Gift Aid donor research:

Exploring options for reforming higher-rate relief

A report for HMRC and HMT

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Disclaimer: The views in this report are the authors' own and do not reflect those of HM Revenue and Customs or HM Treasury.

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Executive summary

Research Background

This report summarises the findings of research into the likely effects on donations to charities of possible changes to the system of Gift Aid.

Currently, Gift Aid combines two types of tax relief:

i. A "match" component whereby charities can reclaim tax relief on donations at the basic rate of tax;[1]

ii. A "rebate" component whereby higher-rate donors can reclaim additional higher-rate relief. Higher-rate taxpayers can claim back the difference between the higher rate of tax at 40 per cent[2] and the basic rate of tax at 20 per cent on the "gross" equivalent donation, i.e. the amount before basic-rate tax was deducted. [3]

In practice this means that, for every £1 donated to charity out of net-of-tax income (by either a higher-rate donor or a basic-rate donor), the charity can reclaim 25 pence, equating to a 20 per cent rate of relief on the gross equivalent donation. In addition, higher-rate donors can reclaim 25 pence as a rebate on income tax. This equates to a 20 per cent rebate on the gross equivalent donation.

This research investigated the likely effect on donations of possible changes in Gift Aid that would remove income tax relief for higher-rate taxpayer donors and replace it with an increase in the tax relief to be claimed directly by charities. The research was asked to consider two possible options of channelling current higher-rate tax relief to charities:

- *Redirection*. Under redirection, higher-rate taxpayers would no longer be able to reclaim the additional 25 pence higher-rate relief; instead charities could reclaim 50 pence for every £1 donated out of net-of-tax income by higher-rate taxpayers through a mechanism such as a

[1] In addition, charities can reclaim 3 pence transitional relief on donations made before 6/4/11 if a claim is made within 2 years of the end of the tax year in which the donation is made.

[2] Relief is claimed at the higher-rate taxpayer's marginal rate. This may not always equate to 25 pence on every £1 donated, because of reasons such as the impact of investment income. From 2010/11 some higher-rate taxpayers will face a 50% marginal rate.

[3] In this report, we use the terms match and rebate as convenient shorthand for the upfront tax relief that charities can reclaim and the tax relief that individuals can claim back. These terms are not used in relation to the scheme in practice and these terms were not used at any point in the quantitative survey or the qualitative research.

tick box for higher-rate donors. For basic-rate taxpayers, charities would still reclaim 25 pence for every £1.[4] Redirection eliminates the rebate component of Gift Aid and increases the match for higher-rate taxpayers only.

- *Composite rate*. Under a composite rate, higher-rate relief would be eliminated and charities could reclaim at some rate (to be specified) that would apply equally to higher-rate and basic-rate donors. This composite rate could lie anywhere between 25 pence and 50 pence per £1 donated out of net-of-tax income. The research focused on two composite rates of 30 pence and 37 pence per £1 pound donated out of net-of-tax.[5] Any composite rate option for reform eliminates the rebate and increases the match for both higher-rate and basic-rate taxpayers.

Specific questions that were addressed by the research include:

- How would these possible changes to Gift Aid be likely to affect donations – both the amount given by donors and the gross donations received by charities (including the value of tax relief)?

- Why would donors respond to the possible changes in the way they do? Do donors respond differently to changes in how much the charity can reclaim compared to how much they can reclaim, and if so why is this?

- Do responses vary across different sub-groups of donors?

Any changes in "match" and "rebate" rates and associated possible impacts on the level of donations would also have implications for the cost of the Gift Aid scheme to the Exchequer. The report estimates the likely effect of the alternative options on the cost of tax relief; these estimates do not include implementation or compliance costs and may differ from HM Revenue and Customs' estimates of the costs.

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[4] A match of 50 pence for every £1 donated out of net-of-tax income equates to a 40% rate of relief on donations grossed up by taxes already paid while a match of 25 pence for every £1 donated out of net-of-tax income equates to a 20% rate of relief on donations grossed up by taxes already paid. Unless otherwise stated, we express our rates in terms of donations made from net-of-tax income.

[5] Ideally several composite rates would be looked at; for practical reasons, the research focused on two. They were chosen for demonstration purposes and because prior to this research on behavioural responses and before full consideration of compliance issues, HMRC thought the approximate revenue neutral rate might lie within this range. A match of 30 pence for every £1 donated from net-of-tax income equates to a 23% composite rate on grossed-up donations; and 37 pence for every £1 donated out of net-of-tax income is equivalent to a 27% composite rate on grossed-up donations.

The research did not consider the impact of the redirection and composite rate options on compliance risks and operational costs. Nor did it address implementation issues (e.g., feasibility of implementing redirection such as by using a tick box for higher-rate taxpayers).

Understanding the possible effects of the options for change to Gift Aid

The options of redirection and a composite rate may result in changes to total donations received by charities stemming from responses to changes either in the "price" of giving and/or the "form" of Gift Aid:

The price of giving

The price of giving is the net-of-tax-relief cost to the individual of providing £1 of funding to a charity, inclusive of all tax relief. If the charity can reclaim 25 pence for every £1 given by a basic-rate taxpayer, then it costs a basic-rate taxpayer 80 pence (=1.00/1.25) to generate £1 of funding for a charity. If a higher-rate taxpayer can additionally reclaim a rebate of 25 pence for every £1 given out of net-of-tax income, then it costs a higher-rate taxpayer 60 pence (=0.75/1.25) to generate £1 of funding for a charity. The options for reform considered here would involve changes in the price of giving, summarised in the table below, and these may affect donations.

Price of generating £1 of funding for a charity

	Higher-rate taxpayers who reclaim	Higher-rate taxpayers who do not reclaim	Basic-rate taxpayers
Current system	£0.60	£0.80	£0.80
Redirection	£0.67	£0.67	£0.80
Composite rate = 37 pence	£0.73	£0.73	£0.73
Composite rate = 30 pence	£0.77	£0.77	£0.77

Form of Gift Aid

Under both options, the form of Gift Aid changes for higher-rate taxpayers from being a combination of an upfront match and a rebate to an upfront match only. If, for whatever reason, the effect on total donations of a match is not the same as the effect on donations of an equivalent value rebate then this change could have an additional effect on donations. Possible reasons why equivalent value matches and rebates may have a different effect on total donations include:

- Many higher-rate donors do not reclaim the rebate and so their donations may be more responsive to changes in the match than to changes in the rebate.

- An upfront match may have more impact than reclaiming a rebate at the end of the tax year several months later.

- For whatever reason, some donors may not respond to changes in tax incentives when deciding how much to give out of net-of-tax income (even if they reclaim the rebate). In these cases, changes in the match will directly impact on total donations received by charities, whereas changes in the rebate will impact only on donors' out-of-pocket costs. This is referred to as the constant contribution hypothesis.[6]

- Donors may genuinely prefer one type of tax relief to another. There is no reason to expect them to prefer either the rebate or the match. They may gain satisfaction from getting money back from the Exchequer and so prefer a rebate, or think that the money should go directly to the charity and so prefer a match.

The research explored these possible explanations.

Research Methodology

The research included a quantitative component and a qualitative component.

The quantitative component was a major on-line survey of nearly 4,000 donors who had recently given through Gift Aid. The sample was selected equally from individuals with a Charities Aid Foundation (CAF) Charity Account and from individuals who had given on-line through Justgiving within the last six months. This approach was a cost-effective way of surveying a large number of people who had recently given through Gift Aid. It was not possible to recruit a sample that was fully representative of the population of Gift Aid donors; for the purposes of analysis, the sample was adjusted to better reflect this population.

Respondents were presented with hypothetical alternatives to the current system of Gift Aid and asked to consider how their donations might change under the alternative scenarios. Their responses were used to estimate the overall effect of the options for policy change on donations and to explore whether there were systematic differences across different groups of donors. Respondents were also asked about their preferences for alternative forms of tax relief on donations.

The second, complementary strand involved twelve structured interviews carried out with "major donors" who had given more than £100,000 a year. Major donors are responsible for a disproportionately large share of total donations; tax incentives may also be particularly salient for

this group. The interviews therefore sought to understand the use of tax incentives among major donors and their reactions to the possible policy changes in more detail; they were not intended to provide any quantitative analysis of the options for reform. Major donors were included in the quantitative analysis (including ten who had given more than £100,000 during the previous 12 months) but this sub-sample was too small for separate statistical analysis.

Main findings

Many higher-rate donors do not claim the rebate (Section 3.3). Based on the survey responses and analysis of HMRC statistics on the value of tax relief claimed, it is assumed in this research that 35 per cent of higher-rate donors actually reclaim the higher-rate relief,[7] although reclaimers are estimated to account for nearly 80 per cent of the value of donations from higher-rate donors.

The survey showed that many people are not aware that they can reclaim higher-rate relief – this was the most common reason cited for not reclaiming – while more than 30 per cent of non-reclaimers said that they did not know how to claim it back. A strategy to increase the amount of money going to charities should include measures to increase awareness and take-up of tax incentives.

Nearly one-third of those who did not reclaim said that it took too much time and effort. Not surprisingly, the proportion reclaiming is strongly related to size of donations – increasing from fewer than 20 per cent of those who give a few pounds a year through Gift Aid to around 75 per cent of those who give more than £2,000 a year. This is to be expected – those who give larger amounts would have more to gain from reclaiming higher-rate relief and would thus see it as being worth the time and effort. Although only 35 per cent of higher-rate taxpayers, reclaimers are estimated to account for nearly 80 per cent of the value of donations from higher-rate donors.

For all possible changes to Gift Aid presented in the survey and for all three taxpayer groups (basic-rate, higher-rate non-reclaimers and higher-rate reclaimers), the majority of donors reported that they would not change their donations out of net-of-tax income if faced with changes to Gift Aid. In practice this means that if the amount of tax relief going to charities increases, charities benefit by the full amount; while if the amount of tax relief going to the individual donor increases, charities see little benefit (Section 4.3).

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[6] This implies that *total donations* may be more responsive to changes in the match than to changes in the rebate because *donors* are equally unresponsive in adjusting their cash donations.
[7] See Appendix 2 for further details.

When asked why they would not adjust their donations if the tax system were to change, the majority said that it was because they decided how much to give before thinking about the tax incentives. This may be a consequence of the complexity of the current system. One of the major donors who had calculated the effect of the tax system on net and gross donations described working it out as "a long and painful process". Around one-fifth of those who said they would not adjust their donations said that tax incentives did not matter at all.

Given a choice, most higher-rate donors would appear to prefer a system that channelled all higher rate relief to charities over the current system with a match plus a rebate (Section 6.2). This may reflect a desire for simplicity. It may also reflect the fact that there are lower costs for the donor if the charity reclaims all the relief. But also more higher-rate donors appear to put a weight on how much the charity can reclaim than put a weight on how much they can reclaim.

A key theme from the qualitative interviews was that changing the tax system would make little difference to donations from major donors (Section 7). Some would simply adjust their giving to maintain their level of net donation; others thought it would have little effect even on their cash donations. This chimes with the findings from the quantitative research that, even among donors who give more than £10,000 a year, gross donations are more sensitive to changes in the amount that goes to charity than to changes in the rebate.

Estimated effects on donations and Exchequer cost

Estimates of the likely effects of redirection and the two composite rates considered by the research are presented in the table below. Full details on how these are calculated are given in Section 4.4. The estimates are for the effects on total cash donations out of net-of-tax income, on total gross donations received by charities (including the value of the tax relief) and on the cost of tax relief to the Exchequer. Note that the latter do not include implementation or compliance costs and may differ from HM Revenue and Customs' estimates of the costs.

It is important to emphasise that these results are meant to be indicative. They are derived from a hypothetical survey carried out on a sample of donors and the responses are subject to sampling error. The population estimates also rest on assumptions about the proportions of higher-rate and basic-rate taxpayers giving through Gift Aid and the proportion of higher-rate donors reclaiming the rebate. Nevertheless, the results give a reasonable insight into how the possible options for reform might be expected to impact on total donations. The central assumptions are that 80 per cent of Gift Aid donors are basic-rate taxpayers, 13 per cent are non-reclaiming higher-rate taxpayers and 7 per cent are reclaiming higher-rate taxpayers. These assumptions are subject to sensitivity analysis (reported in the table on page 12).

Redirection

The option of redirection (a match of 50p and a rebate of zero) affects only higher-rate taxpayers (a minority of all Gift Aid donors) but the percentage changes are expressed relative to all Gift Aid donations from all donors. Higher-rate donors are estimated to reduce their cash donations in response to the redirection of higher-rate relief with donations out of net-of-tax income falling by nearly 4 per cent. However, this fall in cash donations is more than offset by the increase in the match rate, implying an increase in the amount of money received by charities (gross donations) of more than 4 per cent. There is an estimated increase in the cost to the Exchequer of nearly 6 per cent. There is a cost saving from those who currently reclaim both because of the withdrawal of the rebate and because cash donations are reduced. However, there is an increase in the cost associated with donations made by non-reclaimers because of the higher match. The sensitivity analysis shows that these findings are reasonably robust to changes in the underlying assumptions.

Composite rates

The research considered composite rates of 37 pence and 30 pence per £1 donated out of net-of-tax income. The composite rates directly affect both higher-rate donors and basic-rate donors.

- A composite rate of 37 pence is estimated to result in a small overall increase in cash donations of 0.7 per cent (a reduction in donations from higher-rate reclaimers is more than offset by increases in donations from basic-rate donors and higher-rate non-reclaimers). With a higher proportion of higher-rate donors and/or reclaimers, the positive effect on cash donations is reduced and even reversed. Gross donations, including the value of the tax relief to the charity, are estimated to rise by just over 10 per cent. The cost to the Exchequer is estimated to increase by 21.5 per cent – the Exchequer saves the cost of the rebate on donations from reclaimers but this is more than offset by an increase in the cost of financing the higher match for donations made by all taxpayers. The Exchequer cost is more sensitive to the underlying assumptions on the distribution of higher rate taxpayers and reclaimers than is the percentage change in gross donations.

- A composite rate of 30 pence is estimated to result in a small reduction in cash donations accompanied by a small increase in gross donations of 2.4 per cent. There is an estimated cost saving to the Exchequer—a higher cost of the now higher match is more than offset by savings on the rebate. Changing the underlying assumptions does not affect the finding of a small increase in gross donations but does affect whether there is a saving or a net cost to the Exchequer.

Estimated effects

	Estimated change, cash donations	Estimated change, gross donations	Estimated change, Exchequer cost
Match of 50p and rebate of zero			
Main estimate	**-3.8%**	**4.2%**	**5.9%**
Sensitivity analysis:			
Assume 10% higher-rate donors	-2.2%	2.4%	3.8%
Assume 30% higher-rate donors	-4.9%	5.5%	7.3%
Assume 25% higher-rate donors reclaim	-3.0%	4.4%	10.3%
Assume 45% higher-rate donors reclaim	-4.4%	4.0%	2.4%
Match of 37p and rebate of zero			
Main estimate	**0.7%**	**10.3%**	**21.5%**
Sensitivity analysis:			
Assume 10% higher-rate donors	2.0%	11.8%	34.5%
Assume 30% higher-rate donors	-0.5%	9.0%	11.9%
Assume 25% higher-rate donors reclaim	1.3%	11.1%	28.2%
Assume 45% higher rate donors reclaim	0.0%	9.6%	15.9%
Match of 30p and rebate of zero			
Main estimate	**-1.5%**	**2.4%**	**-4.3%**
Sensitivity analysis			
Assume 10% higher-rate donors	0.1%	4.1%	6.6%
Assume 30% higher-rate donors	-2.9%	1.0%	-12.2%
Assume 25% higher-rate donors reclaim	-0.7%	3.2%	1.2%
Assume 45% higher-rate donors reclaim	-2.2%	1.7%	-8.8%

Note: Cash donations refer to the amount given by individuals out of net-of-tax income. Gross donations refer to the total amount received by charities, including the value of tax relief. Exchequer cost refers to the cost of tax relief and does not include any costs related to implementation or compliance. The main estimates assume that 20 per cent of Gift Aid donors are higher-rate taxpayers and that 35 per cent of higher-rate donors reclaim additional relief. The sensitivity analysis looks at what happens when each of these assumptions is adjusted separately (holding the other constant)

Other issues

The research also highlighted some potential risks in channelling higher-rate relief from individual donors to charities:

- A small but sizeable minority (14 per cent of reclaimers in the sample) do appear to prefer a system with a rebate (Section 6.2). Some would even prefer a system with a rebate over an alternative system with all the relief going to the charity that generated a larger gross donation. These people were typically characterised by low levels of trust in institutions, suggesting that they may prefer to have the money themselves than trust the government to give the money to charities. Among the twelve major donors interviewed, one expressed cynicism about where the reforms might lead and thought it might result in the gradual erosion of tax incentives if the money was taken out of donors' hands.

- For some higher-rate donors, giving is part of a tax-planning exercise, i.e. they decide whether and how much to give partly in order to offset their tax liability. Incorporating giving into a process of tax planning may also act as a prompt to give and a spur to action. In both cases, removing the option of reclaiming relief may lead to a fall in giving. The qualitative interviews with major donors showed that these are real concerns (Section 7). They give little firm indication of how widespread these effects are likely to be in practice although the responses suggested that they affect only a minority.

- Any changes would be likely to have winners and losers. The introduction of a composite rate, for example, would involve channelling more of the government support for donations to charities supported by basic-rate taxpayers and non-reclaimers and away from those supported by higher-rate taxpayers who reclaim. To the extent that individual charities and charitable causes draw their support from different taxpayer groups, both options will lead to distributional ramifications within the sector and it is possible that some charities could experience a serious loss of funding (Section 4.7).

Finally, it is also important to bear in mind the limitations of the research.

- First, the quantitative sample may not be representative of the population of Gift Aid donors. In the analysis, the relative weight of the three taxpayer groups is adjusted in order to reflect their proportions in the wider population of Gift Aid donors. But this does not correct for the fact that the sample may also be unrepresentative in terms of its unobservable characteristics. Those who responded to the survey are likely to be more interested and informed than average on issues pertaining to the tax treatment of giving, they may also be more likely to give regularly to charity. This suggests that the estimated responses may over-

state the extent to which people are likely to respond to changes in the tax system. If anything, therefore, there are likely to be bigger increases in gross donations, albeit at greater Exchequer cost.

- Second, the research is conducted on people who use Gift Aid. It therefore considers the effect that changes have on people's decisions about how much to give through Gift Aid, but not the effect on whether or not to give through Gift Aid in the first place. Sensitivity analysis tests the effect of people switching to other tax schemes for giving (Section 4.6) but not of more people potentially being encouraged to give through Gift Aid. This might be the case if, for example, as a result of making Gift Aid more generous, charities devote more effort to encouraging people to give through Gift Aid.

- Third, there are a number of practical issues relating to the implementation of any changes that are outside the scope of this research. When asked whether they would tick a box allowing the charity to claim a higher rate of relief, most higher-rate donors said that they were fairly likely or very likely to do this (Section 4.5). This is indicative of a high level of take-up, although the true effect may differ from this. There is the possibility that basic-rate donors may also tick the box. Decisions such as whether to make higher-rate donors opt-in to tick the box if they want the charity to reclaim, or to make basic-rate donors (and higher-rate donors who do not want the charity to reclaim) opt out are likely to affect both compliance and false claims. When it comes to implementation these practical issues would be crucial in determining the effect on both gross donations and Exchequer cost.

Introduction

This report summarises the findings of research into the likely effects of changes to the system of Gift Aid on donations to charities.

Currently, Gift Aid combines two types of tax relief:

i. A "match" component whereby charities can reclaim tax relief at the basic rate of tax;[8]

ii. A "rebate" component whereby higher-rate donors can reclaim additional higher-rate relief. Higher-rate taxpayers can claim back the difference between the higher rate of tax at 40 per cent[9] and the basic rate of tax at 20 per cent on the 'gross' equivalent donation, i.e. the amount before basic-rate tax was deducted.[10]

In practice this means that, for every £1 donated to charity out of net-of-tax income (by either a higher-rate donor or a basic-rate donor), the charity can reclaim 25 pence in the form of a match, equating to a 20 per cent rate of relief on the gross equivalent donation. In addition, higher-rate donors can reclaim 25 pence as a rebate on income tax. This equates to a 20 per cent rebate on the gross equivalent donation.

This research investigated the likely effect on donations of possible changes in Gift Aid that would remove income tax relief for higher-rate taxpayer donors and replace it with an increase in the tax relief to be claimed directly by charities. It was asked to consider two possible options of channelling current higher-rate tax relief to charities:

- *Redirection*. Under redirection, higher-rate taxpayers would no longer be able to reclaim the additional 25 pence higher-rate relief; instead charities could reclaim 50 pence for every £1 donated out of net-of-tax income by higher-rate taxpayers through a mechanism such as a tick box for higher-rate donors. For basic-rate taxpayers, charities would still reclaim 25

[8] In addition, charities can reclaim 3 pence transitional relief on donations made before 6/4/11 if a claim is made within 2 years of the end of the tax year in which the donation is made.

[9] Relief is claimed at the higher-rate taxpayer's marginal rate. This may not always equate to 25 pence on every £1 donated, because of reasons such as the impact of investment income. From 2010/11 some higher-rate taxpayers will face a 50 per cent marginal rate.

[10] In this report, we use the terms match and rebate as convenient shorthand for the upfront tax relief that charities can reclaim and the tax relief that individuals can claim back. These terms are not used in relation to the scheme in practice and these terms were not used at any point in the quantitative survey or the qualitative research.

pence for every £1.[11] Redirection eliminates the rebate component of Gift Aid and increases the match for higher-rate taxpayers only.

- *Composite rate*. Under a composite rate, higher-rate relief would be eliminated and charities could reclaim at some rate (to be specified) that would apply equally to higher-rate and basic-rate donors (the match would be increased on donations made by *all* taxpayers). This composite rate could lie anywhere between 25 pence and 50 pence per £1 donated out of net-of-tax income. This research focuses on specific composite rates of 30 pence and 37 pence per £1 pound donated out of net-of-tax.[12] Any composite rate option for reform eliminates the rebate and increases the match for both higher-rate and basic-rate taxpayers.

The research set out to address the following questions:

- How would these possible changes to Gift Aid be likely to affect donations – both the amount given by donors and gross donations received by charities (including the value of tax relief)?
- Why would donors and donations respond to the possible changes in the way they do? Do donations respond differently to changes in how much the charity can reclaim compared to how much donors can reclaim, and if so why is this?
- Do responses vary across different sub-groups of donors?

The changes in match and rebate rates and the possible impacts on the level of donations have implications for the cost of the Gift Aid scheme to the Exchequer. The report estimates the effect of the alternative options on the cost of tax relief; these costs do not include implementation or compliance costs and may differ from HM Revenue and Customs' estimates of the costs., which the study also considers.

The research involved two elements. The first, quantitative component was a major on-line survey of nearly 4,000 donors who had recently given through Gift Aid. The sample was selected equally from individuals with a Charities Aid Foundation (CAF) Charity Account and individuals who had given on-line through Justgiving within the last six months. This approach was a cost-effective way of surveying a large number of people who had recently given through Gift Aid. It was not possible to

[11] A match of 50 pence for every £1 donated out of net-of-tax income equates to a 40% rate of relief on donations grossed up by taxes already paid while a match of 25 pence for every £1 donated out of net-of-tax income equates to a 20% rate of relief on donations grossed up by taxes already paid. Unless otherwise stated, we express our rates in terms of donations made from net-of-tax income.

recruit a sample that was fully representative of the population of Gift Aid donors; for the purposes of analysis, the sample was adjusted to better reflect this population.

Respondents were presented with hypothetical alternatives to the current system of Gift Aid and asked to consider how their donations would change. Their responses were used to estimate the overall effect of the options for policy change on gross donations and the implications for Exchequer cost and to explore whether there were systematic differences across different groups of donors. Respondents were also asked about their preferences for alternative forms of tax relief on donations.

The second, complementary strand involved twelve structured interviews carried out with major donors (who had given more than £100,000 a year). This group is responsible for a disproportionately large share of total donations; tax incentives may also be particularly salient. The interviews therefore sought to understand their use of tax incentives and their reactions to the options in more detail and were not intended to provide a quantitative analysis of the options for reform.

The plan of the report is as follows:

- Section 1 describes the current system of tax incentives for individual donations in the UK. It also discusses the options for policy changes in more detail and how they might be expected to affect donations.
- Section 2 describes the research methodology and the quantitative sample.
- Section 3 presents descriptive statistics on the quantitative sample.
- Section 4 estimates the effect of the options for reform on (cash and gross) donations and the implications for Exchequer cost.
- Section 5 presents summary estimates of the responsiveness of gross donations to changes in the amount of relief that the charity can reclaim and to changes in how much the taxpayer can reclaim (price elasticities).
- Section 6 analyses donors' stated preferences for alternative variations of the Gift Aid system.
- Section 7 presents the main findings from the qualitative analysis.

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[12] Equivalently, 30 pence for every £1 donated from net-of-tax income equates to a 23% composite rate on grossed-up donations; and 37 pence for every £1 donated out of net-of-tax income is equivalent to a 27%

1. Background

1.1 The current system of tax reliefs on charitable donations

Apart from bequests, Gift Aid is one of three schemes in the UK through which individuals can get tax relief on gifts to charities; payroll giving and gifts of shares and property are the other two. As Table 1 shows, Gift Aid is the most widely used scheme – with charities receiving an estimated £4.3 billion through Gift Aid in 2008-09.

Table 1: Tax relief on charitable donations, 2008-09

	Gross donations	Cost of tax relief
Gift Aid	£4,305 million	£1,217 million(1)
Payroll Giving	£104 million	£30 million(2)
Tax relief on shares or property	£266 million(3)	£70 million(3)

Notes to table:

1. The cost of Gift Aid tax relief comprises Gift Aid repayments to charities, including transitional relief payments, and the estimated cost of higher-rate relief.

2. Estimated

3. The most recent statistics are for 2007-08

Source: HM Revenue and Customs

Gift Aid

Gift Aid was established in 1990 as a way for individuals (and companies)[13] to get tax relief on one-off donations of money to charities. When it was originally established, tax relief was only given for donations exceeding a minimum threshold. This threshold was initially set at £600, reduced to £400 from May 1992 and to £250 from March 1993 and abolished altogether in 2000.

