on our experience of the Gift Aid system in serving our members and charities, as well as regular dialogue with intermediaries.

## Executive summary

- We welcome this technical consultation, which has the potential to further improve the Gift Aid process for donors.
- However, we are concerned that this technical consultation will not support text giving, which is the technology which has one of the lowest Gift Aid claim rates. We would welcome further discussions on this point.
- **We strongly oppose the introduction of annual statements to be emailed or written for donors that make use of this new process.**
- We believe that this new statement will confuse donors, runs counter the existing direction of travel to reduce unsolicited communications to donors, separates Gift Aid from the donation and could lead to more negative views around Gift Aid.
- All of these risks are being ventured with little or no evidence of the improvements that would result from the introduction of the Annual Statement. Without an evidence base, this regulation should be pursued.
- **We strongly urge the government to reconsider the Annual Statement regulations, and amend them to give every donor the right to access an account where all their donations, Gift Aid claims and information about claiming higher rate relief can be held.**
- As intermediaries have become more integral to the Gift Aid system, we believe that it would be useful to investigate whether HMRC should take a greater role in regulating this space, increasing transparency of costs and ensuring that the market place works for charities and donors. We would welcome an opportunity to explore this with HMRC and HM Treasury in the future.

*If you would like any further information on this response, please contact Andrew O'Brien, Head of Policy and Engagement ([andrew.o'brien@cfg.org.uk](mailto:andrew.o'brien@cfg.org.uk))*

## General comments

We welcome this technical consultation, which has the potential to further improve the Gift Aid process for donors.

However, we are concerned that this technical consultation will not support text giving, which is the technology which has one of the lowest Gift Aid claim rates. Online intermediaries, in our experience, have very high claim rates already – upwards of 80% in most cases – for Gift Aid claims. As a consequence, these changes, whilst useful for donors are unlikely to have a significant impact on Gift Aid claim rates.

We encourage the government to continue to engage with the charity sector and intermediaries (particularly mobile phone operators), to see whether steps can be made to improve Gift Aid declarations in this rapidly growing area of giving. For example, whether mobile phone operators could provide options to Gift Aid text donations through the issuing of phone bills.

We also note that whilst primary legislation refers to intermediaries acting on behalf of charities, this is not referenced in the regulations proposed by HMRC. We would welcome clarification on this omission and whether intermediaries which are acting on behalf of charities, rather than donors, will still be able to make use of this new model.

## Annual statement

We **strongly oppose** the introduction of annual statements to be emailed or written for donors that make use of this new process.

As we have raised in our informal discussions with HMRC and HM Treasury, this proposal is counter-productive for a number of reasons.

Firstly, we believe that the annual statements will **confuse** donors – not enlighten them on Gift Aid. A large number of donors are not going to interact with only one giving platform over the course of the year. As a consequence, they are likely to receive a number of statements from different intermediaries at different times. These proposals are asking for donors to then take these various statements and add them together in order to calculate the amount of Gift Aid that has been claimed on their behalf over the course of the year in order to calculate what tax they need to cover. Moreover, it will not include the Gift Aid that has been claimed on donations made directly to charities over the course of the year.

This statement will not, therefore, improve donor's understanding of their tax to cover status, one of the policy aims.

Moreover, it is hard to see how a statement of the value of donations, Gift Aid claimed and the fact that they will be asked to pay the difference if they do not have the tax to cover, educates donors. HMRC's commissioned research on the Gift Aid Declaration in 2014<sup>1</sup>

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<sup>1</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/372221/report344.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/372221/report344.pdf)

found that the use of pop-ups and hover-overs or links to more information for those who were unsure would be more effective ways to educate donors. No reference was made of an Annual Statement as being useful, and it is hard to see where the evidence for this proposed change as come from. Furthermore, there is no evidence that legal language or strong deterrent messages does anything to help educate donors or improve understanding of the Gift Aid system.

Secondly, the annual statement is counter to the direction of travel in terms of fundraising communications. The Etherington Review, commissioned by the Cabinet Office, in 2015 was stimulated by reports that the public were getting too many fundraising communications and the development of a new 'Fundraising Preference Service' has been built around the idea of giving donors more control over the communications that they receive. This new Annual Statement will increase the amount of unsolicited communications with donors, at a time when the fundraising community is trying to move in the opposite direction.

**It is important that all aspects of government policy align together**, and given the lack of evidence that this will have any positive impact in improving understanding of Gift Aid, we would argue that this is a **counter-productive** policy.

Thirdly, we are concerned about the Annual Statement being carried out separately from the donation. It is important that Gift Aid is seen as part of the giving process, and that the donor understands that Gift Aid is linked to their individual donations. The Annual Statement is likely to lead confuse donors further about the status of Gift Aid and could feed misconceptions about the system (i.e. that Gift Aid is a tax on the charity or the donor). This was a misconception identified in the HMRC research referenced above. It would be better if information about Gift Aid and messages around it were carried out as close to the donation being made as possible. This Annual Statement does not fit within that ideal.

Finally, we are concerned that additional messages could create a negative view of Gift Aid for donors. The Annual Statements will be seen as 'hassle' by many people and could reduce their propensity to Gift Aid their donations. Given that there is no evidence or clear rationale as to why this statement would inform donors better about Gift Aid, this is a **significant risk for no clear gain**.

**We strongly urge the government to reconsider the Annual Statement regulations, and amend them to give every donor the right to access an account where all their donations, Gift Aid claims and information about claiming higher rate relief can be held.**

This would be a positive system, and would ensure that curious donors or those donors concerned about having enough tax to cover had access to the information that they need. It would also work with the grain of existing infrastructure provided by many online intermediaries, ensuring that this new system would have lower costs.

This should be complimented by the government investing in general public awareness raising and education around Gift Aid, which would be more effective at improving understanding of the Gift Aid system and meet the government's wider policy objectives.

At the very least, if this proposal is to go forward, the level of donations at which a statement is given should be significantly increase to £120 (which would work out at £10 a month) rather than £5 which is a very low level of donation and with relatively little risk of breaching the tax to cover for the average income tax (or capital gains tax) paying individual.

## Fostering collaboration

An area of specific concern is the prohibition in the regulations for Annual Statements to be based on donations and Gift Aid claims by other charities and intermediaries.

We appreciate that in the short term, it is unlikely that intermediaries or charities could pool this information together.

However if the Annual Statement is to remain, and we recommend that it should be scrapped, we believe that charities (and donors) would want intermediaries to pool their information to create one Annual Statement that was complete and reduce the total amount of emails/written messages received by the donor.

We recommend that this prohibition in the regulations is removed or amended, with the view towards fostering collaboration on Annual Statements and Gift Aid reporting in the future.

## Cost and regulation

We understand that for some intermediaries investing in this new system will create additional costs, and these will need to be met through taking larger 'slices' of the Gift Aid charities receive. It is important that costs are kept as low as possible so that as much Gift Aid as possible goes towards the charity, and ultimately, to the cause. Abolishing the Annual Statement requirement (and the need for keeping records of the statement) would be one way that costs could be reduced, for example.

However, this raises an issue around the costs of intermediaries and their regulation.

There are wide variations between different intermediaries and the costs of using their systems. Furthermore, there are new intermediaries emerging all the time and this is creating a confusing landscape for charities and leading to more due diligence being carried out by charities and the public (and incurring greater cost). As intermediaries have become more integral to the Gift Aid system, we believe that it would be useful to investigate whether HMRC should take a greater role in regulating this space, increasing transparency of costs and ensuring that the market place works for charities and donors. We would welcome an opportunity to explore this with HMRC and HM Treasury in the future.