Donations via Gift Aid are made out of net-of-tax income. The charity can reclaim tax relief at the basic rate of tax, currently 20%. This means that for every £1 donated to charity out of net income, the charity can reclaim 25 pence of basic-rate tax relief. In addition, transitional relief is offered as a compensation for the cut in the basic rate of income tax in 2008—until April 2011, HMRC will pay an additional 3 pence of transitional relief for every £1 given on donations made before April 6, 2011 if a claim is made within two years of the end of the tax year in which the donation is made. Higher-rate

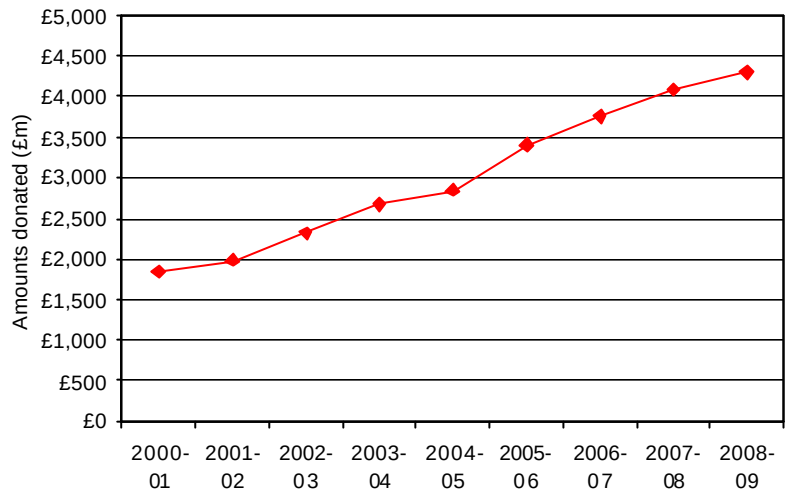
composite rate on grossed-up donations.

[13] This report focuses only on individual giving responses.

taxpayers can claim back the difference between the higher rate of tax at 40 per cent[14] and the basic rate of tax at 20 per cent on the 'gross' equivalent donation, i.e. the amount before basic-rate tax was deducted. This means that for every £1 donated out of net income, a higher-rate taxpayer can reclaim an extra 25 pence.

As shown in Figure 1, the total amount of gross donations (i.e. including the basic-rate tax relief) given through Gift Aid has increased year-on-year since 2000-01 and now exceeds £4 billion per year.

Figure 1: Total gross donations made through Gift Aid



Source: HM Revenue and Customs

Payroll giving

The payroll-giving scheme was established in 1987. It allows employees to donate to charity from their wages or pension before deducting any tax. This reduces the effective cost of giving to charity since the individual gives to charity the tax they would otherwise pay on their earnings or pension. For a basic-rate taxpayer, a donation of £10 through the payroll-giving scheme costs them £8 in net income foregone because they save £2 in tax. For a higher-rate taxpayer, a donation of £10 out of gross income costs £6 since they would otherwise pay £4 in tax.

[14] Relief is claimed at the higher-rate taxpayer's marginal rate. This may not always equate to 25 pence on every £1 donated, because of reasons such as the impact of investment income.

Tax relief on assets

This scheme provides income tax relief on gifts of shares or property to charities. Such gifts are also exempt from capital gains tax that would otherwise be payable when the shares and property are sold. A higher-rate taxpayer donating a property or shares worth £10,000 under the scheme can deduct £4,000 from their income tax bill.

1.2 Fiscal incentives and the economic effects on giving

By definition, charitable activities produce public benefits. Sometimes these spill over to only a small (local) group of individuals – as may be the case with a ballet company, for example – while others may affect entire nations or even groups that transcend national boundaries (the Red Cross or UNICEF are two examples). While the presence of socially desirable benefits provides a case for the government to subsidise charities, it does not imply anything about the form of (or level of) subsidisation. However, the vast majority of developed countries offer tax relief for private donations to charitable organizations – in part with the aim of encouraging private giving.[15]

The effect of tax relief is to lower the "price" of giving to charity. If individuals care about how much funding charities receive (i.e. gross donations, see Box 1), then, in the absence of any tax relief, it would cost £1 (out of net-of-tax income) to give £1 worth of resources to charity. The effect of tax relief would be to reduce the price of giving £1 worth of resources to less than £1. If the charity can reclaim basic-rate relief, as under the current system of Gift Aid and claim 25 pence for every £1 given (of donations made out of net-of-tax income), then each £1 the charity receives costs the taxpayer only 80 pence (=1.00/1.25). Likewise, if a higher-rate taxpayer can reclaim an additional 25 pence for every £1 donated out of their net income then it costs them only 60 pence for the charity to receive £1 (=0.75/1.25).

[15] The question of why governments would want to encourage private giving has been the source of much debate in the economics literature and in the policy debate, and continues to be so. Examples are Feldstein and Clotfelter (1977), Warr (1982), Scharf (2000).

If the price of a good falls, then, all other things equal, economic theory predicts that the quantity demanded is likely to increase. So, if the government chooses to lower the price of gross donations by introducing tax relief then the amount of provision that the donor would choose to fund would be expected to increase.[16]

However, gross donations comprise the amount given by the individual out of net income (referred to in this report as a cash donation) **plus** the value of the tax relief received by the charity. At least some of the increased donation will be the government subsidy if the charity can reclaim tax relief. It is less clear that the individuals' own cash donations will increase following the introduction of tax relief. In fact the opposite may occur. Donors may take advantage of the fact that the government has increased the value of the subsidy to charity to reduce the value of their cash donation (an effect referred to as crowd out). Overall, gross donations to charity may increase because of the introduction of tax relief, but individuals' donations may fall.

The price elasticity of gross donations measures how responsive gross donations are to changes in the price. If the elasticity is -1, this means that a 1% reduction in the price of giving will result in a 1% increase in gross donations. In this case, changes in the value of tax relief have no effect on individuals' cash donations and gross donations to charity change by exactly the amount of the tax relief. If the elasticity is greater than 1 in absolute value (-1.50, say) then a 1% reduction in the price of giving results in a more than 1% increase in gross donations. In this case, the effect of lowering the price of giving would be to encourage people to increase their gross donations by more than the value of the tax relief—the tax relief is an effective way of encouraging donations. But, if the elasticity is less than 1 in absolute value then a 1% fall in the price of donations results in a less than 1%

[16] When the price of a private good falls there are two effects: an income effect and a substitution effect. A fall in price leads to an increase in real income as a consumer can buy the same amount of the commodity for less of their total income and this frees up income to spend on other things. If the good is normal, then some of the extra income will be used to purchase the good that experienced a fall in price so quantity demanded will increase. If the good is inferior then the increase in real income will lead to a fall in quantity demanded. The substitution effect is the change in quantity demanded that results from the fact that the good has become cheaper (holding real income constant). Consumers will increase quantity demanded through this effect – they will substitute away from relatively more expensive goods towards the relatively cheaper good that has experienced the fall in price. The total effect of a fall in price on quantity demanded is the combination of the income and price effect. A fall in price will always lead to an increase in quantity demanded when the good is normal (income and substitution effects work in the same direction); if the good is inferior then income and price effects work in opposite directions and a fall in price could lead to an increase in quantity demanded, no change, or a decrease in quantity demanded. However, while a decrease in quantity is a theoretical possibility, there is little empirical evidence to support the existence of such "Giffen" goods (as they are called). These arguments apply to private goods. Although charitable giving may have some public good properties, some private benefits are usually invoked to explain why individuals do not simply free-ride on others' donations.

increase in gross donations which means that the tax incentive is not as effective as it would aim to be. This relationship is summarised in Table 2.

Box 1: Key terms

Cash donation (D): the amount given by the individual out of net-of-tax income

Match (M): how much additional money the charity receives in tax relief from the government when an individual gives a cash donation of £1

Rebate (R): how much money individuals can claim back in tax relief from the government when they give a cash donation of £1

Gross donation (G): the total amount received by the charity, including the value of any tax relief that the charity can claim (G = D + M)

Net donation (N): the amount given by the individual, net of any tax relief reclaimed (N = D – R)

Price of giving (P): how much it "costs" an individual for the charity to receive £1 in funding, including the value of any tax relief. If the donation attracts tax relief then the cost is less than £1 because the charity receives extra money in the form of tax relief for each £1 donated, while the donor may also be able to claim back tax relief. The price of giving is equal to:

$$P = \frac{N}{G} = \frac{D(1-R)}{D(1+M)} = \frac{(1-R)}{(1+M)}$$

Price elasticity of gross donations: a measure of how sensitive gross donations are to changes in the price of giving. The elasticity measures the percentage change in gross donations that results from a 1% change in the price:

$$e = \frac{\Delta G / G}{\Delta P / P}$$

Table 2: What happens to gross and cash donations when the price of giving is reduced?

	If the price elasticity of gross donations is….		
	Less than 1 in absolute value	Exactly 1 in absolute value	More than 1 in absolute value
Gross donations	Will increase by less than the value of the price reduction	Will increase by exactly the value of the price reduction	Will increase by more than the value of the price reduction
Cash donations	Will decrease when the price falls	Will be constant	Will increase when the price falls

To summarise – if the elasticity of gross donations with respect to price is greater than 1 in absolute value then tax relief is a relatively effective way for the government to subsidise charities; every £1 spent will generate more than a £1 increase in charities' receipts. In practice, a full assessment of the effectiveness of tax incentives would also take into account evidence on crowding out of private giving by direct grants in order to compare the effectiveness of tax incentives for giving with that of grants: Even if subsidies to private giving are found to leave net donations unchanged or to reduce them, they may still dominate direct grants as a way of channeling government funds if direct grants crowd out donations (see Roberts, 1987). This comparison of direct grants with tax incentives is beyond the scope of this study, which is concerned only with evaluating the effectiveness of different forms of tax relief.

What does the evidence have to say about price elasticities of giving and hence the effectiveness of tax incentives for giving? Empirical analyses have produced conflicting answers about the magnitudes of price elasticities of giving and are studies based mainly upon US data.[17] Early studies used cross-sectional data with price elasticities of gross donations found to be negative and greater than one in absolute value. The policy implications of these early results would be to view tax incentives for giving as effective instruments to use to encourage donations to charity. But more recently, studies that used panel data to correct for short-term price effects have found mixed results with some price elasticities of gross donations estimated to be less than one in absolute value.[18] The

[17] This is a different country with a different tax system and social norms and attitudes towards government that may differ from those of the UK and the results may not apply directly to the UK.

[18] A summary of early results can be found in Clotfelter (1985) and Steinberg (1990) and Triest (1998). Randolph (1995) uses panel data to find a long-run price elasticity of giving of -.51. Using a longer but similar panel to that used by Randolph but a different estimation technique, Auten, Sieg and Clotfelter (2002), arrive at the significantly higher estimate of -1.26. More recently, Bakija and Heim (2008) find a long-run value of -.7 – close to Randolph's estimate.

jury appears to be out on whether or not tax incentives for giving are effective mechanisms for encouraging donations. As Andreoni (2007) concludes "… sensitivity of the estimates to the estimation technique and the identification strategy has left the literature unsettled as to the true values of price elasticities."

So far this discussion has focused on pure price effects and has assumed that there is no effect of the *form* in which tax relief is given. In other words, allowing the charity to reclaim tax relief on donations is assumed to have the same effect on donations as allowing donors to reclaim tax relief. However, as discussed in section 1.4.2 below, there is evidence that the form in which tax relief is given may have an effect on donations and that donations may not respond in the same way to changes in the amount of tax relief that the charity can reclaim as to changes in the amount of tax relief that donors can reclaim. Changes in the system of tax relief can therefore affect donations not only through price effects but also through these so-called framing effects. Section 1.4.2 discusses possible reasons why donations may respond differently to changes in the match than to changes in the rebate; this is explored in detail in the empirical analysis.

1.3 Possible options for reform of Gift Aid

The current system of Gift Aid (summarized in Table 3) allows charities to reclaim tax relief at the basic rate on donations from basic-rate taxpayers and higher-rate taxpayers and, additionally, allows higher-rate taxpayers to reclaim the difference between the higher and basic rates. In effect, it provides a "match" of 25 pence for every £1 donated out of net-of-tax income (ignoring the additional, transitional 3 pence relief) and offers higher-rate taxpayers an additional tax "rebate" of 25 pence for every £1 donated out of net-of-tax income.[19]

Table 3: Current Gift Aid scheme

	Higher-rate taxpayers	Basic-rate taxpayers
Match	The charity can reclaim 25 pence for every £1 donated out of net-tax income	The charity can reclaim 25 pence for every £1 donated out of net-tax income
Rebate	The donor can reclaim 25 pence for every £1 donated out of net-tax income	Zero
Price of giving £1	£0.60	£0.80

[19] Relief is claimed at the higher-rate taxpayer's marginal rate. This may not always equate to 25 pence on every £1 donated, because of reasons such as the impact of investment income. From 2010/11 some higher-rate taxpayers will face a 50% marginal rate.

Option 1: Redirection

The first option involves redirecting the higher-rate relief from the donor to the charity. Rather than the charity being able to reclaim 25 pence and higher-rate donors being able to reclaim 25 pence for every £1 donated out of net-of-tax income, the charity would be able to reclaim 50 pence on each £1 donated out of net-of-tax income by higher-rate taxpayers. The system for basic-rate donors would remain as it currently is. Using the terminology of match and rebate, this reform would in effect, remove the rebate currently available to higher-rate taxpayers and increase the value of the match from 25 pence to 50 pence for every £1 donated out of net-of-tax income. Note that under this option, the price of giving £1 rises for higher-rate taxpayers – from a current price of 60 pence (=0.75/1.25) to a new price of 67 pence (=1.00/1.50). The price for basic-rate taxpayers stays the same at 80 pence.

Table 4: Redirection of higher-rate relief

	Higher-rate taxpayers	Basic-rate taxpayers
Match	The charity can reclaim 50 pence for every £1 donated	The charity can reclaim 25 pence for every £1 donated
Rebate	Zero	Zero
Price of giving £1	£0.67	£0.80

Option 2: Composite Rate

The second option involves introducing a composite rate for basic-rate and higher-rate donors. Rather than the charity being able to reclaim 25 pence and higher-rate donors being able to reclaim 25 pence for every £1 donated out of net-of-tax income, the charity would be able to reclaim X pence on donations made by both basic and higher-rate donors where X is greater than the current 25 pence, but less than 50 pence. The research considered rates of 37 pence and 30 pence for each £1 pound donated out of net-of-tax income as possible composite rate options.[20] Using the terminology of match and rebate, the effect of introducing a composite rate for higher-rate taxpayers would be to remove the rebate and increase the value of the match from 25 pence to X pence for every £1 donated out of net-of-tax income. For higher-rate donors the price of giving would increase – from 60

[20] Ideally several composite rates would be looked at; for practical reasons, the research focused on two. They were chosen for demonstration purposes and because prior to this research on behavioural responses and before full consideration of compliance issues, HMRC thought the approximate revenue neutral rate might lie within this range.

pence to 73 pence in the case of a 37 pence composite rate and to 77 pence in the case of a 30 pence composite rate. For basic-rate donors, the effect would be to increase the value of the match and to reduce the price of giving from 80 pence to 77 pence and 73 pence.

Table 5: Composite rates

	Higher-rate taxpayers	Basic-rate taxpayers
37 pence composite rate		
Match	The charity can reclaim 37 pence for every £1 donated out of net-of-tax income	The charity can reclaim 37 pence for every £1 donated out of net-of-tax income
Rebate	Zero	Zero
Price of giving £1	£0.73	£0.73
30 pence composite rate		
Match	The charity can reclaim 33 pence for every £1 donated out of net-of-tax income	The charity can reclaim 33 pence for every £1 donated out of net-of-tax income
Rebate	Zero	Zero
Price of giving £1	£0.77	£0.77

1.4 Understanding the possible effects of the options

Both the option of redirection and the option of a composite rate involve changes in the price of giving which may result in changes in gross donations, all other things being equal. Additionally, both options involve changes to the form of tax relief that may also affect gross donations.

1.4.1 Possible effect of the options: Pure price effects

The pure price effects of the options are summarised in Table 6.

Both redirection of higher-rate relief and the introduction of a composite rate increase the price of giving for higher-rate donors who previously reclaimed higher-rate relief. This would be expected to lead to a reduction in gross donations.

For higher-rate taxpayers who do not reclaim, all options lower the price of giving since the match rates are higher than the basic rate (and transitional relief). In this case, gross donations would be expected to increase.

Redirection of higher-rate relief has no effect on the price of giving for basic-rate taxpayers – and is assumed to have no effect on their donations. This would not be the case if, for example, basic-rate taxpayers felt that it was unfair that the charity could reclaim more on donation from higher-rate donors. The assumption is that there is no such effect. The introduction of a composite rate higher than the basic rate (and transitional relief) reduces the price of giving for basic-rate taxpayers. This would be expected to lead to an increase in gross donations.

The overall effect of redirection will therefore depend on the reactions of these two groups – higher-rate donors who currently reclaim and higher-rate donors who do not reclaim – and on the total amounts donated by these two groups. Similarly, the overall effect of introducing a composite rate depends on the relative responses and amounts donated by higher-rate donors who reclaim, higher-rate donors who do not reclaim and basic-rate donors.

Table 6: Pure price effects

	Higher-rate taxpayers who reclaim	Higher-rate taxpayers who do not reclaim	Basic-rate taxpayers
Current system	£0.60	£0.80	£0.80
Redirection	£0.67 Price increases Gross donations expected to fall	£0.67 Price falls Gross donations expected to rise	£0.80 No change in price No expected change in gross donations
Composite rate = 37 pence	£0.73 Price increases Gross donations expected to fall	£0.73 Price falls Gross donations expected to increase	£0.73 Price falls Gross donations expected to increase
Composite rate = 30 pence	£0.77 Price increases Gross donations expected to fall	£0.77 Price falls Gross donations expected to increase	£0.77 Price falls Gross donations expected to increase

1.4.2 Possible effect of the options: Framing effects

For higher-rate taxpayers the options would change the form of tax relief from a combination of a match and a rebate to a (higher) match. Framing effects are the effects that (changes in) form might have on real outcomes, such as donations. There is some evidence from the US to suggest that such framing effects might be likely (see Box 2). In particular, a number of studies suggest that gross donations are more responsive to changes in match rates (how much the charity receives for each £1 of cash donation) than to changes in rebates (how much individuals can claim back for each £1 of cash donation). The findings come from experiments carried out in the laboratory and in the field.

The experiments did not involve changes to fiscal incentives; this study tests whether this is also the case for tax reliefs.

It is important to understand why there might be framing effects; why gross donations may be more responsive to match rates than to rebate rates. There are several possible reasons that will be explored in the empirical analysis.

Discounting of future rebates

One possibility is that the difference arises because of the different timing of the two types of incentives. Match rates are usually applied at the time of the cash donation, whereas rebates are typically received in the future. Because individuals typically discount the future (£1 received in a year's time is worth less than £1 received today), the (discounted) value of a rebate may be less than the value of an equivalent-size match. However, assuming a standard discount rate, the resulting effect on the price of giving would be very small and unlikely to explain the large difference in responses that have been observed in practice. Moreover, in the lab experiment reported in Box 2, the rebate was given immediately, suggesting that discounting could not have played a role.

Box 2: US evidence on framing effects from the lab and from the field

Eckel and Grossman (2003) carried out an experiment in the lab to test responses to equivalent-value match and rebates. Their experiment involved 181 undergraduate students who were each given twelve allocation problems – how to allocate an initial endowment between themselves and a charity of their choice when faced with varying amounts of the endowment and varying match and rebate rates. The results showed that match rates resulted in gross donations that were 1.2 – 2 times greater than the equivalent-value rebate. The estimate of the price elasticity of gross donations was also higher in absolute value under the match (-1.14) compared to under the rebate (-0.36). Cash donations were higher under a rebate than under an equivalent value match in four out five cases, but this difference was statistically significant at the 5 per cent level in only two cases, lending some support to the constant contribution hypothesis (defined below).

Eckel and Grossman (2008) also ran an experiment in the field to test how donors responded to equivalent value match and rebates. On behalf of Minnesota Public Radio they mailed out 370,000+ donor solicitations, offering differing values of match rate and rebate on a random basis. The findings mirrored those from the lab. Based on approximately 7,000 responses, they found that the match rates resulted in a higher level of gross donations than equivalent-value rebates. The estimated elasticity of gross donations was -1.05 in the case of the match rate and -0.11 in the case of the rebate rate.

Higher-rate taxpayers do not reclaim

In practice, many higher-rate taxpayers do not actually reclaim higher-rate relief under the current system – whether through ignorance or because it is not really worth them doing so (see section 3.3). Changes in the rebate rate may have an effect on donations among those who do reclaim. They may also affect the decision over whether or not to reclaim (an increase in the rebate rate would be expected to make it worthwhile for more people to reclaim, for example). However, for those people who still do not find it worthwhile to reclaim, changes in the rebate rate are unlikely to have much effect on their donations.

Lack of adjustment in cash donations (the constant contribution hypothesis)

If donors do not adjust their cash donations in response to a change in the match rate then gross donations would change by the full amount of the change in match. If donors do not adjust their cash donations in response to a change in the rebate rate, however, then there would be no change in gross donations – the change in rebate would instead change the net cost to the individual. Gross donations would therefore be more sensitive to changes in the match than to changes in the rebate simply if all or some donors are completely unresponsive to changes in incentives. This is referred to as the constant contribution hypothesis.

So why might donors not adjust their cash donations in response to a change in incentives? There are a number of possible reasons:

One explanation is simply that donors do not factor fiscal incentives into their decision about how much to give. For whatever reason, people may care not about how much the charity can reclaim, or about how much they can reclaim, but only about their cash donation. This may because this is the simplest thing to think about rather than factoring in the effect of a complicated system of reliefs. Alternatively, it has been suggested that individuals care about their cash contribution (and not about the unobserved amount that the charity receives) because it acts as a signal of their generosity or underlying wealth.

Secondly, donors may simply not know about the change in incentives, or not fully understand what the change means. For example, they may not perceive the change in price associated with redirection. In the experiments discussed in Box 2, it seems unlikely that donors did not know about the changes since they were explicitly informed. However, there may have been some misunderstanding. Further research has shown that providing very clear information about exactly what the changes in incentives mean does lead to more people adjusting their behaviour (Davis et. al., 2005).

Finally, donors may suffer from inertia when it comes to changing their giving behaviour. There may be genuine adjustment costs. For example, people giving through standing orders or direct debits will have to take action to change the amount of their regular donation. It may also be that people prefer to give in rounded amounts – giving £5.00 rather than £4.66, for example. This may mean that people do not adjust smaller donations to relatively small changes in incentives. This effect may also be reinforced by "menu effects" that may be present when tick boxes for contributions are employed.[21]

Box 3: Framing effects

In order to illustrate the idea of framing effects more formally, gross donations (G) are assumed to depend on the price of giving (P)

$$G_i = q_i P^{a}$$

where q_i is an individual-specific effect that captures the effect of observed and unobserved characteristics on donations, α is the price elasticity of gross donations and P, the price of giving, is given by the following expression

$$P = \frac{(1-R)}{(1+M)^{g}}$$

This is similar to the expression given in Box 1, but the additional term γ reflects the relative weight given to the match rate (compared to the rebate) in the price of giving.

If $\gamma = 1$ then there are no framing effects; donations respond in the same way to a change in the match as to a change in the rebate. If $\gamma \neq 1$ then it indicates the presence of framing effects. If $\gamma > 1$ then gross donations will be more responsive to changes in the match than to changes in the rebate. If $\gamma < 1$ then gross donations will respond more to a change in the rebate. Note that these framing effects might be due to any of the possible explanations discussed in section 1.4.2 including higher-rate taxpayers not reclaiming, inertia in adjustment, donors having different preferences for the match and the rebate and caring about cash donations not gross donations.

Section 5.1 discusses how the model can be estimated to provide estimates of α and γ.

[21] "Menu effects" refers to the fact that individuals' donations may be influenced by the menu of options presented to them, for example, the size of the donations associated with different tick boxes. Previous CAF research has shown that individuals do not increase their donations in line with inflation, but continue to give in rounded amounts (see CAF and NCVO, 2009).

Preferences for match versus rebate

Another reason why donations may respond differently to changes in the match compared to changes in the rebate is that donors really do value the two things differently. It has been suggested that rebates may reduce the good feeling ("warm glow") that someone gets from giving because they are associated with a feeling of greed (trying to get something back for themselves). Match rates on the other hand may create a warmer glow for a given donation (and lower the price) by inducing a "cooperation frame" rather than a "reward frame" (see Benabou and Tirole, 2006). Of course, the opposite may also be true – individuals may derive additional satisfaction from "beating the Exchequer"; being able to claim a rebate would therefore give greater satisfaction than a more anonymous upfront match does. A related explanation suggested by recent research[22] is that some contributions are part of an individual's tax planning at the end of the financial year.

[22] See HMRC/IPSOS-Mori (2007).

2. Research design

2.1 Research questions

The main aim of the research was to understand the effect on donations of the options for changes to Gift Aid – redirection of the higher-rate and introduction of a composite rate.

The main research questions were:

1. How – and why – are the options for policy change likely to affect donations?

The research set out to produce estimates of the effect of the changes on total, i.e. gross, donations received by charities and cash donations given by donors.

It also set out to understand the underlying behaviour underpinning the overall response by addressing the following questions:

- Is there evidence that gross donations are more responsive to changes in the match (upfront relief reclaimed by charities) than to changes in the rebate (tax relief that donors can claim back)?
- If so, why are gross donations more sensitive to changes in the match than to changes in the rebate? Is it possible to find support for the different explanations discussed in the previous section (non-reclaimers, constant contribution hypothesis, preference for match versus rebate)?

2. Do the responses vary across different sub-groups of donors?

As well as looking at the likely overall effect of possible changes, the research set out to understand whether there was variation in responses across different sub-groups, including:

- taxpayer status – basic-rate donors, higher-rate non-reclaimers and higher-rate reclaimers
- size of donation
- income.

2.2 Research methodology

The research consisted of two elements. The main element was a major on-line survey of current Gift Aid donors designed to explore how they would be likely to respond to the options for reform. The full questionnaire is given as Annex 1. The sample used for the quantitative survey is discussed below. This was complemented by a small, focused piece of qualitative research to explore attitudes to tax and giving among a sample of twelve major donors. Further details on the qualitative sample is given in Section 7.

2.2.1 Quantitative survey

The on-line survey was carried out on two samples of donors who were likely to have recently used Gift Aid. These were individuals with a Charities Aid Foundation (CAF) Charity Account and individuals who had recently made an on-line donation via Justgiving.

The Charities Aid Foundation (CAF) is a registered charity that, among a range of services it provides for individuals and charities, facilitates tax-efficient giving for individuals through CAF charity accounts. The accounts work in the following way: Individuals open and pay into a charity account, their payment is a Gift Aid donation which attracts tax relief at the basic rate (assuming they are a taxpayer) and this tax relief is added to their account. They can then make donations to any registered charity out of the grossed up funds by phone, online, by direct debit or standing order or in person using a special cheque book. CAF charges a fee for providing the service – equal to 4 per cent of grossed up donations up to £16,500 and 1 per cent for donations above this level. Over 60,000 individuals have a live CAF charity account (defined as one actively used within the last twelve months). For the survey, the relevant population consisted of 32,339 live accounts with an e-mail address. E-mail invites were sent to a randomly selected sample of 20,000 individuals within this population.

Justgiving is an on-line giving portal that processes donations from individuals direct to charity or individual sponsorships of charity fundraisers. Justgiving reclaims tax relief at the basic rate of tax (assuming the donor is a taxpayer) and passes on the donations and the tax relief to member charities, charging a fee of 5 per cent on its services. For the survey, a random sample of 20,000 people who had donated via Justgiving in the past six months were sent an e-mail invite out of a total population of 2.56 million.

The survey was trialled in a small-scale pilot that sent e-mail invites to 3,000 donors (drawn equally from the CAF and Justgiving populations). The pilot tested survey design and response rates, and found that a small financial inducement had no statistically significant effect on response. For the

main survey, 40,000 e-mails were sent on 14th May 2009 and the survey was left open until 25th May. More than half of the responses came on the first day.

The response rates in both samples were fairly similar – 9.86 per cent among the CAF sample and 9.19 per cent among the Justgiving sample. This was in line with expectations based on the pilot and previous mailings done by both organisations.

Table 7: Survey population, samples and response rates

	Population	E-mail invites	Responses
CAF	32,339 live account holders with an e-mail address	20,000 randomly selected	1,972 (9.86%)
Justgiving	2.56 million distinct donors who had given in the last 6 months	20,000 randomly selected	1,837 (9.19%)

The main advantage of using the CAF and Justgiving samples was that they provided a cost-effective way of targeting a large number of people who had given through Gift Aid. However, it was thought unlikely that they would produce a sample that was completely representative of the wider population of Gift Aid donors. CAF charity account holders are likely to give more than the average Gift Aid donor (the mean level of donations made through the accounts in the last financial year was £2,138, while the median was £420). They are also likely to be more knowledgeable about and interested in the tax treatment of donations than the average person using Gift Aid. Opening a CAF charity account may well be motivated by a desire to give tax efficiently. For higher-rate taxpayers, one of the potential attractions of opening an account is that it provides a record of donations that they can use for the purposes of reclaiming the higher rate of tax. Sampling a group of higher value donors has some potential advantages since this is a group of interest to charities. But, it is also important to understand the overall effect on Gift Aid donations of the possible options for change.

To some extent, the inclusion of the Justgiving sample was thought likely to reduce the sampling bias. Individuals donating via Justgiving typically give much smaller amounts than CAF account holders and may not primarily be motivated by tax considerations, particularly those who are sponsoring people. However, there is no reason to expect the inclusion of the Justgiving sample to completely offset the bias and so, for the purposes of analysis, further adjustment was made to make the sample more representative of the population of Gift Aid donors. This is explained further in the next section.

3. Donor characteristics – quantitative survey

3.1 Sample characteristics

There were a total of 3,809 responses to the on-line survey. This analysis focuses on a sub-sample of 3,286 respondents. The following were dropped from the sample – 233 individuals who reported that they did not use Gift Aid, 10 who did not know or refused to say how much they gave in the last 12 months and 23 for whom key demographic information was missing (including gender and age). Also one donor who gave £3 million was dropped since this amount would otherwise dwarf the rest of the sample. Finally, 256 people who reported that they were not likely to give in the next six months and had not given in the last six months were dropped because they were not asked the hypothetical scenarios (see next section).

Table 8 provides basic summary information on donations by taxpayer status – basic-rate taxpayers, higher-rate taxpayers who said that they did not reclaim the additional higher-rate relief and higher-rate taxpayers who did reclaim. A full set of sample, descriptive statistics is given in Appendix 1. Across the sample as a whole, total donations over the last 12 months were high, averaging more than £2,000. Donations were highest among higher-rate taxpayers who reclaim. For all groups, the majority of donations were made through Gift Aid, although there is also extensive use of other schemes for giving tax-free. High use of payroll giving may explain the relatively low average Gift Aid donation among non-reclaiming higher-rate taxpayers.

Just over half of the sample were basic-rate taxpayers (53.7 per cent) but they accounted for 28.8 per cent total Gift Aid donations in the sample, by value. More than half of all higher-rate taxpayers in the sample were reclaimers (55.9 per cent of higher-rate taxpayers and 25.8 per cent of the total sample). This group accounted for 63.8 per cent of total Gift Aid donations in the sample, by value.

In the analysis, the relative weight of each of these three groups is adjusted in order to reflect their proportions in the wider population of Gift Aid donors. Unfortunately, there is no comprehensive information available on this population that can be used as the definitive benchmark for adjustment. The Individual Giving Survey is a population-based survey that collects information on giving, including the use of Gift Aid, and this is used to define the assumed proportions of higher-rate and basic-rate taxpayers among the population of Gift Aid donors (20 per cent and 80 per cent, respectively). Further information about this survey is given in Appendix 2. However, it is important to be aware that the data from the Individual Giving Survey are themselves subject to response bias and may not reflect the (unknown) true population of Gift Aid donors. The estimates of the effects of the options for reform on donations are therefore presented with sensitivity analysis.

In the CAF/ Justgiving sample, 55.9 per cent of higher-rate taxpayers reported that they reclaimed the additional higher-rate relief. The inclusion of the CAF sample means that this is likely to be an over-estimate of the proportion in the population. One of the motivations for opening a CAF account is that it provides a record of donations that can be used for the purposes of reclaiming higher-rate relief, suggesting that this group is more likely to reclaim than the average Gift Aid donor. Instead, an assumption is made that 35.0 per cent of higher-rate taxpayers reclaim. This is based on analysis of the Justgiving sample and HMRC statistics on the value of tax relief claimed.[23] Again, sensitivity analysis is carried out in relation to this assumption.

The adjusted proportions in each taxpayer group are therefore: 80 per cent basic-rate taxpayers, 13 per cent non-reclaiming higher-rate taxpayers and 7 per cent reclaiming higher-rate taxpayers. Adjusting the proportions of the sample in each of the three taxpayer groups in line with these assumptions, the percentage of the value of total donations given by basic-rate taxpayers increases from 28.8 per cent to 66.1 per cent. The percentage given by non-reclaiming higher-rate taxpayers remains at 7.4 percent, while the percentage given by reclaiming higher-rate taxpayers falls from 63.8 per cent to 26.5 per cent. These figures suggest that higher-rate taxpayers who reclaim account for 35 per cent of higher-rate donors, but for nearly 80 per cent of the value of donations from higher-rate taxpayers.

Table 8: Sample characteristics

	Basic-rate taxpayers	Higher-rate taxpayers: Non-reclaimers	Higher-rate taxpayers: Reclaimers
Mean total donations	£994	£1,079	£5,870
Mean Gift Aid donations	£841	£565	£3,891
Raw sample			
Percentage of sample	53.7%	20.4%	25.8%
Percentage of total Gift Aid donations	28.8%	7.4%	63.8%
Percentage giving through payroll giving	15.9%	35.5%	26.3%
Percentage giving shares/ property	1.6%	0.9%	2.4%
Adjusted sample			
Proportion of sample	80.0%	13.0%	7.0%
Percentage of total Gift Aid donations	66.1%	7.4%	26.5%

[23] See Appendix 2 for further details.

3.2 Determinants of giving

As a basic check on the validity of the sample data, regression analysis was used to analyse which characteristics are correlated with the level of giving. A simple OLS regression was run of the amount of cash donations that individuals have made in the previous 12 months on their characteristics (age, individual and household income, education, employment, type of charity supported, motivations for giving etc). The results are reported in Appendix 3.

As in previous studies, the level of cash donations rises with age.[24] Giving is positively correlated with income; those with individual incomes of more than £200,000 give more than twice as much as those with individual incomes of less than £30,000 (although, as with previous studies we find that those on lower incomes are typically more generous, giving a higher proportion of their incomes). The level of giving also rises with household income. After controlling for the effect of income on giving, higher-rate taxpayers were found to give more than basic-rate taxpayers which may reflect the lower price of giving for this group. Also, controlling for income differences, those with a higher degree (Masters, PhD or equivalent) give significantly more.

Those who are in full-time employment appear to give less than those who are employed part-time, self-employed, retired or other non-working. However, this is conditional on giving through Gift Aid at all (given the sample selection). Those who are married give more than those who are not married, including those who are currently cohabiting. Ever having had children reduces the level of donations.

"Understanding of the tax system" is defined as knowing that charities can reclaim 25 pence (or 28 pence including the transitional relief) for every £1 given out of net-of-tax income. People who give more have a higher level of understanding. Also, those who give regularly ("the majority of donations are regular donations to the same charities") typically give more. People who are associated with charities through paid or unpaid employment do not give more, but those who serve as committee members do.

There are differences in how much people give according to the type of charities that they support. The reference group is defined as medical charities since this is the most commonly supported type of charities in the sample (although any reference group could have been chosen). Compared to people who give to medical charities, people supporting the following types of charities typically give more: religion, education, community, arts, environment housing, overseas aid, welfare, homeless and disaster.

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[24] The discussion of the results focuses on those that are statistically significant at the 5 per cent level. This is typically used as the critical threshold for statistical significance.

Finally, there are differences in how much people give according to their stated motivations for giving to charity. People who say that they give because "the work of charity is important", "giving to charity is the right thing to do" and "for religious reasons" typically give more. Those who respond to appeals or to their friends and family were found to give less.

3.3 Determinants of reclaiming

In the unadjusted sample, 55.9 per cent of higher-rate taxpayers reported that they reclaimed the additional higher-rate relief. As discussed in section 3.1, this is likely to over-represent the (unknown) true proportion of reclaimers among higher-rate taxpayers in the population. Based on analysis of the Justgiving sample and HMRC statistics on the value of tax relief claimed,[25] it is assumed that 35 per cent of higher-rate donors reclaim.

Of those who reclaimed, 81.2 per cent said that they reclaimed through the self-assessment form, while 18.8 per cent said that they reclaimed through their PAYE code.

Lack of awareness appears to be a key factor in understanding why people do not reclaim. More than one-third of all higher-rate taxpayers said that they were not aware that higher-rate taxpayers could reclaim higher-rate relief. Among those who said that they did not reclaim, it was the most commonly cited reason for not reclaiming – cited by more than half of those who did not reclaim (see Table 9). A further 31.6 per cent of non-reclaimers said that they did not know how to claim back.

The "hassle factor" also appears to be important. Nearly one third of those who did not reclaim cited the time and effort it would take, while a further 19.0 per cent said that it was too complicated. One-quarter said that they did not reclaim because they would only get a small amount of money back.

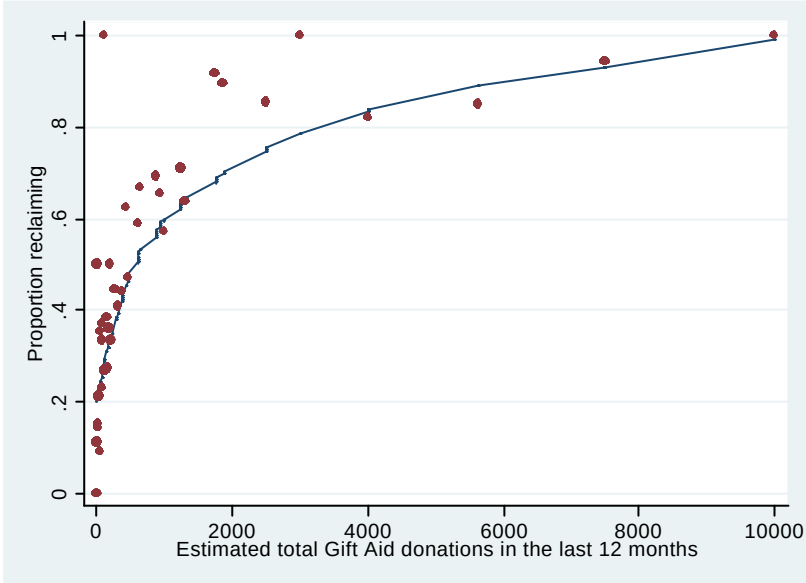
Table 9: Reasons for not reclaiming higher-rate relief

	All non-reclaimers
I was not aware that I could claim it back	51.4%
I do not know how to claim it back	31.6%
It takes too much time and effort	32.9%
It is too complicated	19.0%
I am paying the higher-rate of tax for the first	4.4%
I would only get a small amount of money back	24.6%
Number of observations	589

Note to table: individuals asked to tick all reasons that applied

As indicated in Table 8, the probability of reclaiming is linked to the total amount given through Gift Aid. This relationship is shown in more detail in Figure 2 which shows the proportion of higher-rate taxpayers who said that they reclaim, according to the size of Gift Aid donations. The proportion who said that they reclaimed rises rapidly with donations – from fewer than 20 per cent of those who give a few pounds a year through Gift Aid to around 75 per cent of those who give more than £2,000 a year.[26] This is to be expected – those who give larger amounts have more to gain from reclaiming higher-rate relief and will see it as being worth the time and effort. This relationship means that reclaimers account for an estimated 35 per cent of higher-rate Gift Aid donors, but for nearly 80 per cent of total Gift Aid donations made by higher-rate donors.

Figure 2: Proportion who reclaim, by total Gift Aid donations



Note to figure: Shows the proportion who reclaim, according to total Gift Aid donations together with a smoothed, non-parametric estimator of the relationship between Gift Aid donations and probability of reclaiming.

Regression analysis was used to investigate whether other factors, besides size of donation, were systematically related to the probability of reclaiming. The results, reported in Appendix 4, confirm that the probability of reclaiming is increasing in the total amount given through Gift Aid even when other covariates are included.[27] Age also has a positive relationship with the probability of reclaiming.

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[25] See Appendix 2 for further details.

[26] Those who give more than £10,000 are not shown in this Figure; 97 per cent of this group said that they reclaimed.

[27] The discussion of the results focuses on those that are statistically significant at the 5 per cent level. This is typically used as the critical threshold for statistical significance

In general, individual income does not have a positive effect, although individuals with incomes of £100K - £200K are significantly more likely to reclaim. People working part-time, the self-employed and those who are retired or not working are more likely to reclaim; this may be because they are more likely to complete a self-assessment form. Not surprisingly, those with higher levels of understanding and regular givers are more likely to reclaim. There is no effect of being associated with a charity as an employee, a volunteer or a committee member. None of the charity types is significant, nor are individual motivations for giving.

4. Estimating the effect on donations

4.1 Using hypothetical scenarios to estimate policy responses

A series of hypothetical scenarios was used to explore how individuals might respond to the possible options for reform. Respondents were asked whether (and how) their donations would be affected by a change in the way those donations were taxed under Gift Aid, allowing estimation of total donations under each of the different options.

Ideally, individuals' actual choices would be observed in relation to real changes in the tax system, but this was not practical. A potential concern with hypothetical choices is that they may not accurately reflect how individuals would really behave.

The validity of so-called stated preference methods has been much debated and analysed particularly in relation to environmental economics where such methods are often used to obtain estimates of consumer willingness to pay for non-market goods and services.[28] In the absence of prices that reflect how much consumers are actually willing to pay, contingent valuation methods use surveys to ask people how much they would hypothetically be willing to pay. Compared to revealed choice methods, stated choice methods typically over-estimate willingness-to-pay (referred to as "hypothetical bias"). In this case, individuals were asked how they might respond to hypothetical scenarios and answering the questions truthfully costs effort, particularly if they respond that they would change their donations. There might be a bias towards not changing donations, which is arguably mitigated by sampling from a group of motivated and informed donors.

Another potential problem with the contingent valuation method is the embedding effect – the problem that individuals' valuations of particular goods depend on how those goods are presented to them in the survey (including the question order and what other goods and services are included in the survey). A classic example is that consumers' willingness to pay to clean up five lakes is the same as their willingness to pay for one lake to be cleaned up, a finding that is at odds with traditional economic theory which predicts that total willingness to pay varies in quantity.[29] In this case, a potential danger is that donors respond in a similar way to all the options, not allowing us to identify the effect of particular options with any accuracy.

Strategic bias may also be an issue. In a purely hypothetical survey where respondents have no incentive to answer carefully or honestly, they may actually have an incentive to manipulate their

[28] See Harrison and Rutstrom (forthcoming 2009).

answers if they think that the results of the survey will influence policy. In this case they may over- or under-state their responses according to whether they support either the current system or the options for change.

These potential problems were mitigated in a number of ways.

First, the importance of the survey was emphasised at the start. In the e-mail inviting them to take part, respondents were told that the survey was being carried out on behalf of HM Treasury and at the start of the survey they were requested to do the following. “Please answer the questions as carefully and honestly as you can; this will help to ensure that any changes in the tax treatment of donations are designed to help both donors and charities.” This should help to reduce the problem of hypothetical bias, although arguably it may increase the problem of strategic bias if respondents are aware that their answers may inform policy choices.

Second, the hypothetical scenarios were made more meaningful by relating them to a particular donation. Respondents were asked whether they were likely to give through Gift Aid in the next six months. If so, they were then asked how much they were likely to give. In the hypothetical scenarios respondents were asked to consider how the changes in tax treatment would affect this specific donation (see Figure 3).[30]

Finally, a number of checks were done to ensure that individuals had answered in a meaningful and consistent fashion. For example, tests were done on whether individuals’ responses varied across the options and whether the responses were affected by the order in which the same options were presented to them (the so-called embedding effect discussed above). These are described in more detail in the next section.

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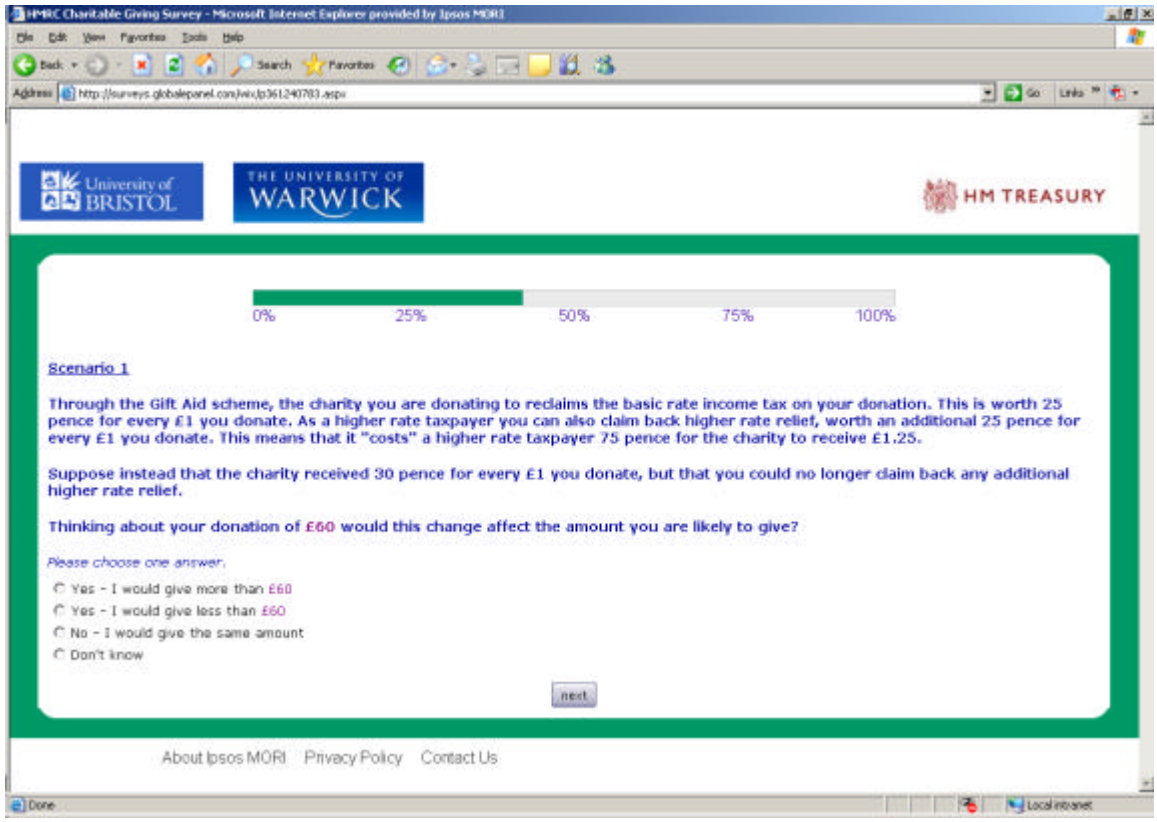
[29] See Diamond and Hausman (1994).

[30] Only 10 per cent of respondents said that they were unlikely to give in the next six months. Where this was the case, they were asked about a specific donation they had made within the past six months.

Figure 3: How the hypothetical scenarios were presented to respondents



4.2 The hypothetical scenarios

There were seven sets of hypothetical scenarios, each with two different tax treatment scenarios. There were five sets of scenarios for higher-rate taxpayers and two sets of scenarios for basic-rate taxpayers—there were more sets of scenarios for higher-rate taxpayers so that the research could explore responses to changes in both the rebate (only available to higher rate taxpayers) and the match. Conditional on their taxpayer status, respondents were randomly allocated to the different sets.

The details of the sets of hypothetical scenarios are summarized in Table 10 together with the current system. They involved combinations of changes to the amount that the charity could reclaim (the match) and/or changes to the amount that higher-rate taxpayers could reclaim (the rebate). The table also reports the price of giving under each of the scenarios calculated according to the formula given in Box 1. The final column reports sample sizes for each scenario.

Sets A – E were asked only of higher-rate taxpayers. Set A and Set B test responses to changes in either the match or the rebate (but not both). Set C, scenario 1 and Set E, scenario 2 test the redirection option. The point of including the same scenario twice is to test whether individuals' responses depend on the other options that are presented to them (the embedding effect referred to

in the previous section). Set C, scenario 2 and set D, scenario 1 introduce the composite rate of 30 pence. Again the same option was included twice to test for embedding effects. Set D, scenario 2 tests the composite rate of 37 pence. Set E scenario 1 offers higher-rate taxpayers a match rate of 66 pence. This option keeps the price of giving at the current level of 60 pence for every £1 donated. It therefore tests how donors would respond to a change purely in the form of tax relief.

For basic-rate taxpayers, there are four scenarios, but only two different options – composite rates of 30 pence and 37 pence. The ordering was reversed to test whether the order of the questions influences the estimated effect.

Table 10: The hypothetical scenarios

	How much the charity receives "Match" = M	How much the individual can claim back "Rebate" = R	Price of £1 gross donation = $\left(\frac{1-R}{1+M}\right)$	N
Higher-rate taxpayers				
Current system	**£0.25**	**£0.25**	**0.600**	**1521**
Set A: Scenario1	£0.30	£0.25	0.577	305
Set A: Scenario 2	£0.25	£0.30	0.560	305
Set B: Scenario 1	£0.20	£0.25	0.625	302
Set B: Scenario 2	£0.25	£0.20	0.640	302
Set C: Scenario 1	£0.50	£0.00	0.667	307
Set C: Scenario 2	£0.30	£0.00	0.769	307
Set D: Scenario 1	£0.30	£0.00	0.769	304
Set D: Scenario 2	£0.37	£0.00	0.730	304
Set E: Scenario 1	£0.66	£0.00	0.600	303
Set E: Scenario 2	£0.50	£0.00	0.667	303
Basic-rate taxpayers				
Current system	**£0.25**	**£0.00**	**0.800**	**1765**
Set F: Scenario 1	£0.30	£0.00	0.769	883
Set F: Scenario 2	£0.37	£0.00	0.730	883
Set G: Scenario 1	£0.37	£0.00	0.730	882
Set G: Scenario 2	£0.30	£0.00	0.769	882

As discussed in the previous section, a potential concern with using hypothetical scenarios is that individuals have no incentive to report truthfully and could simply give the same answer across all scenarios. However, a regression of donation size on a set of indicators for each scenario,

summarized in Appendix 5, shows that the different options generally do yield significant differences in gross donations. However, there is no significant difference when respondents are faced with the same option, but in a different order: For higher-rate taxpayers, gross donations are the same under set C, scenario 1 as under Set E, scenario 2 and the same under set C, scenario 2 as under set D, scenario 1. For basic-rate taxpayers, gross donations are the same under set F, option 1 as under set G, option 2 and the same under set F, option 2 as under set G, option 1. This suggests that embedding effects are not affecting the results in practice. Given these findings, results are reported for each of the ten distinct tax relief options (eight for higher-rate taxpayers and two for basic-rate taxpayers), rather than for all 14 hypothetical scenarios.

4.3 Individual responsiveness to changes in Gift Aid

Table 11 summarises the initial responses to each of the possible changes in the tax treatment of donations – whether individuals reported that they would give more, give less or give the same. This refers to adjustments in cash donations (i.e. those made out of net-of-tax income. The overall effect on donations will also depend on the size of donations adjusted, the magnitude of adjustment and also, for the effect on total donations received by charities, the changes in the tax reliefs (discussed further below).

Table 11: Would individuals respond to tax changes by adjusting their cash donations?

(a) Higher-rate taxpayers

	Non-reclaimers			Reclaimers		
Option	Give less	Same	Give more	Give less	Same	Give more
Match 50p; rebate zero	5.7%	89.8%	13.0%	23.1%	71.8%	5.0%
Match 37p; rebate zero	2.3%	86.2%	11.5%	30.0%	65.6%	4.4%
Match 30p; rebate zero	3.8%	83.3%	6.4%	27.6%	72.0%	0.3%
Match 66p; rebate zero	4.4%	81.4%	12.3%	23.6%	71.3%	5.2%
Match 30p; rebate 25p	1.4%	92.9%	5.7%	0.0%	83.6%	16.4%
Match 25p; rebate 30p	1.5%	89.7%	8.8%	0.6%	60.5%	38.9%
Match 20p; rebate 25p	3.0%	93.9%	3.0%	4.1%	89.9%	5.9%
Match 25p; rebate 20p	4.7%	85.3%	10.1%	12.0%	84.3%	3.6%

(b) Basic-rate taxpayers

Option	Give less	Same	Give more
Match 37p; rebate zero	0.8%	88.0%	11.2%
Match 30p; rebate zero	0.5%	92.3%	7.2%

For all scenarios and for all three taxpayer groups, the majority of donors reported that they would give the same if faced with changes to Gift Aid. The proportion who said that they would give the same is lowest among higher-rate donors who reclaim.

The responses also indicate whether donors would be more likely to increase their donations or to decrease their donations. There is some sampling variation across each of the options, which may explain some of the apparently inconsistent results, but some patterns emerge. Non-reclaimers are more likely to increase their donations (than to reduce them) for the options which increase the match and remove the rebate altogether, whereas the effect goes the other way for reclaimers. Basic-rate taxpayers are also more likely to give more in response to the composite rates. Among higher-rate taxpayers, reclaimers and non-reclaimers are both more likely to give more (than to give less) when the match and rebate (singly) increase – perhaps a surprising result for non-reclaimers in the case of the rebate. They are also more likely to give less (than to give more) when the match and rebate are reduced. Cash donations appear to be more responsive to changes in the rebate than for the match – although the overall effect on gross donations (what the charities receive) will also depend on the changes in tax relief. There also appears to be more of a response to increases in tax reliefs than to reductions in tax reliefs.

Respondents who said that they would give the same were asked to give the main reason why this was the case (selecting from the reasons give in Table 12). More than half said it was because they made their decision about how much to give before considering the tax relief, while a further one-fifth said that the tax relief had no effect at all. There is support for the other possible explanations for constant contributions – some people had regular commitments to give that they did not want to change while a few agreed that it was because they preferred to give a rounded amount. These explanations are more likely among higher-rate reclaimers.

Whether respondents would be likely to adjust their cash donations depends on how much they give; individuals who give more are more likely to say they would respond to the tax changes by adjusting their donations. This means that the proportion of donations that is adjusted in response to tax changes is greater than the proportion of donors who adjust. To provide further insight into the likely response to alternative tax treatments, Table 13 summarizes the estimated percentage change in

donations for each taxpayer group for each scenario. Compared to Table 11, this additionally incorporates information on the size of donations being adjusted and the magnitude of adjustment. Cash donations refer to changes in donations made by individuals out of net-of-tax income, not taking account of the effect of the changes in tax reliefs on total donations received by charities. Gross donations additionally include this tax relief.

Table 12: Main reason reported for why individual would give the same

	Basic-rate taxpayers	Higher-rate Non-reclaimers	Higher-rate Reclaimers
I make my decision about how much to give before considering the tax relief	51.0%	55.8%	49.2%
The tax relief has no effect on my decision about how much to give	23.5%	20.1%	19.2%
I have a regular commitment to giving money that I don't want to change	16.7%	11.2%	20.0%
I prefer to give a rounded amount and not make small adjustments	4.1%	5.5%	5.7%
The change in tax is so small, it is not worth bothering about	0.7%	4.6%	3.6%
Other/ don't know	4.2%	2.9%	2.5%
Number of observations	1,556	583	647

Table 13 provides useful insights into the likely effects of possible changes to Gift Aid. There is some sampling variation across each of the options, which may explain some of the apparently inconsistent results, but some patterns emerge:

- The option of a 66 pence match and a zero rebate, which changes the form of tax relief but not the price for reclaimers, has a sizeable impact on gross donations among reclaimers. Cash donations fall, but the higher match more than offsets this. The same is true for reclaimers for the option of a 50 pence match and a zero rebate. For the two composite rates looked at, however, there is a negative overall effect on gross donations among reclaimers, although this is small in the case of the 37 pence composite rate.

- The options of a higher match and a zero rebate all increase gross donations among non-reclaimers. The effects on gross donations are larger than for reclaimers. The effects on cash donations among non-reclaimers are mixed, which may be due to sampling error.

- The two composite rates looked at increase both cash donations and gross donations among basic-rate taxpayers.

- Among non-reclaimers, gross donations appear to be more responsive to changes in the match than to changes in the rebate, as might be expected. This is less clear in the case of reclaimers. Among reclaimers, gross donations appear to be more sensitive to increases in tax relief than to reductions in tax relief.

Note that an estimate of the likely overall effect of the change in tax relief for the population needs to take into account the proportion of each taxpayer group in the population. This is done in the next section.

Table 13: Percentage change in donations, by taxpayer status

(a) Higher-rate taxpayers

	Estimated change in donations			
	Non-reclaimers		Reclaimers	
Option	Cash donations	Gross donations	Cash donations	Gross donations
Match 50p; rebate zero	-2.0%	17.6%	-12.2%	5.3%
Match 37p; rebate zero	2.6%	12.5%	-9.0%	-0.3%
Match 30p; rebate zero	-0.3%	3.7%	-12.1%	-8.5%
Match 66p; rebate zero	0.2%	33.6%	-9.7%	20.4%
Match 30p; rebate 25p	0.4%	4.4%	5.3%	9.5%
Match 25p; rebate 30p	2.8%	2.8%	10.3%	10.3%
Match 20p; rebate 25p	-2.5%	-6.4%	0.2%	-3.8%
Match 25p; rebate 20p	-3.9%	-3.9%	-2.6%	-2.6%

(b) Basic-rate taxpayers

	Estimated change in donations	
Option	Cash donations	Gross donations
Match 37p; rebate zero	3.6%	13.5%
Match 30p; rebate zero	2.0%	6.1%

The probability of adjusting cash donations is also related to individuals' other characteristics, besides the size of their donations. This can be shown by means of a regression of the probability of adjusting on individual donations (reported in Appendix 6). There is no effect of age on the

probability of adjusting, and only a weak relationship with income.[31] However, whether or not the individual reclaims is significant, but not their understanding of the tax system nor whether or not they give regularly. People who currently make use of the payroll giving scheme are 10 percentage points more likely to adjust. Finally there is some evidence that the probability of adjustment varies according to the types of charity that individuals support and their reasons for giving. Not surprisingly, compared to people who do not report a strong motive for giving to charity, people who give to charity in order to reduce their tax bill are more responsive to tax changes (9 percentage points more likely to adjust their cash donations), also people who say they give because a service is under-provided by the government. Compared to people who give to medical charities, people who give to religious charities are more likely to adjust, while people giving to rescue services are less likely to change their donations. This will affect the impact of the possible changes to Gift Aid across different types of charity, investigated in the next section.

4.4 Estimating the likely effect of tax changes for the population

The effects for each taxpayer group are aggregated to form an estimate of the percentage change in donations for the population as a whole. This is done using the approach summarised in Box 4. Note that even where the option directly affects only higher-rate taxpayers – such as redirection – the estimated effect is expressed as a percentage change in all donations, including donations from basic-rate taxpayers.

Main results

The estimated effects for the population are summarised in Table 14. Cash donations refer to the amount given by donors out of net-of-tax income, while gross donations refer to the amount received by the charities, including the value of the tax relief. "Exchequer cost" is an estimate of the value of tax relief that is paid and does not include implementation or compliance costs, which may be sizeable; they may differ from HM Revenue and Customs' estimates of the costs.

It is important to emphasise that these results are meant to be indicative. They are derived from a hypothetical survey carried out on a sample of donors and the responses are subject to sampling error. The population estimates also rest on assumptions about the proportions of higher-rate and basic-rate taxpayers giving through Gift Aid and the proportion of higher-rate donors reclaiming the rebate. Nevertheless, the results give a reasonable insight into how the possible options for reform might be expected to impact on total donations. As discussed in section 3.1, the central

[31] The discussion of the results focuses on those that are statistically significant at the 5 per cent level. This is typically used as the critical threshold for statistical significance

assumptions are that 80 per cent of Gift Aid donors are basic-rate taxpayers, 13 per cent are non-reclaiming higher-rate taxpayers and 7 per cent are reclaiming higher-rate taxpayers. These assumptions are subject to sensitivity analysis below.

Box 4: Estimating the total change in donations

The estimated percentage change in donations for the population is calculated according to the following formula (shown for gross donations):

$$\frac{w_{BRT}\Delta G_{BRT} + w_{HRT-N}\Delta G_{HRT-N} + w_{HRT-R}\Delta G_{HRT-R}}{w_{BRT}G^{0}_{BRT} + w_{HRT-N}G^{0}_{HRT-N} + w_{HRT-R}G^{0}_{HRT-R}}$$

where w_i is the weight given to each taxpayer group i (basic-rate taxpayers (BRT), higher-rate taxpayers who don't reclaim (HRT-N) and higher-rate taxpayers who reclaim (HRT-R)). The weights for each group are: (0.80/0.54) for basic-rate taxpayers, (0.13/0.20) for non-reclaimers and (0.07/0.26) for reclaimers. These weights are adjusted in the sensitivity analysis.

G_i is the sum of gross donations for taxpayer group *i*. Superscripts 0 and 1 refer to initial and post-reform donations respectively. $\Delta G_i = G_i^1 - G_i^0$

Note that individuals report cash donations; these are grossed up using the appropriate match rates for each scenario.

The same approach is used to calculate the likely effect on Exchequer cost. The Exchequer cost associated with the initial and post-reform donations is calculated based on how much individuals say they are likely to give and the appropriate rebate and match rates for each scenario (and information about whether individuals reclaim the rebate). This takes no account of implementation and compliance costs which may be sizeable in practice.

Table 14: Estimated effects of tax changes for the population (weighted)

	Estimated change, cash donations	Estimated change, gross donations	Estimated change, Exchequer cost
Options affecting basic and higher-rate taxpayers			
Match 37p; rebate zero	0.7%	10.3%	21.5%
Match 30p; rebate zero	-1.5%	2.4%	-4.3%
Options affecting higher-rate taxpayers only			
Match 50p; rebate zero	-3.8%	4.2%	5.9%
Match 66p; rebate zero	-2.9%	13.1%	35.7%
Match 30p; rebate 25p	1.1%	2.5%	7.7%
Match 25p; rebate 30p	2.4%	2.4%	7.5%
Match 20p; rebate 25p	-0.2%	-1.6%	-5.7%
Match 25p; rebate 20p	-1.1%	-1.1%	-5.5%

Note: This assumes that 20 per cent of Gift Aid donors are higher-rate taxpayers and that 35 per cent of higher-rate taxpayers reclaim the additional relief

The research considered composite rates of 37 pence per £1 donated and 30 pence per £1 donated. The composite rates directly affect both higher-rate donors and basic-rate donors.

- A composite rate of 37 pence is estimated to result in a very slight increase in cash donations (0.7 per cent) but a much larger increase in gross donations of just over 10 per cent. As shown in Table 13, gross donations increase among basic-rate taxpayers and non-reclaimers and fall only slightly among reclaimers. As shown in Table 15 below, this finding on gross donations is fairly robust to changes in the underlying assumptions about the proportion of higher-rate taxpayers and the proportion of reclaimers. The cost to the Exchequer is estimated to increase by 21.5 per cent – the cost saving from eliminating the rebate is more than offset by the cost increase of the match. The magnitude of the increase in Exchequer cost is more sensitive to the underlying assumptions.

- A composite rate of 30 pence is estimated to result in a fall in cash donations of 1.5 per cent and an increase in gross donations 2.4 per cent. There is an estimated cost saving to the Exchequer; while the cost of tax relief for basic-rate taxpayers and non-reclaimers increases slightly, the cost of the rebate is eliminated. Changing the underlying assumptions does not

affect the finding of a small increase in gross donations but does affect whether there is a saving or a net cost to the Exchequer (see Table 15 below).

The option of redirection (a match of 50p and a rebate of zero) affects only higher-rate taxpayers (a minority of all Gift Aid donors) but the percentage changes are expressed relative to all Gift Aid donations from all donors. This option is estimated to result in a reduction in cash donations, but an increase in gross donations – of just over 4 per cent – because of the larger match. There is an estimated increase in net cost to the Exchequer of nearly 6 per cent. There is a cost saving on tax reliefs offered to those who currently reclaim, but an increase in the cost of tax reliefs offered to non-reclaimers. The sensitivity analysis shows that these results are reasonably robust to changes in the underlying assumptions.

The option of a 66 pence match and a zero rebate maintains the current price of 60 pence for £1 of gross donation for reclaimers. Although there is no change in the price of giving, the results suggest that there is a substantial effect on gross donations (which increase by 13 per cent) and on Exchequer cost (which increases by 35 per cent). This reflects the increase in generosity of tax reliefs for non-reclaimers.

The other scenarios shed further light on how donations respond to changes in *either* the match *or* the rebate. Gross donations appear to be slightly more sensitive to changes in the match than to changes in the rebate. The underlying changes in cash donations are greater in response to changes in the rebate than to changes in the match but the size of the changes in cash donations does not translate into bigger changes in gross donations. There is also evidence that gross donations respond more to increases in tax relief than to decreases.

Sensitivity analysis

Table 15 shows how sensitive the results are to changes in the assumptions about the proportion of higher-rate taxpayers in the Gift Aid population and the proportion of higher-rate taxpayers who reclaim. The central assumptions of 20 per cent higher-rate donors and 35 per cent of higher-rate taxpayers reclaiming are each adjusted by 10 percentage points up and down to illustrate the sensitivity of the results. The sensitivity analysis adjusts each assumption one at a time, holding the other constant. So, for example, the estimate assuming 10% of Gift Aid donors are higher-rate taxpayers assumes that 35 per cent reclaim higher-rate relief. The estimate assuming that 25 per cent of higher-rate donors reclaim assumes that 20 per cent of Gift Aid donors are higher-rate taxpayers. Results are shown for the two composite rates and the option of redirection.

Table 15: Sensitivity analysis of estimated effects (weighted)

	Estimated change, gross donations	Estimated change, Exchequer cost
Match of 37p and rebate of zero		
Main estimate	10.3%	21.5%
Assume 10% higher-rate donors	11.8%	34.5%
Assume 30% higher-rate donors	9.0%	11.9%
Assume 25% higher-rate donors reclaim	11.1%	28.2%
Assume 45% higher rate donors reclaim	9.6%	15.9%
Match of 30p and rebate of zero		
Main estimate	2.4%	-4.3%
Assume 10% higher-rate donors	4.1%	6.6%
Assume 30% higher-rate donors	1.0%	-12.2%
Assume 25% higher-rate donors reclaim	3.2%	1.2%
Assume 45% higher-rate donors reclaim	1.7%	-8.8%
Match of 50p and rebate of zero		
Main estimate	4.2%	5.9%
Assume 10% higher-rate donors	2.4%	3.8%
Assume 30% higher-rate donors	5.5%	7.3%
Assume 25% higher-rate donors reclaim	4.4%	10.3%
Assume 45% higher-rate donors reclaim	4.0%	2.4%

Note: the main estimates assume that 20 per cent of Gift Aid donors are higher-rate taxpayers and that 35 per cent of higher-rate donors reclaim additional relief. The sensitivity analysis looks at what happens when each of these assumptions is adjusted separately (holding the other constant)

In general, the estimated effects on gross donations are reasonably robust to changes in the underlying assumptions. The positive effect of the composite rates on gross donations becomes larger as the proportions of higher-rate taxpayers and reclaimers fall. For redirection, there is more of a positive effect as the proportion of higher-rate taxpayers increases, but a smaller effect with more reclaimers. Changing the underlying assumptions changes Exchequer cost in a similar direction to gross donations, but the Exchequer cost estimates are much more sensitive to changes in the underlying assumptions. In the case of the 30 pence composite rate, changing the assumptions can mean that the estimated effect can switch from being positive to negative or vice versa.

Sections 4.5 and 4.6 below present further sensitivity analysis testing how individuals might behave if redirection were implemented in practice: whether higher-rate taxpayers would be likely to choose a tick-box option and the likely incidence of individuals switching to alternative forms of tax-effective giving (payroll giving and gifts of shares and property).

4.5 Implementation issues – the tick-box

In order to implement redirection of higher-rate relief (i.e. a 50 pence match rate for higher-rate taxpayers), higher-rate taxpayers will need to declare their tax status to the charity. The full set of issues around how this will be implemented and enforced – and at what cost – to avoid false claims from basic-rate donors is an important issue, but is beyond the scope of this study. However, one element of implementation that the research did consider was whether higher-rate taxpayers would be willing to tick the box in practice.

Higher-rate taxpayers were asked the following question:

> *Suppose that there was a tick-box on the Gift Aid form to allow the charity to reclaim the higher-rate income tax on your donation and that you could not reclaim any higher-rate relief via the Self Assessment form or the PAYE code whether or not you ticked the box. How likely would you be to tick the box?*[32]

The responses, summarized in Table 16, suggest that the overwhelming majority of higher-rate taxpayers would be likely to tick the box. This proportion is higher among non-reclaimers than among reclaimers.

[32] This option requires higher-rate taxpayers to "opt in" for the charity to reclaim the higher rate. An alternative might be to require people to "opt out" if they are basic-rate taxpayers or higher-rate taxpayers who do not want the charity to reclaim the higher rate. Research suggests that such framing effects have important effects on behaviour. There may be a trade off – opting out is likely to result in a higher compliance rate among higher-rate taxpayers, but also more false claims from basic-rate taxpayers.

Table 16: Would higher-rate donors be likely to tick a box to redirect relief?

	Non-reclaimers	Reclaimers
Very likely	80.8%	59.1%
Fairly likely	12.8%	20.9%
Not very likely	1.6%	10.4%
Not at all likely	1.0%	4.7%
Don't know	3.7%	4.9%
Number of observations	671	850

Among those who said that they were not very likely or not at all likely to tick the box, the most common reason (cited by 64 per cent) is that they would prefer to reclaim the higher-rate relief themselves. One-quarter would not want to reveal their taxpayer status, 14 per cent would be concerned that the charity may target them for money, while 12 per cent would not be sure of their taxpayer status.

What effect might people not ticking the box have on the impact of redirection? This can be analysed by assuming that those who said that they were not very likely or not at all likely to tick the box do not do so and that charities reclaim only basic-rate relief on their donations. They are assumed not to be eligible to reclaim any further tax relief.

Under these assumptions, the positive impact of redirection on gross donations is reduced from 4.2 per cent to 3.5 per cent since the effective match rate is lower for donors who do not tick the box (25 pence not 50 pence). The estimated cost of the tax relief (excluding costs of compliance) is estimated to increase by 3.9 per cent rather than 5.9 per cent.

4.6 Possible switching effects

Higher-rate donors, particularly reclaimers, may respond to a change to Gift Aid that increases the "price" of giving by switching their donations to one of the other schemes for getting tax relief on donations – payroll giving or gifts of shares and property. To explore the extent to which this might happen in practice, the following question asked:

> *"If the government reduced the amount of tax relief on Gift Aid donations, would you be more likely to use one of the other methods of giving that allow the charity to claim tax relief on your donations? Assume that the tax treatment of these other methods would not be changed."*

Note that the question starts from the premise that tax relief has been reduced on Gift Aid donations. Not all higher-rate taxpayers would perceive the changes as reductions in tax relief. This is particularly true for non-reclaimers, but among reclaimers, there may also be some who do not see redirection as a reduction in tax relief. The analysis is therefore likely to over-estimate the extent to which switching occurs; in practice people may also be less likely to switch from Gift Aid to alternatives than they say because of the costs associated with switching, as well as inertia. Finally, the analysis did not consider the extent to which either non-reclaimers or basic-rate taxpayers might be likely to switch their donations to Gift Aid from other schemes.

The responses among higher-rate taxpayers (reclaimers and non-reclaimers) are summarized in Table 17. Around 70 per cent of each group said that they would not consider switching. Payroll giving is by far the most common alternative considered. Among those who have given through payroll giving in the previous twelve months, the proportions that would consider switching are considerably higher. This is also true of those who have given shares/property in the last 12 months although the sample sizes are too small to allow for detailed analysis. In regression analysis of whether or not someone is likely to switch (reported in Appendix 7), these two variables are among the only ones that are statistically significant.[33] The probability of switching is not significantly related to size of Gift Aid donations, age, income nor whether the individual reclaims.

Table 17: Whether individuals would consider switching

	All		Given via payroll giving	
	Non-reclaimers	Reclaimers	Non-reclaimers	Reclaimers
Would not switch	69.9%	72.0%	45.4%	43.8%
Switch to payroll giving	28.8%	24.6%	53.4%	53.8%
Switch to payroll giving and shares/property	0.8%	1.2%	0.8%	2.4%
Switch to gifts of shares/property	0.6%	2.2%	0.4%	0.0%
Number of observations	671	850	238	249

[33] The discussion of the results focuses on those that are statistically significant at the 5 per cent level. This is typically used as the critical threshold for statistical significance. Other significant variables include being self-employed which is negatively related to the probability of switching, giving motivated by religion which is positively related to the probability of switching and giving to hospices which is positively related to the probability of switching.

Individuals who said they would consider switching were then asked how much of their current Gift Aid donations they would consider switching. The responses, summarized in Table 18, show that most would be likely to switch the majority of their Gift Aid donations.

Table 18: How much of current Gift Aid donations would people switch?

	Non-reclaimers	Reclaimers
All	23.3%	21.4%
Most	32.7%	43.7%
Half	13.4%	14.7%
Between 25% and half	7.9%	5.0%
Between 10% and 25%	3.0%	1.7%
Less than 10%	2.0%	1.3%
Don't know	17.6%	12.2%
Number of observations	202	238

This information can be used to explore how the impact of the policy options might be affected by donors switching in response to the policy changes. The most basic approach is to omit the switched donations in calculating total donations, post-reform (column (1) of Table 19). Note that only reclaimers are assumed to switch since the question asked about switching in response to a reduction in tax relief. Not surprisingly, the effect of allowing for switching is to reduce the positive effect of the composite rates and redirection on gross donations – in the case of the 30 pence composite rate and redirection, the effect on donations through Gift Aid becomes negative as donations are switched away. The estimated cost to the Exchequer is also reduced compared to no switching.

However, these switched donations will not be lost but made through alternative tax schemes. The total effect on donations is therefore also calculated by assuming that individuals maintain their pre-reform donations with a similar tax treatment (but now make them through a different scheme). These estimates are shown in columns (2) of Table 19. The percentages are based on a comparison of total post-reform Gift Aid plus switched donations with initial donations made through Gift Aid in order to make them comparable with the numbers in column (1). In this case, the overall negative effect on gross donations of switching is dampened – and indeed reversed in the case of the 30 pence composite rate as people choose to switch their donations rather than reducing them. Taking account of switching to other schemes also increases the estimated Exchequer cost.

This is a very rough indication of how sensitive the estimates are to switching. It is assumed, for example, that the extent to which donors switch their Gift Aid donations is the same across the

different options; in fact, donors may switch more of their donations in response to the introduction of a composite rate compared to redirection of higher-rate relief because of the larger effect on price. Also, the prevalence of payroll giving and gifts of shares and property is relatively high in the CAF/Justgiving sample. Since this is the key determinant of whether people would be likely to switch, the overall incidence in the population is likely to be lower than these results indicate.

Table 19: Estimated effects of tax changes, allowing for switching (weighted)

	(1) Comparing pre- and post-reform Gift Aid donations[1]		(2) Comparing pre-reform Gift Aid donations with post-reform donations via all schemes[1]	
	Gross donations	Exchequer cost	Gross donations	Exchequer cost
Match of 37p and rebate of zero				
Main estimate	10.3%	21.5%	10.3%	21.5%
With switching	4.8%	15.3%	10.2%	24.2%
Match of 30p and rebate of zero				
Main estimate	2.4%	-4.3%	2.4%	-4.3%
With switching	-3.4%	-9.7%	3.0%	0.6%
Match of 50p, rebate of zero				
Main estimate	4.2%	5.9%	4.2%	5.9%
With switching	-5.3%	-6.4%	3.2%	6.9%

Note 1. Suppose that the pre-reform donation is £15 and that, post-reform, £10 is given through Gift Aid and £5 switched to payroll giving. In column (1), post-reform donations are £10 (i.e. the reform leads to a decline in giving through Gift Aid). In column (2), post-reform donations are £15 (i.e. the reform leads to no change in donations taking account of all schemes). In both cases, the change is expressed relative to the initial £15 Gift Aid donation for comparability.

4.7 Distributional analysis

As illustrated in Table 13, the effect of the possible options for change to Gift Aid impact differently on the three taxpayer groups. The introduction of composite rates of 30 pence and 37 pence redirect government support for charities from (donations from) higher-rate taxpayers who reclaim to (donations from) non-reclaimers and basic rate taxpayers.

Depending on how charities draw their support from these taxpayer groups, there are also likely to be distributional effects across charities. The effect for an individual charity or a charitable cause may differ from that for the sector as a whole. To get an indication of this, preliminary analysis

explored how the options for change might impact on different charitable causes. This was done on the basis of the types of charities that individuals said they supported; the results are only indicative since individuals are assumed to respond in the same way across all their donations.

The estimated effects on gross donations by charitable cause are reported in Table 20. Note that these effects are likely to be estimated with greater sampling error than for charities as a whole since they are based on fewer observations. They will also be sensitive to the underlying assumptions. The aim is to show that the effects of changing Gift Aid would be likely to vary across different charitable causes and to give an indication of the likely pattern of effects. All charitable causes get the biggest increase in gross donations under the 37 pence composite rate, but the size of the effect varies from +7.5 per cent (welfare) to +14.4 per cent (animals). For the composite rate of 30 pence and for redirection, the analysis highlights that there are some causes that are losers as well as (bigger) winners. This is likely to be even more the case for individual charities than for types of charities.

Table 20: Estimated effect on gross donations by charitable cause (weighted)

	37 pence composite rate	30 pence composite rate	Redirection
Overall	10.3%	2.4%	4.2%
Medical	7.6%	1.0%	3.1%
Education	8.8%	0.0%	5.6%
Religious	9.6%	2.8%	5.8%
Community	8.8%	1.8%	1.6%
Arts	9.8%	-0.4%	2.1%
Sports	10.8%	2.4%	-3.7%
Hospices	10.0%	2.6%	2.3%
Rights	10.9%	2.6%	3.6%
Environment	11.6%	3.3%	-0.4%
Housing	9.3%	2.4%	2.0%
Overseas aid	9.7%	2.7%	4.8%
Welfare	7.5%	0.6%	4.4%
Animals	14.4%	6.4%	4.3%
Homeless	6.4%	2.3%	5.5%
Disaster	11.5%	3.7%	3.4%
Rescue	8.7%	1.4%	3.0%

5. Price elasticities of giving

5.1 Estimating match and rebate elasticities

This section presents summary measures of how donations respond to changes in the amount of tax relief that charities can reclaim (the match) and to changes in the amount of tax relief that higher-rate donors can claim back (the rebate). These summary measures are match and rebate elasticities. They measure the percentage change in donations for a one percentage change in price associated with a change in the match/ rebate. Because the amount of provision that is funded is expected to increase (decrease) when the price of giving falls (rises), price elasticities of giving are negative numbers.

An advantage of estimating elasticities is that they provide single measures of how responsive donations are to changes in the match and rebate that can easily be compared to each other and to estimates to those from previous studies (such as those described in Box 2). They can also be compared across different sub-groups of the population to see whether some groups are more responsive than others. The approach to estimating the elasticities is described in Box 5.

This approach rests on a number of assumptions about how donations respond to changes in the match and rebate. First, it assumes that the proportionate change in donations is the same irrespective of the magnitude of the change in match or rebate. Of course, larger changes in tax reliefs will stimulate larger (absolute) changes in donations, but this specification does not allow larger price changes to trigger proportionately larger changes in donations. Second, the initial assumption is that the effect of changes in the match/rebate are the same whether the changes are made only to the match/rebate rate or whether, as with redirection and the composite rate, changes to the match and rebate are combined. This is tested in practice by comparing the magnitude of estimated rebate and match elasticities across alternative hypothetical scenarios.

Box 5: Estimating match and rebate elasticities

The regression specification follows directly from the framework in Box 3.

$$G_i = q_i P^a = q_i \left(\frac{1-R}{(1+M)^g} \right)^a$$

Taking logs:

$$\ln(G_{is}) = \ln(q_i) + a \ln(1-R_s) - b \ln(1+M_s) + u_{is},$$

G_{is} is the gross donation of individual *i* under hypothetical scenario s, q_i is an individual-specific term capturing the individual's observed and unobserved characteristics that might affect how much they give, R_s is the rebate rate associated with hypothetical scenario s, while M_s is the match rate associated with hypothetical scenario s. u_{is} is a random error term associated with each level of donations for each individual and can be thought of as capturing reporting or rounding error.

The coefficient a captures the rebate elasticity of gross donations, while the coefficient b captures the match elasticity of gross donations. b is equal to ga where g is the relative weight given to the match rate (compared to the rebate).

The elasticity measures the percentage change in donations in response to a 1 per cent change in the price of donations. For example, for reclaimers, the estimated rebate elasticity with respect to gross donations is -0.33. This implies that a 1 per cent increase in the price of donations associated with a change in the rebate would cause gross donations to fall by 0.33 per cent. The estimated match elasticity with respect to gross donations is -1.16. This implies that a 1 per cent increase in the price of donations associated with a change in the match would cause gross donations to fall by 1.16 per cent.

The sample consists of 9,630 observations. Each individual has an initial donation and (up to) two hypothetical donations under each of the two scenarios. A random effects model is estimated. This is efficient and unbiased if the rebate and match terms are unrelated to individuals' characteristics. Since the rebate and match terms are randomly allocated to individuals this should be true by assumption.

5.2 Estimated elasticities

The elasticity estimates for each taxpayer group are summarised in Table 21. In each case the elasticity measures the percentage change in donations for a 1 per cent change in the price associated with a change in the match or rebate – separate estimates are reported for gross donations and cash donations. The existing empirical literature on match and rebate elasticities (summarised in Box 2) has estimated elasticities of gross donations and these are likely to matter for total donations received by charities; the elasticity of cash donations is informative about individuals' adjustment in donations out of net-of-tax income.

The results show that, for higher-rate taxpayers, gross donations are more sensitive to changes in the match than to changes in the rebate. Not surprisingly, gross donations among non-reclaimers do not respond to changes in the rebate; the estimated rebate elasticity is not statistically significantly different to zero for this group. For reclaimers, the estimated rebate elasticity for gross donations is greater (-0.33) than for non-reclaimers but is still significantly lower than the match elasticity. The estimated match elasticities for reclaimers and non-reclaimers are the same.

Table 21: Estimated elasticities

	Gross donations			Cash donations		
	Rebate elasticity (α)	Match elasticity (β)	Test $\alpha = \beta$	Rebate elasticity (α)	Match elasticity (β)	Test $\alpha = \beta$
Basic-rate taxpayers		-1.27** (0.02)			-0.27** (0.02)	
Non-reclaimers	-0.03 (0.04)	-1.16** (0.06)	No	-0.03 (0.04)	-0.16** (0.06)	No
Reclaimers	-0.33** (0.04)	-1.16** (0.07)	No	-0.33** (0.04)	-0.16** (0.07)	No

Note: Standard errors are reported in parentheses. ** denotes that the coefficient is statistically significant to zero at the 5% level. "Test" is a test of whether the rebate and the match elasticities are the same, "no" indicates that the two elasticities are statistically significantly different to each other.

The estimates of gross match and rebate elasticities are similar to those in the earlier US studies (see Box 2). The estimated match elasticity is -1.16 compared to previous estimates of -1.14 and -1.05. The estimated rebate elasticity is -0.33 compared to previous estimates of -0.36 and -0.11. The

implication of these findings is that changing the match is a more effective way of increasing the amount of money going to charity than changing the rebate.

The elasticity of gross donations will incorporate the effect of the change in tax relief. If donors did not adjust their cash donation out of net-of-tax income at all, the match and rebate elasticities would be -1.0 and 0.0 respectively. The elasticity of cash donations is informative about the extent of donors' adjustments. The results show that, among non-reclaimers, cash donations are more sensitive to changes in the match than to changes in the rebate, but that the reverse is true among reclaimers. Reclaimers do adjust their donations out of net-of-tax income more in response to changes in the rebate than to changes in the match; but, overall, the extent of adjustment is not enough to offset the (larger) effect of the change in tax relief on gross donations in the case of the match.

Perhaps more surprising is that the estimated match elasticity for basic-rate taxpayers is greater (in absolute value) than that for higher-rate taxpayers. The existing empirical literature has mixed findings on how the sensitivity of donations varies with individuals' incomes. Some studies find that donations from low-income groups are more sensitive (see for example Boskin and Feldstein, 1977). Other studies have found that donations from low-income groups are less sensitive (see for example Auten, Cilke, and Randolph, 1992). Conducting a meta-analysis of all available studies, Peloza and Steele (2005) conclude that sensitivity of donations among high-income individuals appears to be slightly greater than among low-income donors, but that this result is not statistically significant. The results here appear out of line with this.

However, in this case, the price changes for basic-rate taxpayers and higher-rate taxpayers are not strictly comparable. In the hypothetical scenarios basic-rate taxpayers faced only changes in the match rate whereas higher-rate taxpayers faced some changes in the match rate that are combined with changes in the rebate rate. It may be that the response to changes in the match rate may be different when there are also changes in the rebate occurring at the same time.

Therefore, separate elasticities were estimated for the options that made changes to *either* the match *or* the rebate rate (Sets A and B in Table 10) and for the options that made changes to both the match rate and the rebate rate at the same time (sets C, D and E in Table 10). The results, reported in Table 22, suggest that responses of gross donations to changes made only to the match/rebate rate are greater than the responses when changes are made to both at the same time. This is particularly the case for the rebate. However, considering the elasticity estimates in column (I) it remains the case that the estimated rebate elasticity is significantly lower (in absolute) value than the match elasticity, implying that changes in the match are more effective at increasing the amount of money going to charity than changes in the rebate.

The estimated match elasticities for higher rate taxpayers in column (I) Table 22 are more directly comparable with the elasticity for basic-rate taxpayers in Table 21. This comparison confirms the general finding that higher income groups are (slightly) more responsive. This positive relationship between income and sensitivity to price changes is supported by estimating elasticities by income level within the group of reclaimers. As shown in Figure 4 the estimated match and rebate elasticities are increasing (in absolute value) in income. In general, donations from higher income givers appear to be more sensitive to changes in both the match and rebate.

Table 22: Estimated gross elasticities

	(I) Options that change either the match or the rebate but not both			(II) Options that change both the match and rebate – redirection and composite rates		
	Rebate elasticity (α)	Match elasticity (β)	Test $\alpha = \beta$	Rebate elasticity (α)	Match elasticity (β)	Test $\alpha = \beta$
Non-reclaimers	-0.31 (0.19)	-1.31** (0.33)	No	-0.02 (0.03)	-1.15** (0.05)	No
Reclaimers	-0.75** (0.14)	-1.39** (0.23)	No	-0.30** (0.05)	-1.13** (0.07)	No

Note: Standard errors are reported in parentheses. ** denotes that the coefficient is statistically significant to zero at the 5% level. "Test" is a test of whether the rebate and the match elasticities are the same, "no" indicates that the two elasticities are statistically significantly different to each other.

Separate elasticities were also estimated according to the size of Gift Aid donations given in the previous 12 months. These results are shown in Figure 5. As with income, the rebate elasticity increases (in absolute value) with the size of donation, but the match elasticity decreases. In general, therefore larger donations are more sensitive to changes in the rebate than smaller, but not necessarily more sensitive to changes in the match. Given the fact that income and size of donations are positively correlated, this result on the match elasticity may seem surprising. In practice, however, other factors besides income (e.g. wealth) also explain size of donations and these are likely to account for the observed pattern. Unfortunately, insufficient sample sizes prevent more detailed breakdowns by both income and donation size.

Figure 4: Estimated gross elasticities, by income (Reclaimers)

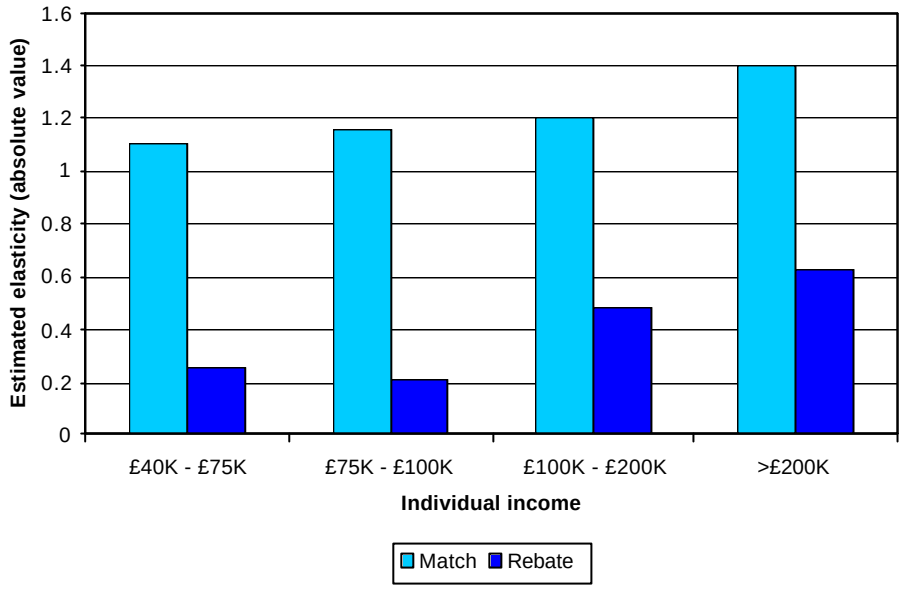
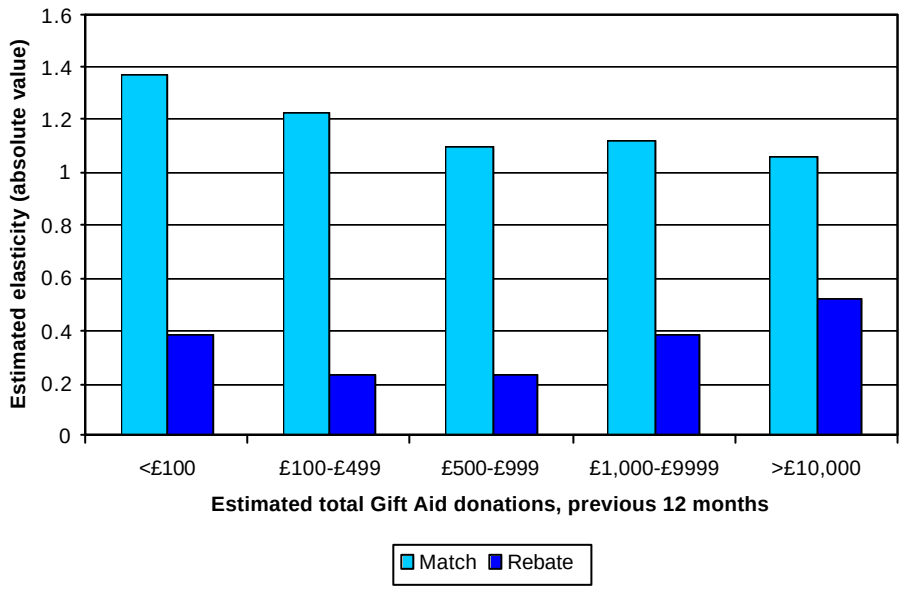


Figure 5: Estimated gross elasticities, by size of donations (Reclaimers)



6. Donors' preferences

6.1 Using discrete choice questions to understand donor preferences

This section analyses the responses to questions on individuals' preferences for different types of tax treatment of donations. A set of "discrete choice" questions, summarised in Table 23, asked higher-rate taxpayers to choose between (hypothetical) alternatives for getting tax relief on donations.[34] The aim was to understand not only how individuals might respond to, but also how they might feel about, alternative forms of tax relief.

Table 23: Discrete choice questions

Which of these alternatives would you prefer?

	A	B	C	
Q1	I give £80 to a charity The charity reclaims £20 I can claim back £20	I give £60 to a charity The charity reclaims £40 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion
Q2	I give £80 to a charity The charity reclaims £20 I can claim back £20	I give £80 to a charity The charity reclaims £20 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion
Q3	I give £100 to a charity The charity cannot reclaim anything I can claim back £40	I give £60 to a charity The charity reclaims £50 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion
Q4	I give £60 to a charity The charity reclaims £40 I cannot claim anything back	I give £60 to a charity The charity reclaims £40 I can claim back £10	I genuinely don't mind between the two	Don't know / No opinion

The analysis of the responses to the discrete choice questions addressed the following issues:

- Are there clear preferences among donors for different types of tax treatment?
- Do these preferences correspond to the responses identified in the previous section?

[34] The survey originally asked five discrete choice questions (see Annex 1). However, only four questions are analysed here since the fifth did not provide any additional information about preferences for match/ rebate.

6.2 Preferences for match versus rebate

Table 24 summarises the responses to the discrete choice questions. In the first question, respondents were given a choice between the current system of match and rebate and a match-only system. Unlike the option of redirection, the match-only system maintains the same price of giving: In both cases it costs 60 pence for each £1 given.[35]

If individuals cared only about how much the charity gets and the cost to themselves and not about the form of tax relief, they would be indifferent between the two options (i.e. genuinely not mind between the two options). This was the case for nearly 30 per cent of reclaimers. However, 45 per cent of reclaimers (and nearly 80 per cent of non-reclaimers) said that they would prefer a system where all the relief was directed to the charity. Fewer than one-quarter of reclaimers preferred the current system; these were typically higher value donors.

Questions 2 and 4 tested whether people preferred the match even when the price of giving was lower under an alternative system with a match and a rebate. These questions offered choices between two systems involving identical cash donations and matches, but one system additionally offered a rebate. In both cases, a sizeable minority of people expressed a preference for the match-only system. This may be because they preferred a simpler system and/or disliked aspects of the rebate. These respondents can be described as having a strong preference for a match-only system.

Question 3 tested whether there were people who have a strong preference for a system with a rebate. The responses show that a minority (14 per cent of those who reclaim) expressed a preference for having a rebate even though the price of giving was lower under a match-only alternative. They would prefer a system where they give £100 and can reclaim £40 to a system where they give £60 and the charity can reclaim an additional £50. This group is not strongly characterised by the size of their donations. But they do show high levels of distrust in institutions, including parliament, banks, the BBC and the NHS. In all these cases the proportion saying that they have “no trust at all” in the organisation is significantly higher among those who strongly prefer a rebate, compared to those who choose the match-only option. This lends some support to the hypothesis that those with a strong preference for the rebate may indeed derive some additional satisfaction from having the money in their own hands and “beating the Exchequer” (see section 2.4).

[35] In practice, donors were randomly allocated three variants of the question which varied by donation size (see Annex 1). There was little variation in responses across the three versions and the results are therefore pooled in the analysis.

Table 24: Responses to discrete choice questions

Q1	I give £80 to a charity The charity reclaims £20 I can claim back £20		I give £60 to a charity The charity reclaims £40 I cannot claim anything back		I genuinely don't mind between the two	
	% sample	Mean donation	% sample	Mean donation	% sample	Mean donation
Non-reclaimers	7.2%	£820	78.8%	£516	11.9%	£491
Reclaimers	23.5%	£5091	45.3%	£2750	28.8%	£4136

Q2	I give £80 to a charity The charity reclaims £20 I can claim back £20		I give £80 to a charity The charity reclaims £20 I cannot claim anything back		I genuinely don't mind between the two	
	% sample	Mean donation	% sample	Mean donation	% sample	Mean donation
Non-reclaimers	61.7%	£573	22.8%	£439	13.3%	£517
Reclaimers	80.4%	£4074	8.5%	£1831	9.2%	£3339

Q3	I give £100 to a charity The charity cannot reclaim anything I can claim back £40		I give £60 to a charity The charity reclaims £50 I cannot claim anything back		I genuinely don't mind between the two	
	% sample	Mean donation	% sample	Mean donation	% sample	Mean donation
Non-reclaimers	5.1%	£887	87.5%	£513	4.6%	£584
Reclaimers	13.7%	£3679	75.6%	£3879	7.5%	£3459

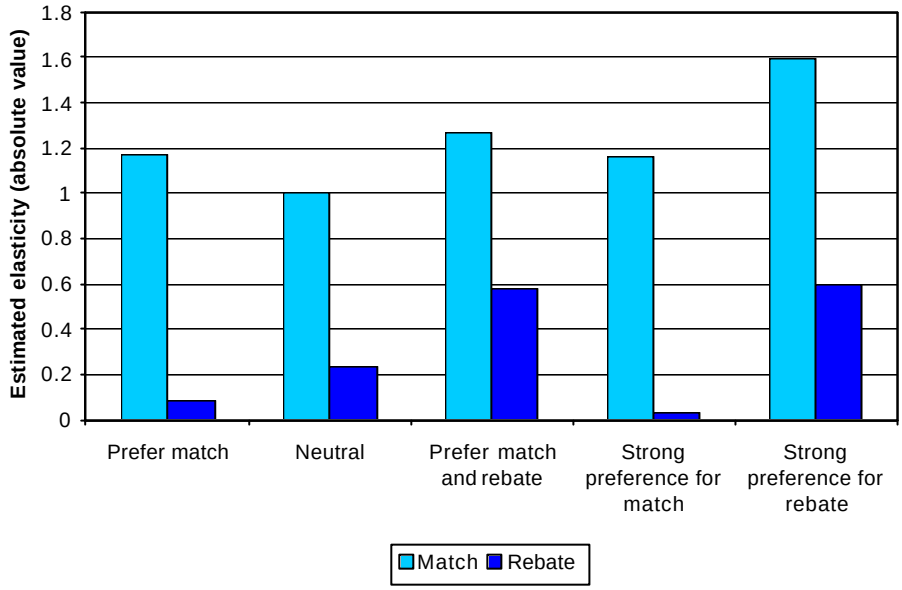
Q4	I give £60 to a charity The charity reclaims £40 I cannot claim anything back		I give £60 to a charity The charity reclaims £40 I can claim back £10		I genuinely don't mind between the two	
	% sample	Mean donation	% sample	Mean donation	% sample	Mean donation
Non-reclaimers	30.3%	£481	56.9%	£579	10.2%	£380
Reclaimers	11.1%	£2254	78.0%	£4036	7.8%	£3421

Note to tables: The numbers do not exactly add to 100% because of a small number of Don't Knows

Individuals' responses under the hypothetical scenarios corresponded to their stated preferences for the alternative tax systems in a consistent manner. Figure 7 shows the estimated match and rebate elasticities (as in the previous section) for those who preferred the match-only system in Question 1, those who said they genuinely didn't mind (described as neutral) and those who preferred the current system of match and rebate. There is clear variation in responsiveness to changes in the rebate across the three groups: Gross donations among those who prefer the match and rebate are more responsive to changes in the rebate than among the other two groups (these differences are statistically significant). The estimated match elasticity is also higher, although this difference is not

significant. Gross donations from donors identified as having a strong preference for a match-only system (rejecting the option of a rebate in Questions 2 and 4) are the least responsive to the match. Gross donations from those who appear to have a strong preference for the rebate (from responses to Question 3) are the most responsive to the rebate, although they are also the most responsive to the match.

Figure 7: Estimated gross elasticities, by preference for tax system (Higher-rate Taxpayers)



To gain further insight into individuals' preferences over the tax treatment of donations, a follow-up question asked:

> *In making your choice between these hypothetical scenarios, what was the most important thing affecting your preferred choice?*

Respondents were asked to choose among a number of options that emphasised different components – and combinations of components – of the "price" of giving (the cash donation, the match and the rebate). The responses, summarised in Table 25, show that only a minority of donors (13 per cent of non-reclaimers and 9 per cent of reclaimers) cared only about their cash donation and not at all about either the match or the rebate elements. A high proportion of reclaimers (41 per cent) but a smaller proportion of non-reclaimers (14 per cent) said that they considered all three elements – the cash donation, the match and the rebate. More than half of non-reclaimers and more than one-quarter of reclaimers took into account of how much the charity can reclaim – either on its own, or together with how much they give. One conclusion to emerge from the responses is that, on average, there appears to be more weight put on what the charity can claim back than on what the individual can claim back. This is particularly the case for non-reclaimers as might be expected, but

is also true for reclaimers. This supports respondents' stated preferences for a system where all the relief is channelled to charities.

Table 25: What do individuals care about?

In making your choice between [the different tax treatments], what was the most important thing affecting your preferred choice?	Non-reclaimers	Reclaimers
Amount you give to charity	12.8%	8.6%
Amount charity reclaims	22.8%	11.1%
Amount you claim back	0.6%	1.8%
Amount you give less the amount you claim back	0.5%	2.4%
Amount you give plus amount charity reclaims	30.1%	16.9%
Amount you give, amount charity reclaims & amount you claim back	13.9%	40.6%
Simplest system	11.3%	6.8%
Don't know	1.6%	2.0%
Other	6.4%	9.9%
Number of observations	671	850

7. Qualitative interviews with major donors

The qualitative interviews were intended to explore in more detail how major donors might respond to any changes to Gift Aid. This is an important group because their donations make up a disproportionately large share of total giving. Major donors are also likely to be making extensive use of tax incentives and be reasonably well informed about tax issues.

The sample for the qualitative interviews came from a database of major donors held by New Philanthropy Capital (NPC). This is a charity that works to ensure that the charities with the best results attract the most funding. It does this through carrying out independent research, developing tools for measuring impact and providing consultancy advice to donors on which charities to give to. NPC's database comprises former and current clients and people who have expressed an interest in their research or consulting services. A sample of 20 major donors – known to give away at least £100,000 per year, often considerably more – was randomly selected from the database and approached and 12 interviews were conducted. All those interviewed are 'new philanthropists' in the sense that they have made their money, not inherited it and this may affect their attitudes to giving. Around half made their money in the financial services industry, the rest are entrepreneurs and one is an art dealer. In terms of their characteristics, all are under 60, the youngest is around 30. One is female, the rest males, though many give through charitable trusts which they perceive as family giving. They give to a wide range of charitable organisations – including universities, social investment organisations, environmental organisations, small-scale charities carrying out specific community projects and major overseas aid organisations. It should be borne in mind that the responses may reflect the particular characteristics of the sample; older donors or those with inherited wealth may respond differently.

The full topic guide is given as Annex 2. Key findings are reported under the following headings – the role of tax incentives in giving, the reactions to the option of redirecting higher-rate relief from donors to charities and other issues that were raised in relation to tax incentives and giving.

7.1 The role of tax incentives in giving

All the major donors interviewed made extensive use of tax incentives for giving. All of them had used Gift Aid, many had also given shares and set up charitable trusts.[36] Not surprisingly, they viewed the tax incentives very positively:

[36] Two interviewees mentioned using CAF trust accounts.

> "*I am very supportive of the tax incentives for giving; I don't know how well-used they are, but the economics are very compelling*".

Many found being able to make tax-free gifts of shares particularly attractive. One respondent said that the tax incentives were "fair" since the donation had social, not private, benefits.

However, many found the current system of tax incentives to be complicated:

> "*I find [tax incentives] quite complicated. My main concern is that every time I give money I want to give the charity maximum benefit, and I'm never sure of the right way to go about that*."

One interviewee who had calculated the impact of the tax system on net and gross donations described it as "*a long and painful process of working it out*". Most interviewees used advisers and accountants. The responses suggested that the donors themselves were primarily responsible for making the decisions about giving but used advisers and accountants as facilitators. In many cases, the "professionals" were left to handle the details:

> "W*e are careful about keeping note of our donations outside the trust, so I think our accountant deals with the rebates*".

> *"I think you can give [the rebate] on the tax form – my accountant did that one year without letting me know, actually".*

The donors were asked to say how important tax incentives were in their decisions whether to give, and how much to give. The responses varied quite considerably.

At one end, one respondent described their charitable giving as part of their annual tax-planning process:

> "*I have an accountant. Typically towards the end of the year we work out my tax liability and whether I need to offset it by giving*."

If donations are motivated in this way, then there is a potential concern that withdrawing the rebate would remove the incentive for giving. This response shows that this is a real concern, but gives no indication of how widespread it might be in the wider population.

For one other interviewee, the tax planning process was not key to deciding whether to give, but did act as a useful prompt, reminding them to give more. Even among those who intend to give in the absence of tax incentives, the very fact of having to claim the rebate may be a spur to action.

However, all other interviewees were explicit that the decision whether to give was not affected by tax incentives. There was a strong level of personal commitment to the charities they gave to – most had built up long-term relationships with the charities they donated to and were often personally involved. This, more than tax incentives, motivated their decisions about giving:

> *" [The presence of tax incentives] is not why people give to charities, is it? You either believe in charities or you don't, I think"*

Even among this group of donors giving more than £100,000, there were some for whom tax incentives seemed to have almost no effect on the decision about how much to give. One interviewee said they usually did not bother to reclaim the rebate. Another said that they only thought about how much they gave and not how much the charity got because it was otherwise just too complicated:

> "*I just consider how much to give... and don't really take into account how much I am going to get back or what the charity gets in total. I know it sounds off but I didn't pay any attention to all that stuff. I don't get a spreadsheet out and work out my net, I just do it*"

The general response, however, was that tax incentives were important in deciding how much to give. A common theme was that the donors made use of tax incentives to do more for the charities they supported:

> "*The motivation is to give donations and to utilise public funds to increase my donations through tax incentives*"
>
> "*It effectively enables me to do more than I otherwise would be able to*"
>
> "*I found I could give more than I had calculated*".

These responses are consistent with most of these donors having a strong, personal connection to the charities they give to.

7.2 Reaction to options for policy change

Redirection of higher-rate relief from the taxpayer to the charity was described to the interviewees and they were asked to say what they thought. The option of giving a rebate to the taxpayer at the marginal rate was also discussed. Again, there was a wide range of responses.

Most interviewees expressed some kind of preference for the way tax relief is given on donations but there was a wide spread of views. Only one said that they genuinely did not mind about the tax

system (although, as discussed below, more thought that changes to the tax system would have no effect on their donations):

> "*I don't care personally if the money comes from me claiming the rebate and then giving to charity or if the charity claims the rebate. That doesn't matter to me*".

Almost all respondents supported some change to the current system, largely because Gift Aid is seen as being too complex. Only one respondent preferred the current system and liked the "balance", where "*the charity gets a bit more and you get a bit off your tax bill*".

One interviewee gave a very positive reaction to the idea of the change on the grounds that it was preferable for the government to give money to the charity than to the individual:

> "*I think it's much better for the organisation than for the individual to get this tax break, and it says something about the way our nation values the work NGOs and charities do*".

Others supported this option because it would simplify the current system:

> "*That sounds better because it's simpler. I always planned for the charity to get the Gift Aid and then to give away the rebate too, but I kind of lose track of the rebate*"
>
> "*I've always had the ambition to give a certain percentage of my income, and I must say that's quite a difficult calculation to make. It would be better if the charity got the whole tax relief*"
>
> "*I'm for that, for me that would be a much cleaner process*"
>
> "*I'd much rather have a simpler process, I think the charity's better equipped than I am to handle that stuff*".

One interviewee who would prefer a marginal rebate to redirection, said that (as a second best) they would prefer redirection to the current system on the grounds that it would be "*good to simplify things*"

Two respondents spontaneously said that they would prefer changing to a system that gave the full marginal rebate to the taxpayer. There were several reasons for this. Most favouring the rebate felt that this would be simpler and clearer and one respondent thought that it would provide a "*powerful incentive*".

> *"The hypothesis is that that would lead to a behaviour change, because it makes it much clearer to the individual paying the higher-rate of tax that this is a tax-effective way to give".*

The forthcoming rise in the rate of income tax to 50 per cent was a salient issue for a number of interviewees, with the presence of a marginal rebate seen as a "*logical trade-off*" for the increase in the top rate. As already discussed, the rebate was seen as providing a prompt to giving as part of the tax-planning process, reminding people that they need to give and this was felt to be particularly important with the rise in the top rate. Finally, one respondent was deeply cynical that the removal of the rebate might be motivated by a desire to reduce the generosity in tax relief and could mark the start of further reductions:

> "*I'm not convinced it will remain in the hands of the charities – I'm concerned that this would be the beginning of the erosion of any tax relief on giving*".

Most respondents discussed what redirection might mean for donations – both for their own personal donations but also the potential wider impact it would have on charities (i.e. how other donors would respond). Again, this reinforces the idea that these major donors care a lot about what the charity gets.

Many of the interviewees said that they did not think that the change would affect them personally, with many saying it would make no difference. However, this response encompassed both those who said that they would maintain their current level of cash donations (which would mean that the charity would actually get more) and those who said they would maintain their current level of net donations (which would mean that the charity would get the same).

> *"I don't think it would madly affect what I would give, frankly, which means the charities would get more money I suppose".*
>
> *"I think people get really worked up about tax changes but I'm not sure how much difference it all makes".*
>
> *"Would you get the same numbers? That wouldn't make any difference to me".*
>
> *"If it's the same [tax subsidy], as a sophisticated investor I would see through that, and though it might possibly matter on the margin, it's a zero-sum game. When I give to charity I calculate what I've given on a post-tax basis. I may not be typical, but that's what I do. If they give more to charity straight away I will reduce my giving downwards to take that into account".*

These findings are consistent with the results from the quantitative analysis. The estimated price elasticities (Figure 5) suggested that gross donations would be more responsive to changes in the rebate among big donors than among donors giving smaller amounts, but that the level of responsiveness to changes in the match was likely to be greater still. If some major donors are

unlikely to change their cash donations in response to redirection then charities are likely to get more following the change. This could be offset if some major donors withdraw their support but there is little evidence from the qualitative interviews that this would be the case. Even among the respondents who said that they would prefer a system that offered a rebate at the marginal rate, their responses on how the system of redirection would affect their level of donations suggested that it would not act as a major deterrent to giving in practice.

7.3 Other issues in relation to tax incentives and donations

Towards the end of the interview the donors were asked if they had any further thoughts about how the current system of tax incentives for giving should evolve. Many gave little by the way of concrete responses, saying that they did not really think about the tax issues in a lot of detail. This is revealing since it reinforces the overall impression that tax issues are not key to their decisions about giving. Among some of the themes that did emerge were the following:

In general, the system of tax incentives for giving is seen as having moved in a positive direction since 1997. More tax incentives have been introduced, such as tax relief on gifts of shares, and the current system of Gift Aid is seen as reasonably effective in giving relief on donations.

> *"The changes since 1997 have helped to encourage a culture of giving"*

Some respondents felt that more could be done. The US was cited as having a more generous tax treatment of donations, giving a rebate at the donor's marginal rate. However, more emphasis was placed on giving greater publicity to existing schemes. It was felt that the current schemes were under-utilised. Among the potential barriers to take-up were the complexity of the current system, a lack of information and understanding of individual tax incentives.

> *"There are some very good incentives that are too little known".*
>
> *"Our system could always be more generous I guess, but I'm not really doing it for tax reasons. I just want the system to be simpler, so it's obvious how I can help the charity most. At the moment that's not always clear."*
>
> *"I would like to see a lot more literature, I'd like people to be better informed… For me it's more about the education about what's already available than about the introduction of new things"*

This suggests that a wider strategy to increase the amount of money going to charities should include measures to increase awareness and take-up of tax incentives.

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Appendix 1: Sample characteristics

	Basic-rate taxpayers	Higher-rate taxpayers – Non reclaimers	Higher-rate taxpayers - Reclaimers
Female	0.54	0.38	0.20
Aged < 35	0.25	0.28	0.07
Aged 35-44	0.16	0.31	0.17
Aged 45-54	0.18	0.26	0.34
Aged 55-64	0.25	0.12	0.24
Aged 65-74	0.11	0.02	0.12
Aged 75+	0.06	0.00	0.06
Individual income < £30K	0.59	0.00	0.00
Individual income £30K - £40K	0.27	0.00	0.00
Individual income £40K - £75K	0.06	0.62	0.42
Individual income £75K - £100K	0.00	0.13	0.14
Individual income £100K - £200K	0.00	0.13	0.23
Individual income > £200K	0.00	0.04	0.09
Employed full-time	0.49	0.87	0.60
Employed part-time	0.11	0.02	0.05
Self-employed	0.09	0.07	0.13
Retired	0.25	0.03	0.19
Other non-working	0.06	0.01	0.02
Highest qualification – degree	0.43	0.45	0.40
Highest qualification – higher degree	0.23	0.35	0.42
Married	0.55	0.60	0.80
Cohabiting	0.13	0.15	0.05
Single	0.21	0.18	0.09
Widowed	0.04	0.02	0.02
Divorced	0.04	0.04	0.03
Separated	0.01	0.01	0.01
Ever had children	0.56	0.54	0.77
Understands tax incentives	0.55	0.46	0.64
Regular giver	0.56	0.40	0.35
Ever worked as a volunteer	0.69	0.62	0.66
Ever worked for a charity	0.19	0.10	0.10
Type of charity supported			
Type: Medical	0.62	0.64	0.60
Type: Education	0.12	0.11	0.24
Type: Religious	0.33	0.17	0.46
Type: Community	0.11	0.10	0.14
Type: Arts	0.17	0.14	0.30
Type: Sports	0.04	0.07	0.05
Type: Hospices	0.50	0.48	0.48
Type: Rights	0.19	0.15	0.19
Type: Environment	0.21	0.17	0.26
Type: Housing	0.05	0.05	0.09
Type: Overseas aid	0.52	0.43	0.65
Type: Welfare	0.54	0.52	0.58
Type: Animals	0.22	0.18	0.17
Type: Homeless	0.28	0.25	0.37
Type: Disaster	0.45	0.39	0.53
Type: Rescue	0.18	0.14	0.17
Motivation for giving to charity			
Motive: work of charity is important	0.73	0.65	0.74
Motive: government underprovides service	0.27	0.24	0.20
Motive: makes me feel useful	0.17	0.15	0.14
Motive: Reduce tax	0.07	0.06	0.09
Motive: Feel good	0.18	0.18	0.14
Motive: Can't say no when asked	0.03	0.02	0.01
Motive: right thing to do	0.41	0.37	0.50
Motive: Most people I know give	0.05	0.05	0.03
Motive: give to appeals	0.12	0.11	0.07
Motive: Because of religion	0.23	0.09	0.29
Motive: Personal benefits	0.03	0.02	0.01
Motive: family and friends ask	0.15	0.24	0.09
Motive:Other people I know benefited	0.23	0.21	0.13
Sample size	1765	671	850

Appendix 2: Re-weighting and the Individual Giving Survey

Due to sampling and response bias, it was not expected that the sample of respondents obtained from the CAF/ Justgiving sample would be a representative sample of the population of Gift Aid donors. For the analysis, particularly for estimating the effects of the policy options, the sample needed to be adjusted to make it more representative of this population. This was done by re-weighting each of the three taxpayer groups in line with their estimated proportions in the population of Gift Aid donors. Unfortunately, there is no comprehensive information on this population that could be used as the definitive benchmark for adjustment. The Individual Giving Survey (IGS) is one of the best available data sources since it is a population-based survey that collects information on giving, including the use of Gift Aid. This survey is funded by CAF and the National Council of Voluntary Organisations and carried out as part of the ONS Omnibus Survey. The most recent wave of the IGS that is publicly available from the Economic and Social Reseach Council Data Archive is from 2005-06.[37] However, the IGS may itself be a biased survey of the population of Gift Aid donors. While it surveys a representative sample of the entire population, it is likely to suffer from response bias including the fact that very wealthy people may be less likely to respond to such surveys. The CAF/ Justgiving survey may be better than the IGS at capturing higher value donors given the nature of the populations.

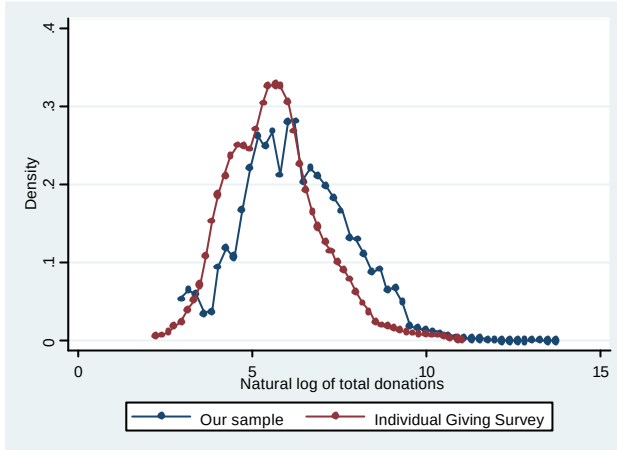
Figure A1 compares the distribution of total donations (in natural logs) in the CAF/Justgiving sample with the distribution of total donations in the IGS.[38] Clearly the CAF/Justgiving sample over-samples bigger donors compared to the IGS, but the IGS also fails to sample higher value donors. In the CAF/Justgiving sample, one donor reported that they gave more than £3 million in the last twelve months, while ten respondents reported that they gave more than £100,000. In the IGS sample, the largest donation was £46,000 in the last year.

In order to re-weight the CAF/Justgiving sample, it is necessary to have estimates of the proportion of each of the three taxpayer groups in the population (basic-rate taxpayers, higher-rate non-reclaimers and higher-rate reclaimers). In this report, it is assumed that 20 per cent of Gift Aid donors are higher-rate taxpayers and that 35 per cent of higher-rate taxpayers are reclaimers. The next section discusses the basis for these assumptions.

[37] For further information about the Individual Giving Survey see Clegg, Goodey, Walls and Wilding (2008)

[38] The IGS asks about donations in the last four weeks. To make this comparable with the CAF/Justgiving survey it is multiplied by thirteen – in other words it is assumed that individuals give roughly the same amount each month.

Figure A1: Distribution of (natural log of) total donations over the last 12 months



Estimate of the proportion of Gift Aid donors who are higher-rate taxpayers

The estimate of the proportion of Gift Aid donors who are higher-rate taxpayers is based on individuals' reported personal, gross annual incomes in the IGS. This is not perfect since individuals were asked to give banded amounts which do not directly correspond to the threshold for paying higher-rate tax. A sizeable proportion refused to answer or did not know their income. Assuming that the incomes of this group were distributed in the same way as the rest of the sample, the estimated proportion of higher-rate donors was 0.204. Assuming that the refusals and don't knows were higher-rate taxpayers (which seems more likely in the case of refusals), the estimated proportion was 0.247. These estimates assume that everyone in the £36,400 - £38,999 band is a higher-rate taxpayer: the threshold in 2005-06, the year the data were collected, was £37,295. Excluding this band, the proportions are 0.179 and 0.234 respectively. For the analysis, the central assumption is that 20 per cent of Gift Aid donors are higher-rate taxpayers.

Estimate of the proportion of higher-rate donors who reclaim additional relief

In the unweighted sample, 55.9 per cent of higher-rate taxpayers reported that they reclaimed higher-rate relief. This is likely to over-estimate the (unknown) proportion of reclaimers in the population. A person with a CAF account is more likely than the typical higher-rate donor to reclaim the additional relief; indeed this may be one of the motivations for opening an account in the first place. There is no information on reclaiming in the IGS. The proportion of reclaimers in the Justgiving sample – at 34.4 per cent – is likely to be closer to the proportion in the population. Therefore, the assumption used in this report is that 35.0 per cent of higher-rate donors reclaim the additional relief. As well as reflecting the proportion in the Justgiving sample, this proportion is also consistent with HMRC statistics on the value of tax relief claimed.

Information in the published statistics tables (Table 10.2 and 10.3 http://www.hmrc.gov.uk/stats/charities/menu.htm) shows that the value of higher-rate relief is equivalent to 28 per cent of tax payments made to charities under Gift Aid. Since the value of higher-rate relief on £1 donated out of net-of-tax income is the same as the value of tax repaid to the charity, this indicates that higher-rate reclaimers account for 28 per cent of total donations.[39] If 20 per cent of Gift Aid donors are higher-rate taxpayers, an assumption that 35 per cent of higher-rate donors reclaim produces an estimate that 27 per cent of the total value of donations is given by reclaiming higher-rate donors (see Table 8 in Section 3), which is in line with the HMRC statistics.

The assumptions that 20 per cent of Gift Aid donors are higher-rate taxpayers and that 35 per cent of higher-rate taxpayers reclaim were used to re-weight the three taxpayer groups in the CAF/Justgiving sample. As shown in Table 8 in Section 3, the effect of this re-weighting was to reduce the proportion of donors who are higher-rate reclaimers from 25.8% of the unweighted sample to 7.0% of the weighted sample; the proportion of donations from this group was also reduced from 63.8% to 26.5%. On the assumption that 65% of higher-rate taxpayers do not reclaim, the proportion of donors in the sample who are higher-rate non-reclaimers was reduced from 20.4% to 13.0%. The proportion of donations from this group was unchanged at 7.4% - this is a pure coincidence reflecting the fact that the effect of down-weighting of large donations from higher-rate reclaimers is offset by the up-weighing of donations from basic-rate taxpayers. The effect of re-weighting was to increase the proportion of donors in the sample who are basic-rate taxpayers from 53.7% to 80.0% and the proportion of donations from this group from 28.8% to 66.1%. Re-weighting reduced the mean annual donation in the sample from £2,272 to £1,345. This is still larger than the mean annual donation in the IGS sample as shown in Table A2.1 below. But at least some of this is explained by the larger tail in the CAF/Justgiving sample. Excluding donations of £50,000 or more (of which there are none in the IGS sample), the mean annual donation in the CAF/Justgiving sample falls to £1,137.[40]

Table A2.1: Mean annual donation

	CAF/ Justgiving	IGS Gift Aid donors
Unweighted	£2,273	£854
Weighted	£1,345	£854
Weighted (excluding donations >= £50,000)	£1,137	£854

[39] In practice the two may differ because of transitional relief; also the fact that higher-rate taxpayers may not face a marginal tax rate of 40% on all their donations.

[40] Note that these observations are included in the analysis, the point here is simply to illustrate that the effect of re-weighting is to make the CAF/Justgiving sample more comparable to the IGS sample.

Appendix 3: Determinants of giving

The table below reports the regression results from estimating the following OLS regression of total donations.

$$\ln D_i = a + bX_i + u_i$$

The dependent variable is the (natural log of) of cash donations made over the last 12 months. The coefficients represent the proportional change in donations. For example, the coefficient of -0.207 on the female variable should be interpreted as women in the sample giving 20% less than men (on average). This is statistically significant at the 1% level.

	Coefficient		*Standard error*
Female	-0.207	***	*0.041*
Aged < 35			
Aged 35-44	0.083		*0.060*
Aged 45-54	0.202	***	*0.063*
Aged 55-64	0.303	***	*0.071*
Aged 65-74	0.363	***	*0.101*
Aged 75+	0.365	***	*0.121*
Individual income < £30K			
Individual income £30K - £40K	0.268	***	*0.064*
Individual income £40K - £75K	0.103		*0.092*
Individual income £75K - £100K	0.266	**	*0.123*
Individual income £100K - £200K	0.375	***	*0.127*
Individual income > £200K	1.300	***	*0.192*
Household income < £30K			
Household income £30K - £40K	0.080		*0.078*
Household income £40K - £75K	0.194	***	*0.071*
Household income £75K - £100K	0.164	*	*0.089*
Household income £100K - £200K	0.471	***	*0.098*
Household income > £200K	0.821	***	*0.154*
Higher-rate non-reclaimer	0.213	**	*0.085*
Higher-rate reclaimer	0.635	***	*0.084*
Employed full-time			
Employed part-time	0.129	*	*0.073*
Self-employed	0.138	**	*0.063*
Retired	0.201	***	*0.074*
Other non-working	0.136		*0.089*
Highest qualification – degree	0.060		*0.045*
Highest qualification – higher degree	0.105	***	*0.050*
Married			
Cohabiting	-0.192	***	*0.064*
Single	-0.021		*0.064*
Widowed	0.162		*0.107*
Divorced	-0.069		*0.093*
Separated	-0.029		*0.184*
Ever had children	-0.168	***	*0.051*

Continued…	Coefficient		*Standard error*
Understands tax incentives	0.144	***	*0.037*
Regular giver	0.383	***	*0.039*
Ever worked as a volunteer	0.067	*	*0.040*
Ever worked for a charity	0.008		*0.051*
Ever worked for a committee	0.162	***	*0.041*
Motive: work of charity is important	0.175	***	*0.042*
Motive: government underprovides	-0.053		*0.042*
Motive: makes me feel useful	-0.015		*0.055*
Motive: reduce tax	0.027		*0.070*
Motive: feel good	-0.077		*0.055*
Motive: can't say no when asked	0.123		*0.112*
Motive: right thing to do	0.133	***	*0.040*
Motive: most people I know give	-0.025		*0.086*
Motive: give to appeals	-0.250	***	*0.060*
Motive: because of religion	0.687	***	*0.060*
Motive: personal benefits	0.002		*0.118*
Motive: family and friends ask	-0.230	***	*0.053*
Motive: other people I know benefited	-0.054		*0.047*
Type: Medical			
Type: Education	0.231	***	*0.051*
Type: Religious	0.596	***	*0.053*
Type: Community	0.179	***	*0.056*
Type: Arts	0.140	***	*0.048*
Type: Sports	0.094		*0.084*
Type: Hospices	-0.053		*0.036*
Type: Rights	0.044		*0.050*
Type: Environment	0.095	**	*0.047*
Type: Housing	0.156	**	*0.078*
Type: Overseas aid	0.306	***	*0.040*
Type: Welfare	0.068	*	*0.037*
Type: Animals	-0.056		*0.046*
Type: Homeless	0.082	*	*0.043*
Type: Disaster	0.148	***	*0.040*
Type: Rescue	-0.050		*0.049*
R^2	0.605		
Sample: 3,086 observations			

** indicates that the coefficient is statistically significant at the 10% level*
*** indicates that the coefficient is statistically significant at the 5% level*
**** indicates that the coefficient is statistically significant at the 1% level*

Appendix 4: Whether higher-rate taxpayers reclaim

The table below reports the results of estimating a linear probability model on the binary dependent variable R_i which is equal to one if the individual reclaims higher-rate relief, zero otherwise (estimating a probit model yields very similar marginal effects):

$$R_i = a + bX_i + u_i$$

Only higher-rate taxpayers who are aware that they can reclaim are included – hence the estimated coefficients give the correlation with the probability of reclaiming, conditional on being aware that reclaiming is possible. Since the dependent variable is binary, the coefficients represent the correlation of each characteristic on the probability of reclaiming. For example, the coefficient of 0.106 on the age 35-44 variable should be interpreted as the probability that people aged 35-44 reclaim is 10.6 percentage points higher than the probability that people aged less than 35 reclaim. This is statistically significant at the 5 per cent level.

Dependent variable = whether individual reclaims (0/1)

	Coefficient		*Standard error*
Ln(total Gift Aid)	0.062	***	*0.009*
Female	-0.024		*0.032*
Aged < 35			
Aged 35-44	0.106	**	*0.046*
Aged 45-54	0.231	***	*0.046*
Aged 55-64	0.226	***	*0.052*
Aged 65-74	0.213	***	*0.071*
Aged 75+	0.219	**	*0.086*
Individual income < £75K			
Individual income £75K - £100K	0.035		*0.041*
Individual income £100K - £200K	0.168	***	*0.047*
Individual income > £200K	0.082		*0.089*
Household income < £75K			
Household income £75K - £100K	0.016		*0.039*
Household income £100K - £200K	-0.084	*	*0.046*
Household income > £200K	-0.075		*0.081*
Employed full-time			
Employed part-time	0.136	**	*0.066*
Self-employed	0.115	***	*0.040*
Retired	0.130	**	*0.054*
Other non-working	0.123		*0.086*
Highest qualification – degree	0.008		*0.034*
Highest qualification – higher degree	-0.013		*0.035*
Married			
Cohabiting	-0.052		*0.050*
Single	-0.043		*0.051*
Widowed	-0.156		*0.096*
Divorced	0.019		*0.071*
Separated	0.106		*0.149*
Ever had children	-0.042		*0.037*

Continued…	Coeff		*SE*
Understands tax incentives	0.049	**	*0.025*
Regular giver	0.058	**	*0.027*
Ever worked as a volunteer	-0.005		*0.027*
Ever worked for a charity	-0.007		*0.040*
Ever worked for a committee	0.005		*0.028*
Motive: work of charity is important	-0.020		*0.029*
Motive: government underprovides	-0.048		*0.030*
Motive: makes me feel useful	0.005		*0.039*
Motive: reduce tax	0.085	*	*0.046*
Motive: feel good	0.030		*0.039*
Motive: can't say no when asked	-0.071		*0.100*
Motive: right thing to do	0.012		*0.026*
Motive: most people I know give	-0.031		*0.066*
Motive: give to appeals	-0.032		*0.045*
Motive: because of religion	-0.017		*0.038*
Motive: personal benefits	0.011		*0.097*
Motive: family and friends ask	-0.081		*0.040*
Motive: other people I know benefited	0.004		*0.036*
Type: Medical			
Type: Education	-0.003		*0.030*
Type: Religious	0.017		*0.033*
Type: Community	-0.001		*0.036*
Type: Arts	0.024		*0.028*
Type: Sports	-0.045		*0.054*
Type: Hospices	-0.003		*0.025*
Type: Rights	-0.050		*0.033*
Type: Environment	-0.022		*0.030*
Type: Housing	-0.010		*0.045*
Type: Overseas aid	0.038		*0.027*
Type: Welfare	0.021		*0.026*
Type: Animals	-0.005		*0.034*
Type: Homeless	0.004		*0.028*
Type: Disaster	0.028		*0.026*
Type: Rescue	0.019		*0.034*
R^2	0.266		
Sample: 1,091 observations			

** indicates that the coefficient is statistically significant at the 10% level*
*** indicates that the coefficient is statistically significant at the 5% level*
**** indicates that the coefficient is statistically significant at the 1% level*

Appendix 5: Tests for differential responses across scenarios

In order to test whether gross donations vary significantly across the hypothetical scenarios, the following regression is estimated: $\ln G_{is} = a_i + \sum_{s=1}^{S} b_s T_{is} + u_{is}$

Where G_{is} is the gross donation of individual *i* under scenario *s*, a_i is a fixed individual specific term that captures the effects of observed and unobserved characteristics on donations and the dummy variables T_{is} take the value 1 for each of the hypothetical scenarios (zero otherwise). The coefficients b_s therefore capture the average percentage change in gross donations associated with each of the scenarios. For higher-rate taxpayers, there are 10 scenarios, hence S = 10. For basic-rate taxpayers, S = 4. We estimate the model using a random effects model. We then test whether the estimated coefficients are significantly different to each other. The regression results and the results of the tests are reported in the tables below – separately for higher-rate taxpayers and basic-rate taxpayers.

A5.1 Regression results: Random effects estimation – higher-rate taxpayers

Dependent variable = ln (Gross donation)

Scenario		Coefficient		*Standard error*
A1	M=30 R=25	.0578	***	*.0109*
A2	M=25 R=30	.0613	***	*.0110*
B1	M=20 R=25	-.0485	***	*.0109*
B2	M=25 R=20	-.0097		*.0110*
C1	M=50 R=0	.1654	***	*.0110*
C2	M=30 R=0	-.0056		*.0111*
D1	M=30 R=0	-.0069		*.0111*
D2	M=37 R=0	.0523	***	*.0111*
E1	M=66 R=0	.2673	***	*.0112*
E2	M=50 R=0	.1556	***	*.0112*
Constant		5.7704	***	*.0417*
*** *indicates that the coefficient is statistically significant at the 1% level*				

A5.2 Tests for whether coefficients are significantly different

	M=25 R=30	M=20 R=25	M=25 R=20	M=50 R=0	M=30 R=0	M=30 R=0	M=37 R=0	M=66 R=0	M=50 R=0
M=30 R=25	---	**	**	**	**	**	---	**	**
M=25 R=30		**	**	**	**	**	---	**	---
M=20 R=25			**	**	**	**	**	**	**
M=25 R=20				**	---	---	**	**	**
M=50 R=0					**	**	**	**	---
M=30 R=0						---	**	**	**
M=30 R=0							**	**	**
M=37 R=0								**	**
M=66 R=0									**

** indicates that the coefficients are significantly different at the 5% significance level

-- indicates no statistically significant difference

A5.3 Regression results: Random effects estimation – basic-rate taxpayers

Dependent variable = ln(Gross donation)

Scenario		Coefficient		Standard error
F1	M=30 R=0	.0557	***	*.0028*
F2	M=37 R=0	.1164	***	*.0028*
G1	M=37 R=25	.1177	***	*.0028*
G2	M=30 R=0	.0509	***	*.0028*
Constant		4.9299	***	*.0368*

A5.4 Tests for whether coefficients are significantly different

	M=37 R=0	M=37 R=0	M=30 R=0
M=30 R=0	**	**	--
M=37 R=0		--	**
M=37 R=0			**

** indicates that the coefficients are significantly different at the 5% significance level

-- indicates no statistically significant difference

Appendix 6: Whether people adjust to tax changes

The table below reports the results of estimating a linear probability model on the binary dependent variable A_{is} which is equal to one if the individual adjusts their cash donations under hypothetical scenarios s, zero otherwise:

$$A_{is} = a + bX_i + u_{is}$$

Since the dependent variable is binary, the coefficients represent the effect of each characteristic on the probability of adjusting.

Dependent variable = Individual adjusts cash donation when the tax treatment changes (0/1)

	Coefficient		*Standard error*
Ln(total Gift Aid)	0.016	***	*0.005*
Female	-0.026	**	*0.012*
Aged < 35			
Aged 35-44	-0.016		*0.017*
Aged 45-54	-0.001		*0.019*
Aged 55-64	-0.002		*0.021*
Aged 65-74	-0.013		*0.031*
Aged 75+	-0.033		*0.038*
Individual income < £30K			
Individual income £30 - £40K	0.008		*0.019*
Individual income £40 - £75K	0.001		*0.027*
Individual income £75K - £100K	-0.038		*0.038*
Individual income £100K - £200K	0.013		*0.040*
Individual income > £200K	0.020		*0.076*
Household income < £30K			
Household income £30 - £40K	0.047	**	*0.023*
Household income £40 - £75K	-0.003		*0.020*
Household income £75K - £100K	0.039		*0.026*
Household income £100K - £200K	0.054		*0.030*
Household income > £200K	0.086		*0.063*
Higher-rate taxpayer, non-reclaimer	0.004		*0.026*
Higher-rate taxpayer, reclaimer	0.097	***	*0.027*
Employed full-time			
Employed part-time	0.036		*0.022*
Self-employed	0.010		*0.021*
Retired	-0.009		*0.024*
Other non-working	0.020		*0.027*
Highest qualification – degree	0.010		*0.013*
Highest qualification – higher degree	0.027		*0.015*
Married			
Cohabiting	-0.001		*0.019*
Single	0.015		*0.019*
Widowed	0.009		*0.032*
Divorced	-0.010		*0.026*
Separated	0.013		*0.060*
Ever had children	-0.013		*0.015*
Understands tax incentives	0.009		*0.011*

Continued….	Coeff		*SE*
Regular giver	-0.019		*0.013*
Ever worked as a volunteer	0.028	***	*0.012*
Ever worked for a charity	-0.013		*0.016*
Ever worked for a committee	0.030		*0.012*
Motive: work of charity is important	0.044	***	*0.014*
Gives through payroll giving scheme	0.101	**	*0.051*
Gives through shares/ property	0.008		*0.013*
Motive: government underprovides	0.051	***	*0.014*
Motive: makes me feel useful	-0.006		*0.018*
Motive: reduce tax	0.093	***	*0.025*
Motive: feel good	0.000		*0.017*
Motive: can't say no when asked	0.040		*0.037*
Motive: right thing to do	0.021		*0.013*
Motive: most people I know give	-0.012		*0.027*
Motive: give to appeals	0.013		*0.019*
Motive: because of religion	-0.033		*0.020*
Motive: personal benefits	0.072	*	*0.039*
Motive: family and friends ask	-0.007		*0.016*
Motive: other people I know benefited	-0.019		*0.014*
Type: Medical			
Type: Education	0.016		*0.017*
Type: Religious	0.035	*	*0.018*
Type: Community	-0.001		*0.019*
Type: Arts	0.008		*0.015*
Type: Sports	-0.014		*0.027*
Type: Hospices	0.003		*0.011*
Type: Rights	0.014		*0.016*
Type: Environment	-0.013		*0.015*
Type: Housing	0.028		*0.027*
Type: Overseas aid	0.009		*0.012*
Type: Welfare	0.007		*0.011*
Type: Animals	0.008		*0.014*
Type: Homeless	-0.017		*0.013*
Type: Disaster	-0.025	*	*0.013*
Type: Rescue	-0.027	*	*0.014*

Sample: 6,344 observations – standard errors clustered at the individual level

** indicates that the coefficient is statistically significant at the 10% level*
*** indicates that the coefficient is statistically significant at the 5% level*
**** indicates that the coefficient is statistically significant at the 1% level*

Appendix 7: Whether people would switch

The table below reports the results of estimating a linear probability model on the binary dependent variable S_i which is equal to one if the individual says that they are likely or very likely to switch in response to a reduction in tax relief, zero otherwise:

$$S_i = a + b X_i + u_i$$

Since the dependent variable is binary, the coefficients represent the effect of each characteristic on the probability of adjusting.

Dependent variable = Individual is likely to switch in response to a reduction in tax relief (0/1)

	Coefficient		*Standard error*
Ln(total Gift Aid)	0.012		*0.009*
Female	0.001		*0.027*
Aged < 35			
Aged 35-44	0.023		*0.037*
Aged 45-54	-0.020		*0.039*
Aged 55-64	-0.047		*0.045*
Aged 65-74	-0.018		*0.068*
Aged 75+	-0.135		*0.084*
Individual income < £75K			
Individual income £75K - £100K	0.014		*0.037*
Individual income £100K - £200K	-0.016		*0.041*
Individual income > £200K	-0.036		*0.081*
Household income < £75K			
Household income £75K - £100K	0.056	*	*0.034*
Household income £100K - £200K	0.073	*	*0.039*
Household income > £200K	0.049		*0.072*
Reclaim	0.003		*0.027*
Employed full-time			
Employed part-time	-0.021		*0.063*
Self-employed	-0.141	***	*0.038*
Retired	-0.088		*0.055*
Other non-working	-0.135	*	*0.081*
Highest qualification – degree	0.005		*0.030*
Highest qualification – higher degree	0.006		*0.031*
Married			
Cohabiting	0.011		*0.041*
Single	0.019		*0.042*
Widowed	-0.014		*0.086*
Divorced	-0.011		*0.061*
Separated	0.011		*0.121*
Ever had children	-0.013		*0.033*
Understands tax incentives	0.013		*0.022*
Regular giver	0.009		*0.025*
Ever worked as a volunteer	-0.024		*0.024*
Ever worked for a charity	-0.045		*0.036*
Ever worked for a committee	-0.007		*0.025*
Gave through payroll giving	0.348	***	*0.025*

Continued….	Coeff		SE
Gave through shares/ property	0.175	**	*0.084*
Motive: work of charity is important	-0.011		*0.026*
Motive: government underprovides	0.038		*0.027*
Motive: makes me feel useful	-0.049		*0.035*
Motive: reduce tax	0.053		*0.042*
Motive: feel good	0.064	*	*0.034*
Motive: can't say no when asked	-0.120		*0.083*
Motive: right thing to do	0.045		*0.024*
Motive: most people I know give	0.025		*0.057*
Motive: give to appeals	0.024		*0.039*
Motive: because of religion	0.082	**	*0.037*
Motive: personal benefits	0.031		*0.085*
Motive: family and friends ask	-0.002		*0.032*
Motive: other people I know benefited	0.034		*0.031*
Type: Medical			
Type: Education	0.036		*0.030*
Type: Religious	0.017		*0.031*
Type: Community	-0.016		*0.034*
Type: Arts	-0.024		*0.028*
Type: Sports	0.001		*0.047*
Type: Hospices	0.046	**	*0.022*
Type: Rights	0.018		*0.031*
Type: Environment	0.015		*0.028*
Type: Housing	0.030		*0.044*
Type: Overseas aid	0.013		*0.024*
Type: Welfare	-0.012		*0.023*
Type: Animals	-0.023		*0.030*
Type: Homeless	0.023		*0.026*
Type: Disaster	-0.016		*0.024*
Type: Rescue	0.054	*	*0.031*
R^2	0.222		
Sample: 1,517 observations			

** indicates that the coefficient is statistically significant at the 10% level*
*** indicates that the coefficient is statistically significant at the 5% level*
**** indicates that the coefficient is statistically significant at the 1% level*

Annex 1: Quantitative Questionnaire

Introduction (when they click through)

Thank you very much for agreeing to take part in this survey on charitable giving. The questions have been designed to explore how your donations to charity might be affected by changes in the way such donations are treated by the tax system.

Please answer the questions as carefully and honestly as you can; this will help to ensure that any changes in the tax treatment of donations are designed to help both donors and charities.

All your answers will be treated with the strictest confidence under the rules of the Market Research Society Code of Conduct to which Ipsos MORI is required to abide by. All reported results will be anonymous. Your personal details will not be given to anyone else unless you explicitly state otherwise.

Please be aware that you need to complete this survey in one session. If you exit the survey at any point you CANNOT rejoin the survey at the same point – you will need to start again.

You are required to provide an answer to each question before progressing to the next.

At the end of the questionnaire, you response will only be taken as valid once you click on the final SUBMIT button.

Thank you again for your time.

Your donations

ASK ALL

1. Thinking about all your monetary donations to charity over the last twelve months,(since May 2008) approximately how much, if anything, did you give?
Please include money put into collection tins, regular donations by cheque, credit card, direct debit or standing order, through payroll giving, donations made on-line, money given at fundraising events and sponsorship etc. Please do not include the value of any time you have donated or the value of contributions (e.g. Gift Aid) made by the government.
SINGLE CODE ONLY

- Nothing
- £1 – £49
- £50 – £99
- £100 – £249
- £250 – £499
- £500 – £749
- £750 – £999
- £1,000 – £1,499
- £1,500 – £1,999
- £2,000 – £2,999
- £3,000 – £4,999
- £5,000 – £9,999
- £10,000+
- Don't know
- No answer

IF 'DON'T KNOW' OR 'NO ANSWER' TO Q1 GO TO Q5

IF £10,000+
2. Approximately how much did you give?
[write in]
Don't know
No answer

ALL BEING ASKED Q2 CONTINUE TO Q3

3. What proportion of these donations was made through [SCRIPTING THIS WILL VARY ACCORDING TO WHICH LINK THE HAVE ENTERED THE SURVEY ON [your CAF Charity Account]/ [Justgiving]]?
SINGLE CODE ONLY

- Nearly all
- from three-quarters to nearly all
- from half up to three-quarters
- About one quarter up to half
- Very little, up to a quarter
- Don't know

Charitable causes

4. What type of charities did you give to (tick all that apply)?
MULTI-CODE ALLOWED. ROTATE LIST (EXCLUDING OTHER, DK AND NA)

- Education
- Religious
- Medical research
- Community development
- Arts, culture, heritage or science
- Sport
- Hospitals/ hospices
- Human rights
- The environment
- Housing
- Overseas aid and development
- Helping the elderly, disabled, or children
- Animal welfare
- Homeless people
- Disaster relief
- Rescue services
- Other (write in)
- Don't know
- No answer

IF TICK MORE THAN ONE
4. And which single type did you give the biggest value of donations to?
SINGLE CODE ROTATE LIST (EXCLUDING OTHER, DK AND NA)

- Education
- Religious
- Medical research
- Community development
- Arts, culture, heritage or science
- Sport
- Hospitals/ hospices
- Human rights
- The environment
- Housing
- Overseas aid and development
- Helping the elderly, disabled, or children
- Animal welfare
- Homeless people
- Disaster relief
- Rescue services
- Other (write in)
- Don't know
- No answer

ASK ALL

Pattern of giving

5. Which, if any, of the following best describes how you give to charity? SINGLE CODE ONLY

- The majority of my donations (in terms of the value of donations) are one-off donations to charities
- The majority of my donations (in terms of the value of donations) are regular donations to the *same* charity or charities
- Neither
- Don't know

Reasons for giving

ASK ALL

7. For each of the statements below, please indicate how much you agree or disagree with each one?

SINGLE CODE ONLY FOR EACH STATEMENT. STATEMENTS ROTATED.

I give to charity because…

	Strongly Agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree	Don't Know
I think that the work of the charity is important						
The government is under-providing a service						
I want to feel useful						
I want to reduce the amount of tax that I pay						
Giving to charity makes me feel good						
I find it hard to say no when I am asked to give						
I feel that it is the right thing to do						
Most people I know give to charity						
I respond to particular appeals (eg disasters, Comic Relief)						
Giving to charity is part of my religious beliefs						
I personally benefit from the charity (or have done in the past)						
Family, friends, neighbours and colleagues ask me to give						
People that I know have been affected by particular charities						

7a. If there are any other reasons that are very relevant to your decision to give to charity, please detail them below.
(please write in)

ASK ALL

8. For each of the types of organisation below, please indicate how much, if any, confidence you have in them?

SINGLE CODE ONLY FOR EACH STATEMENT. STATEMENTS ROTATED.

	A great deal	A fair amount	Not very much	None at all	Don't know
Banks	1	2	3	4	5
The BBC	1	2	3	4	5
Charitable organisations	1	2	3	4	5
Your GP (doctor)	1	2	3	4	5
The National Health Service (NHS)	1	2	3	4	5
Parliament	1	2	3	4	5
Political parties	1	2	3	4	5
The press	1	2	3	4	5

Tax effective giving

ASK ALL

9. There are a number of methods of giving that allow tax relief to be claimed on donations. Which of the following have you used in the past 12 months (since May 2008)? Please tick all that apply.

MULTI-CODE OK

- Gift Aid (allowing the charity to reclaim the basic rate income tax on donations)
- Payroll giving (money donated to charity, deducted from your wages)
- Tax relief on the value of gifts of shares, land or buildings given to charities
- None of these
- Don't know

IF "GIFT AID" FROM Q9 – ASK Q10

10. Approximately what proportion of your total donations in the past 12 months were ones where Gift Aid could be claimed?

SINGLE CODE ONLY

- Nearly all
- from three-quarters to nearly all
- from half up to three-quarters
- About one quarter up to half
- Very little, up to a quarter
- Don't know

Don't know

Gift Aid

ASK ALL

11. The Gift Aid scheme allows charities to reclaim the basic rate income tax on your donation. Using the answers below, please can you indicate how much do you think the charity actually receives from the government for every £1 you donate?

SINGLE CODE ONLY

- More than 40 pence
- 40 pence
- 35 pence
- 30 pence
- 28 pence
- 25 pence
- 22 pence
- 20 pence
- Less than 20 pence
- None of the above
- Don't know

Higher rate tax relief

ASK ALL

Higher rate taxpayers can claim back higher rate tax relief on their Gift Aid donations through the Self Assessment tax return or through their PAYE code.

12. Are you currently a higher rate taxpayer (or likely to be this financial year)?
In 2008-09 you paid the higher rate of tax if your personal income was more than £40,835 a year
In 2009-10 you will pay the higher rate of tax if your personal income is more than £43,875 a year
SINGLE CODE ONLY

- Yes
- No
- Don't know

ASK ALL

13. Were you aware that higher rate taxpayers could claim higher rate tax relief on their donations? SINGLE CODE ONLY

- Yes
- No
- No answer

IF 'YES' TO Q12
14. Do you usually claim back higher rate tax relief on your Gift Aid donations through the Self Assessment tax return or through your PAYE code? SINGLE CODE ONLY

- Yes – through the Self-Assessment tax return
- Yes – through my PAYE code
- No

- Don't know

IF EITHER 'YES' FROM Q14

15. Most higher rate taxpayers claim back higher rate relief at 20% - the difference between the higher rate of tax (40%) and the basic rate income tax relief claimed by the charity. At what rate do you claim back higher rate relief? SINGLE CODE ONLY

- More than 20%
- 20%
- Less than 20%
- Don't know

IF 'NO' TO Q14

16. Why do you not claim back higher rate relief? Please tick all the reasons that apply MULTI-CODE OK

- I was not aware that I could claim it back
- I do not know how to claim it back
- It takes too much time and effort
- It is too complicated
- I am paying the higher rate of tax for the first time this year
- I would only get a small amount of money back
- Other (please specify)
- Don't know
- No answer

Future donations

ASK ALL

17. How likely are you to make any Gift Aid donations to a charity within the next six months? This could be a one-off donation or a regular donation set up as a standing order or direct debit. SINGLE CODE ONLY

- Certain
- Very likely
- Fairly likely
- Not very likely
- Not at all likely
- Don't know

IF 'NOT VERY LIKELY' OR 'NOT AT ALL LIKELY' GO TO Q17, OR 'DON'T KNOW', GO TO Q21

IF 'Certain' or 'Very likely' or 'Fairly likely' TO Q17 ASK Q19

19. And how much do you think that you are likely to give (to the nearest pound)? If the donation you are thinking about is a regular direct debit or standing order, please give the total of that donation for a six month period.

[write in]
Don't know
No answer

IF 'Don't know' OR 'No answer' TO Q19 ASK Q20

20. Please indicate roughly how much you are likely to give by ticking one of the options below that is closest to the amount. If the donation you are thinking about is a regular direct debit or standing order, please give the total of that donation for a six month period.
SINGLE CODE ONLY

- £5
- £10
- £25
- £50
- £75
- £100
- £250
- £500
- £750
- £1,000
- £2,500
- £5,000
- more than £5,000
- Don't know
- No answer

IF 'Don't know' OR 'No answer' TO Q20 OR 'NO' OR 'DON'T KNOW' TO Q17 ASK Q21 – ALL OTHERS GO TO THE NEXT SECTION

21. Have you recently made any Gift Aid donations to a charity within the last six months? This could be a one-off donation or a regular donation set up as a standing order or direct debit.
SINGLE CODE ONLY

- Yes
- No
- Don't know

IF 'NO' OR 'DON'T KNOW' TO Q21 GO TO SECTION STARTING WITH Q39

IF ‘YES’ TO Q21 ASK Q23

23. And how much did you give (to the nearest pound)? If the donation was part of a regular direct debit or standing order, please give the total of that donation for the past six months

[write in]

Don’t know

No answer

IF ‘Don’t know’ OR ‘No answer’ TO Q23 ASK Q24

24. Please indicate roughly how much you gave by ticking one of the options below that is closest to the amount. If the donation was part of a regular direct debit or standing order, please give the total of that donation for the past six months.

SINGLE CODE ONLY

- £5
- £10
- £25
- £50
- £75
- £100
- £250
- £500
- £750
- £1,000
- £2,500
- £5,000
- more than £5,000
- Don’t know
- No answer

IF ‘NO’ OR ‘DON’T KNOW’ TO Q24 GO TO SECTION STARTING WITH Q39

Alternative scenarios I

ASK THIS SECTION TO ALL WHO STATED 'YES" AT Q17 AND GAVE AN AMOUNT IN Q19 OR DID NOT STATE 'DON'T KNOW' OR 'NO ANSWER AT Q20

EACH OPTION HAS THE SAME INTRODUCTION

The Gift Aid scheme allows charities to reclaim the basic rate income tax on your donation and allows higher rate taxpayers to claim back higher rate tax relief. You are now going to be presented with two hypothetical changes to the Gift Aid scheme – either to the amount that the charity can reclaim and/or to the amount that higher rate taxpayers can claim back. In each case you will be asked to consider whether the amount of money that you are likely to give to charity would be affected by the proposed changes.

EACH PERSON IS THEN RANDOMLY ALLOCATED ONE OF THE FOLLOWING OPTIONS, DEPENDING ON THEIR TAXPAYER STATUS

HIGHER RATE TAXPAYER ('YES' TO Q12) – OPTIONS Ai, Bi, Ci, Di or Ei

BASIC RATE TAXPAYER ('NO' / 'DON'T KNOW' TO Q12) – OPTION Fi or Gi

Higher rate taxpayer: OPTION Ai

Scenario 1

25i. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 30 pence for every £1 you donate. (Assume that the amount of higher rate relief that you can claim back is unchanged).

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount [GO TO Q30i]
- Don't know [GO TO SCENARIO 2]

IF EITHER OF THE 'YES' ANSWERS TO Q25i
26i. How much would you be likely to give (to the nearest pound)?

- (write in)
- Don't know

IF 'DON'T KNOW' TO Q26i AND 'Yes - I would give more than' AT Q25i ASK Q27ia
27ia. Which of these comes closest to what you think you might increase your donation by?
SINGLE CODE ONLY

- By10% or less? [GO TO SCENARIO 2]
- By more than 10%? [GO TO Q28ia]
- Don't know [GO TO SCENARIO 2]

IF 'DON'T KNOW' TO Q26i AND 'Yes - I would give less than' AT Q25i ASK Q27ib
27ib. Which of these comes closest to what you think you might decrease your donation by?
SINGLE CODE ONLY

- By 10% or less? [GO TO SCENARIO 2]
- By more than 10%? [GO TO Q28ib]
- Don't know [GO TO SCENARIO 2]

28ia. Would you increase your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q29ia]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

28ib. Would you reduce your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q29ib]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

29ia. Would you increase your donation by 50% or more?
SINGLE CODE ONLY
Yes [GO TO SCENARIO 2]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

29ib. Would you reduce your donation by 50% or more?

SINGLE CODE ONLY
Yes [GO TO SCENARIO 2]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

IF 'No - I would give the same amount' ANSWER TO Q25i ASK Q30i
30i. Which one, if any, of the following best describes why you are likely to give the same amount?
SINGLE CODE ONLY

- I have a regular commitment to giving money that I don't want to change
- I prefer to give a rounded amount and not make small adjustments
- I make my decision about how much to give before considering the tax relief
- The change in tax is so small, it is not worth bothering about
- The tax relief has no effect on my decision about how much to give
- Other (please specify)
- Don't know

Scenario 2

31i. Currently, the Gift Aid scheme allows you to claim back higher rate relief, worth 25 pence for every £1 they give to charity.

Suppose instead that you could claim back a 30 pence rebate. (Assume that the amount that the charity can reclaim stays at its current level of 25 pence).

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give?
SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount [GO TO Q36i]
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

IF EITHER OF THE 'YES' ANSWERS TO Q31i
32i. How much would you be likely give (to the nearest pound)?

- (write in)
- Don't know

IF 'DON'T KNOW' TO Q32i AND 'Yes - I would give more than' AT Q31i ASK Q33ia
33ia. Which of these comes closest to what you think you might increase your donation by?
SINGLE CODE ONLY

- By 10% or less? [GO TO Q37i]
- By more than 10%? [GO TO Q34ia]
- Don't know [GO TO Q37i]

IF 'DON'T KNOW' TO Q32i AND 'Yes - I would give less than' AT Q31i ASK Q33ib
33ib. Which of these comes closest to what you think you might decrease your donation by?
SINGLE CODE ONLY

- By 10% or less? [GO TO Q37i]
- By more than 10%? [GO TO Q34ib]
- Don't know [GO TO Q37i]

34ia. Would you increase your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q35ia]

No [GO TO Q37i]
Don't know [GO TO Q37i]

34ib. Would you reduce your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q35ib]
No [GO TO Q37i]
Don't know [GO TO Q37i]

35ia. Would you increase your donation by 50% or more?
SINGLE CODE ONLY
Yes [GO TO Q37i]
No [GO TO Q37i]
Don't know [GO TO Q37i]

35ib. Would you reduce your donation by 50% or more?
SINGLE CODE ONLY
Yes [GO TO Q37i]
No [GO TO Q37i]
Don't know [GO TO Q37i]

IF 'No - I would give the same amount' ANSWERS TO Q31i
36i. Which one, if any, of the following best describes why you are likely to give the same amount?
SINGLE CODE ONLY

- I have a regular commitment to giving money that I don't want to change
- I prefer to give a rounded amount and not make small adjustments
- I make my decision about how much to give before considering the tax relief
- The change in tax is so small, it is not worth bothering about
- The tax relief has no affect on my decision about how much to give
- Other (please specify)
- Don't know

37i. If you had to choose one of the two different scenarios you have just been presented with which one, if either, would you choose?
SINGLE CODE ONLY

- Scenario 1 - An increase in the amount that the charity receives when you donate
- Scenario 2 - An increase in the amount that you can reclaim as a rebate
- I do not have an opinion either way
- Don't know

[NOW GO TO SECTION THAT STARTS WITH Q39]

Higher rate taxpayer: OPTION Bi

Scenario 1

25i. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 20 pence for every £1 you donate. (Assume that the amount of higher rate relief that you can claim back is unchanged.)

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26i – Q30i

Scenario 2

31i. Currently, the Gift Aid scheme allows you to claim back higher rate relief, worth 25 pence for every £1 they give to charity.

Suppose instead that you could claim back a 20 pence rebate. (Assume that the amount that the charity can reclaim stays at its current level of 25 pence.)

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31i – Q36i

37i. If you had to choose one of the two different scenarios you have just been presented with which one, if either, would you choose?
SINGLE CODE ONLY

- Scenario 1 - A decrease in the amount that the charity receives when you donate
- Scenario 2 - A decrease in the amount that you can reclaim as a rebate
- I do not have an opinion either way
- Don't know

Higher rate taxpayer: OPTION Ci

Scenario 1

25i. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate. As a higher rate taxpayer you can also claim back higher rate relief, worth an additional 25 pence for every £1 you donate. This means that it "costs" a higher rate taxpayer 75 pence for the charity to receive £1.25.

Suppose instead that the charity received 50 pence for every £1 you donate, but that you could no longer claim back any additional higher rate relief.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26i – Q30i

Scenario 2

31i. Now suppose that the charity received 30 pence for every £1 you donate and that you could no longer claim back any additional higher rate relief.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31i – Q36i

Higher rate taxpayer: OPTION Di

Scenario 1

25i. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate. As a higher rate taxpayer you can also claim back higher rate relief, worth an additional 25 pence for every £1 you donate. This means that it "costs" a higher rate taxpayer 75 pence for the charity to receive £1.25.

Suppose instead that the charity received 30 pence for every £1 you donate, but that you could no longer claim back any additional higher rate relief.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26i – Q30i

Scenario 2

31i. Now suppose that that the charity received 37 pence for every £1 you donate, and that you could no longer claim back any additional higher rate relief

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31i – Q36i

Higher rate taxpayer: OPTION Ei

Scenario 1

25i. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate. As a higher rate taxpayer you can also claim back higher rate relief, worth an additional 25 pence for every £1 you donate. This means that it "costs" a higher rate taxpayer 75 pence for the charity to receive £1.25.

Suppose instead that the charity received 66 pence for every £1 you donate, but that you could no longer claim back any additional higher rate relief.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26i – Q30i

Scenario 2

31i. Now suppose that that the charity received 50 pence for every £1 you donate, and that you could no longer claim back any additional higher rate relief

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31i – Q36i

Basic rate taxpayer: OPTION Fi

Scenario 1

25i. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 30 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26i – Q30i

Scenario 2

31i. Now suppose that that the charity received 37 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31i – Q36i

Basic rate taxpayer: OPTION Gi

Scenario 1

25i. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 37 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26i – Q30i

Scenario 2

31i. Now suppose that that the charity received 30 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would give more than [insert answer from Q19 or Q20]
- Yes - I would give less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31i – Q36i

Alternative scenarios II

FOR PEOPLE WHO RECENTLY MADE A GIFT AID DONATION TO CHARITY WITHIN THE LAST SIX MONTHS. ASK THIS SECTION TO ALL WHO STATED 'YES" AT Q21 AND GAVE AN AMOUNT IN Q23 OR DID NOT STATE 'DON'T KNOW' OR 'NO ANSWER AT Q24

EACH OPTION HAS THE SAME INTRODUCTION

The Gift Aid scheme allows charities to reclaim the basic rate income tax on your donation and allows higher rate taxpayers to claim back higher rate tax relief. You are now going to be presented with two hypothetical changes to the Gift Aid scheme – either to the amount that the charity can reclaim and/or to the amount that higher rate taxpayers can claim back. In each case you will be asked consider whether the amount of money that you gave to give to charity would have been affected by the proposed changes.

EACH PERSON IS THEN RANDOMLY ALLOCATED ONE OF THE FOLLOWING OPTIONS, DEPENDING ON THEIR TAXPAYER STATUS

HIGHER RATE TAXPAYER ('YES' TO Q12) – OPTIONS Aii, Bii, Cii, Dii or Eii

BASIC RATE TAXPAYER ('NO' / 'DON'T KNOW' TO Q12) – OPTION Fii or Gii

Higher rate taxpayer: OPTION Aii

Scenario 1

25ii. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 30 pence for every £1 you donate. (Assume that the amount of higher rate relief that you can claim back is unchanged).

Thinking about your donation of [insert answer from Q23 or Q24] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q23 or Q24]
- Yes - I would have given less than [insert answer from Q23 or Q24]
- No - I would have given the same amount [GO TO Q30ii]
- Don't know [GO TO SCENARIO 2]

IF EITHER OF THE 'YES' ANSWERS TO Q25ii
26ii. How much would you have given (to the nearest pound)?

- (write in)
- Don't know

IF 'DON'T KNOW' TO Q26ii AND 'Yes - I would give more than' AT Q25ii ASK Q27iia
27ia. Which of these comes closest to what you think you might have increased your donation by? SINGLE CODE ONLY

- By 10% or less? [GO TO SCENARIO 2]
- By more than 10%? [GO TO Q28iia]
- Don't know [GO TO SCENARIO 2]

IF 'DON'T KNOW' TO Q26ii AND 'Yes - I would give less than' AT Q25ii ASK Q27iib
27iib. Which of these comes closest to what you think you might have decreased your donation by? SINGLE CODE ONLY

- By 10% or less? [GO TO SCENARIO 2]
- By more than 10%? [GO TO Q28iib]
- Don't know [GO TO SCENARIO 2]

28iia. Would you have increased your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q29iia]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

28iib. Would you have reduced your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q29iib]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

29iia. Would you have increased your donation by 50% or more?
SINGLE CODE ONLY
Yes [GO TO SCENARIO 2]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

29iib. Would you have reduced your donation by 50% or more?
SINGLE CODE ONLY
Yes [GO TO SCENARIO 2]
No [GO TO SCENARIO 2]
Don't know [GO TO SCENARIO 2]

IF 'No - I would give the same amount' ANSWERS TO Q25ii
30ii. Which one, if any, of the following best describes why you would have given the same amount?
SINGLE CODE ONLY

- I have a regular commitment to giving money that I don't want to change
- I prefer to give a rounded amount and not make small adjustments
- I make my decision about how much to give before considering the tax relief
- The change in tax is so small, it is not worth bothering about
- The tax relief has no affect on my decision about how much to give
- Other (please specify)
- Don't know

Scenario 2

31ii. Currently, the Gift Aid scheme allows you to claim back higher rate relief, worth 25 pence for every £1 they give to charity.

Suppose, instead that you could claim back a 30 pence rebate. (Assume that the amount that the charity can reclaim stays at its current level of 25 pence).

Thinking about your donation of [insert answer from Q23 or Q24] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q23 or Q24]
- Yes - I would have given less than [insert answer from Q23 or Q24]
- No - I would have given the same amount [GO TO Q36ii]
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

IF EITHER OF THE 'YES' ANSWERS TO Q31ii
32ii. How much would you have given (to the nearest pound)?

- (write in)
- Don't know

IF 'DON'T KNOW' TO Q32ii AND 'Yes - I would give more than' AT Q31ii ASK Q33iia
33iia. Which of these comes closest to what you think you might have increased your donation by?
SINGLE CODE ONLY

- By 10% or less? [GO TO Q37ii]
- By more than 10%? [GO TO Q34iia]
- Don't know [GO TO Q37ii]

IF 'DON'T KNOW' TO Q32i AND 'Yes - I would give less than' AT Q31i ASK Q33ib
33iib. Which of these comes closest to what you think you might have decreased your donation by?
SINGLE CODE ONLY

- By 10% or less? [GO TO Q37ii]
- By more than 10%? [GO TO Q34iib]
- Don't know [GO TO Q37ii]

34iia. Would you have increased your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q35iia]

No [GO TO Q37ii]
Don't know [GO TO Q37ii]

34iib. Would you have reduced your donation by 25% or more?
SINGLE CODE ONLY
Yes [GO TO Q35iib]
No [GO TO Q37ii]
Don't know [GO TO Q37ii]

35ia. Would you have increased your donation by 50% or more?
SINGLE CODE ONLY
Yes [GO TO Q37ii]
No [GO TO Q37ii]
Don't know [GO TO Q37ii]

35ib. Would you have reduced your donation by 50% or more?
SINGLE CODE ONLY
Yes [GO TO Q37ii]
No [GO TO Q37ii]
Don't know [GO TO Q37ii]

IF 'No - I would give the same amount' ANSWERS TO Q31ii
36ii. Which one, if any, of the following best describes why you would have given the same amount?
SINGLE CODE ONLY

- I have a regular commitment to giving money that I don't want to change
- I prefer to give a rounded amount and not make small adjustments
- I make my decision about how much to give before considering the tax relief
- The change in tax is so small, it is not worth bothering about
- The tax relief has no affect on my decision about how much to give
- Other (please specify)
- Don't know

37ii. If you had to choose one of the two different scenarios you have just been presented with which one, if either, would you choose?
SINGLE CODE ONLY

- Scenario 1 - An increase in the amount that the charity receives when you donate
- Scenario 2 - An increase in the amount that you can reclaim as a rebate
- I do not have an opinion either way
- Don't know

[NOW GO TO SECTION THAT STARTS WITH Q39]

Higher rate taxpayer: OPTION Bii

Scenario 1

25ii. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 20 pence for every £1 you donate. (Assume that the amount of higher rate relief that you can claim back is unchanged).

Thinking about your donation of [insert answer from Q23 or Q24] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q23 or Q24]
- Yes - I would have given less than [insert answer from Q23 or Q24]
- No - I would have given the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26ii – Q30ii

Scenario 2

31ii. Currently, the Gift Aid scheme allows you to claim back higher rate relief, worth 25 pence for every £1 they give to charity.

Suppose, instead that you could claim back a 20 pence rebate. (Assume that the amount that the charity can reclaim stays at its current level of 25 pence).

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q19 or Q20]
- Yes - I would have given less than [insert answer from Q19 or Q20]
- No - I would have given the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31ii – Q36i

37ii. If you had to choose one of the two different scenarios you have just been presented with which one, if either, would you choose?
SINGLE CODE ONLY

- Scenario 1 - A decrease in the amount that the charity receives when you donate
- Scenario 2 - A decrease in the amount that you can reclaim as a rebate
- I do not have an opinion either way
- Don't know

Higher rate taxpayer: OPTION Cii

Scenario 1

25ii. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate. As a higher rate taxpayer you can also claim back higher rate relief, worth an additional 25 pence for every £1 you donate. This means that it "costs" a higher rate taxpayer 75 pence for the charity to receive £1.25.

Suppose instead that the charity received 50 pence for every £1 you donate, but that you could no longer claim back any additional higher rate relief.

Thinking about your donation of [insert answer from Q23 or Q24] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q23 or Q24]
- Yes - I would have given less than [insert answer from Q23 or Q24]
- No - I would have given the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26ii – Q30ii

Scenario 2

31ii. Now suppose that that the charity received 30 pence for every £1 you donate, and that you could no longer claim back any additional higher rate relief

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q19 or Q20]
- Yes - I would have given less than [insert answer from Q19 or Q20]
- No - I would give the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31ii – Q36ii

Higher rate taxpayer: OPTION Dii

Scenario 1

25ii. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate. As a higher rate taxpayer you can also claim back higher rate relief, worth an additional 25 pence for every £1 you donate. This means that it "costs" a higher rate taxpayer 75 pence for the charity to receive £1.25.

Suppose instead that the charity received 30 pence for every £1 you donate, but that you could no longer claim back any additional higher rate relief.

Thinking about your donation of [insert answer from Q23 or Q24] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q23 or Q24]
- Yes - I would have given less than [insert answer from Q23 or Q24]
- No - I would have given the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26ii – Q30ii

Scenario 2

31ii. Now suppose that that the charity received 37 pence for every £1 you donate, and that you could no longer claim back any additional higher rate relief

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q19 or Q20]
- Yes - I would have given less than [insert answer from Q19 or Q20]
- No - I would have given the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31ii – Q36ii

Higher rate taxpayer: OPTION Eii

Scenario 1

25ii. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate. As a higher rate taxpayer you can also claim back higher rate relief, worth an additional 25 pence for every £1 you donate. This means that it "costs" a higher rate taxpayer 75 pence for the charity to receive £1.25.

Suppose instead that the charity received 66 pence for every £1 you donate, but that you could no longer claim back any additional higher rate relief.

Thinking about your donation of [insert answer from Q23 or Q24] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q23 or Q24]
- Yes - I would have given less than [insert answer from Q23 or Q24]
- No - I would have given the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26ii – Q30ii

Scenario 2

31ii. Now suppose that that the charity received 50 pence for every £1 you donate, and that you could no longer claim back any additional higher rate relief

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you are likely to give? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q19 or Q20]
- Yes - I would have given less than [insert answer from Q19 or Q20]
- No - I would have given the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31ii – Q36ii

Basic rate taxpayer: OPTION Fii

Scenario 1

25ii. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 30 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q23 or Q24] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q23 or Q24]
- Yes - I would have given less than [insert answer from Q23 or Q24]
- No - I would have given the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26ii – Q30ii

Scenario 2

31ii. Now suppose that that the charity received 37 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q19 or Q20]
- Yes - I would have given less than [insert answer from Q19 or Q20]
- No - I would have given the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31ii – Q36ii

Basic rate taxpayer: OPTION Gii

Scenario 1

25ii. Through the Gift Aid scheme, the charity you are donating to reclaims the basic rate income tax on your donation. This is worth 25 pence for every £1 you donate.

Suppose instead that the charity received 37 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q19 or Q20]
- Yes - I would have given less than [insert answer from Q19 or Q20]
- No - I would have given the same amount
- Don't know [GO TO SCENARIO 2]

REPEAT QUESTIONS Q26i – Q30i

Scenario 2

31ii. Now suppose that that the charity received 30 pence for every £1 you donate.

Thinking about your donation of [insert answer from Q19 or Q20] would this change affect the amount you gave? SINGLE CODE ONLY

- Yes - I would have given more than [insert answer from Q19 or Q20]
- Yes - I would have given less than [insert answer from Q19 or Q20]
- No - I would have given the same amount
- Don't know [GO TO SECTION THAT STARTS WITH Q39]

REPEAT QUESTIONS Q31i – Q36i

ADDITIONAL QUESTION FOR ALL TAXPAYERS

38i. If the government reduced the amount of tax relief on Gift Aid donations, would you be more likely to use one of the other methods of giving that allow the charity to claim tax relief on your donations? Tick all that apply. Assume that the tax treatment of these other methods would not be changed.
MULTIPLE CODE

- No, I would not be more likely to use other methods
- Yes, I would be more likely to use Payroll giving (money donated to charity, deducted from your wages)
- Yes, I would be more likely to give shares
- Yes, I would be more likely to give land or buildings
- Don't know

IF ANY OF THE YES answers at Q38i

38i_a. How much of the donations you currently make through the Gift Aid scheme would you be likely to switch to these other methods?:

- All of your current Gift Aid donations
- Most of your current Gift Aid donations
- Half of your current Gift Aid donations
- Between 25% and half of your current Gift Aid donations
- Between 10% and 25% of your current Gift Aid donations
- Less than 10% of your current Gift Aid donations
- Don't know

Alternative tax treatment 2
ONLY HIGHER RATE TAXPAYERS '(YES' TO Q12) WILL BE ASKED THESE QUESTIONS, BUT EACH PERSON WILL BE ASKED THE FULL SET. THERE WILL BE RANDOM ALLOCATION BETWEEN SETS 1, 2 SET 3

Set 1
In principle, the government could change either the amount that a charity can reclaim when you give via Gift Aid, or the amount of higher rate relief that higher rate taxpayers can claim back via the Self Assessment tax return or their PAYE code.

You will now be presented with a number of questions that offer you two hypothetical alternatives for getting tax relief on donations. For each please indicate which one you prefer, if any.

SINGLE CODE FOR EACH.

39. Which of these alternatives you would prefer:

A	B	C	
I give £80 to a charity The charity reclaims £20 I can claim back £20	I give £60 to a charity The charity reclaims £40 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

40. And which of these alternatives would you prefer?

A	B	C	
I give £80 to a charity The charity reclaims £20 I can claim back £20	I give £80 to a charity The charity reclaims £20 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

41. And which of these alternatives would you prefer?

A	B	C	
I give £100 to a charity The charity cannot reclaim anything I can claim back £40	I give £60 to a charity The charity reclaims £50 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

42. And which of these alternatives would you prefer?

A	B	C	
I give £70 to a charity The charity reclaims £30 I cannot claim anything back	I give £80 to a charity The charity reclaims £20 I can claim back £20	I genuinely don't mind between the two	Don't know / No opinion

43. And which of these alternatives would you prefer?

A	B	C	
I give £60 to a charity The charity reclaims £40 I cannot claim anything back	I give £60 to a charity The charity reclaims £40 I can claim back £10	I genuinely don't mind between the two	Don't know / No opinion

Set 2

In principle, the government could change either the amount that a charity can reclaim when you give via Gift Aid, or the amount of higher rate relief that higher rate taxpayers can claim back via the Self Assessment tax return or their PAYE code.

You will now be presented with a number of questions that offer you two alternative potential changes to Gift Aid and higher rate relief. For each please indicate your preference, if any.

SINGLE CODE FOR EACH.

39. Which of these alternatives you would prefer:

A	B	C	
I give £800 to a charity The charity reclaims £200 I can claim back £200	I give £600 to a charity The charity reclaims £400 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

40. And which of these alternatives would you prefer?

A	B	C	
I give £800 to a charity The charity reclaims £200 I can claim back £200	I give £800 to a charity The charity reclaims £200 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

41. And which of these alternatives would you prefer?

A	B	C	
I give £1000 to a charity The charity cannot reclaim anything I can claim back £400	I give £600 to a charity The charity reclaims £500 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

42. And which of these alternatives would you prefer?

A	B	C	
I give £700 to a charity The charity reclaims £300 I cannot claim anything back	I give £800 to a charity The charity reclaims £200 I can claim back £200	I genuinely don't mind between the two	Don't know / No opinion

43. And which of these alternatives would you prefer?

A	B	C	
I give £600 to a charity The charity reclaims £400 I cannot claim anything back	I give £600 to a charity The charity reclaims £400 I can claim back £100	I genuinely don't mind between the two	Don't know / No opinion

Set 3

In principle, the government could change either the amount that a charity can reclaim when you give via Gift Aid, or the amount of higher rate relief that higher rate taxpayers can claim back via the Self Assessment tax return or their PAYE code.

You will now be presented with a number of questions that offer you two alternative potential changes to Gift Aid and higher rate relief. For each please indicate your preference, if any.

SINGLE CODE FOR EACH.

39. Which of these alternatives you would prefer:

A	B	C	
I give £8 to a charity The charity reclaims £2 I can claim back £2	I give £6 to a charity The charity reclaims £4 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

40. And which of these alternatives would you prefer?

A	B	C	
I give £8 to a charity The charity reclaims £2 I can claim back £2	I give £8 to a charity The charity reclaims £2 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

41. And which of these alternatives would you prefer?

A	B	C	
I give £10 to a charity The charity cannot reclaim anything I can claim back £4	I give £6 to a charity The charity reclaims £5 I cannot claim anything back	I genuinely don't mind between the two	Don't know / No opinion

42. And which of these alternatives would you prefer?

A	B	C	
I give £7 to a charity The charity reclaims £3 I cannot claim anything back	I give £8 to a charity The charity reclaims £2 I can claim back £2	I genuinely don't mind between the two	Don't know / No opinion

43. And which of these alternatives would you prefer?

A	B	C	
I give £6 to a charity The charity reclaims £4 I cannot claim anything back	I give £6 to a charity The charity reclaims £4 I can claim back £1	I genuinely don't mind between the two	Don't know / No opinion

ASK HIGHER RATE TAXPAYERS ONLY ('YES' TO Q12)

46. In making your choices between these hypothetical scenarios, what was the most important thing affecting your preferred choice?

SINGLE CODE ONLY

- The amount that you give to the charity
- The amount that the charity reclaims
- The amount that you claim back
- The amount that you give less the amount you claim back
- The amount you give plus the amount the charity reclaims
- The amount you give, the amount the charity reclaims and the amount you claim back
- The simplest system
- Don't know
- Other (write in)

ASK HIGHER RATE TAXPAYERS ONLY ('YES' TO Q12)

47. Suppose that there was a tick-box on the Gift Aid form to allow the charity to reclaim the higher rate income tax on your donation and that you could not reclaim any higher rate relief via the Self Assessment form or the PAYE code whether or not you ticked the box. How likely would you be to tick the box?
SINGLE CODE ONLY

- Very likely
- Fairly likely
- Not very likely
- Not at all likely
- Don't know

IF 'Very likely' OR 'Fairly likely' FROM Q47 PLEASE ASK Q48
48. What is the main reason why you would be likely to tick this box?
SINGLE CODE ONLY

- The charity would get more money from the government
- I do not currently reclaim any higher rate relief
- It would be easier for me to tick a box than to reclaim higher rate relief myself
- Other (write in)
- Don't know

IF 'Not very likely' OR 'Not at all likely' FROM Q47 PLEASE ASK Q49
49. What is the main reason why you would not be likely to tick this box?
SINGLE CODE ONLY

- I would prefer to reclaim higher rate relief myself via the Self Assessment form or the PAYE code
- I do not want to reveal my taxpayer status
- The charity may target me for more money
- I am not sure whether I will be a higher rate taxpayer
- It is not really worth it
- Other (write in)
- Don't know

About you

ASK ALL

50.Please indicate your gender?
SINGLE CODE ONLY
- Male
- Female
- No answer

ASK ALL

51. How old are you?
SINGLE CODE ONLY
- Under 25
- 25-34
- 35-44
- 45-54
- 55-64
- 65-74
- 75+
- No answer

ASK ALL

52. Which of the following best applies to you?
SINGLE CODE ONLY
- Married
- Living together
- Single
- Widowed
- Divorced
- Separated
- No answer

ASK ALL

53. Which of these applies to you?
SINGLE CODE ONLY
- Have paid job - Full time (30+ hours per week)
- Have paid job - Part time (8-29 hours per week)
- Have paid job - Part time (Under 8 hours per week)
- Not working - Housewife
- Self-employed
- Full time student
- Unemployed and seeking work
- Retired
- Not in paid work for other reason
- Not in paid work because of long term illness or disability
- No answer

IF Codes 1 – 3 AT Q53

54. What type of organisation do you work for?
SINGLE CODE ONLY

- Private sector organisation
- Public sector organisation
- Not-for-profit organisation
- Don't know
- No answer

ASK ALL

55. How many children do you have (include those who are not living in your home)?
SINGLE CODE ONLY

- 0
- 1
- 2
- 3+
- No answer

IF ANY CHILDREN AT Q55

56. And what is the age of your youngest child?
PLEASE ENTER
No answer

ASK ALL

57. Which, if any, is the highest educational or professional qualification you have obtained?
SINGLE CODE ONLY.

- GCSE/O-Level/CSE
- Vocational qualifications (=NVQ1+2)
- A-Level or equivalent (=NVQ3)
- Bachelor Degree or equivalent (=NVQ4)
- Masters/PhD or equivalent
- Other
- No formal qualifications
- Still studying
- No answer

ASK ALL

58. Have you ever done any of the following for a charity? Please select as many as apply
MULTI-CODE OK

- Been an unpaid volunteer
- Been a paid employee
- Been on a committee of a local club or society
- Served as a church treasurer
- Served as a trustee / on a board of directors
- None of these

ASK ALL

59a. Please could you indicate below the group you would place your own individual income per year from all sources, before tax and other deductions (gross income)?

59b. Please could you indicate below the group you would place your total household income per year from all sources, before tax and other deductions (gross income)?

SINGLE CODE ONLY

	Your own individual income	The total income of your household
Up to £4,499		
£4,500 - £6,499		
£6,500 - £7,499		
£7,500 - £9,499		
£9,500 - £11,499		
£13,500 - £15,499		
£15,500 - £17,499		
£17,500 - £24,999		
£25,000 - £29,999		
£30,000 - £39,999		
£40,000 - £49,999		
£50,000 - £74,999		
£75,000 -£99,999		
£100,000 - £149,999		
£150,000 - £199,999		
£200,000 - £299,999		
Over £300,000		
No answer		

IF INDIVIDUAL INCOME AT Q59a is £300,000+

60. Approximately, what is your total annual income from all sources, before tax and other deductions (gross income)?
[write in]
No answer

61. Which region do you live in?

1 North East
2 North West
3 Yorkshire and The Humber
4 East Midlands
5 West Midlands
6 East of England
7 London
8 South East
9 South West
10 Wales
11 Scotland

Annex 2: Qualitative Topic Guide

Interview Topics

1. **Introduction and background**: to include general objectives, parties involved in research and assurances of confidentiality. We will ask for permission to record the interviews in order to capture their views accurately.

2. **Motives for giving**: Ask participants to describe their charitable giving and their motives for giving to charity and to particular charities.
    a. We are interested in their pattern of giving to charity. Prompts – can you tell us about which charities you have given to over the past 12 months? How much have you given?
    b. We would also like to explore their motives for giving and then let them respond. If they require prompting, suggest:
    - Do you think the work of the charity is important?
    - Do you think the government should be more involved in the areas that you are active in as a donor?
    - Have your personal experiences and/or those of close family friends made you give to particular charities more than to others?
    - Do you give because not only is giving good for its own sake, but maybe it also helps you in your professional activities?
    - Do you give, at least partially, for tax minimizing purposes?
    - Is visibility of your donations a factor?
    - Also – which charities have you given to? Why did you decide these particular charities?

3. **Importance of tax incentives for giving**:
    - Use of tax incentives – Gift Aid, shares, land, buildings and capital, payroll giving
    - How much are you personally aware of the tax incentives that are available?
    - How much do you rely on an accountant to deal with tax issues after you have made you decisions?
    - How much advice do you get from your accountant before making a donation?
    - How important are tax incentives for giving in your decision about: Whether to give to charity? How much to give to charity?
    - What stage of the decision do tax incentives get factored in?

4. **Policy change under consideration**: Discuss possible reform to Gift Aid, i.e. replacement of the tax rebate with an increase in the amount that charities can reclaim (first discuss current mode and then the mode under replacement).

- What do you think about this proposed change?
- Do you think that this replacement affect how much you give?
- Do you think that this replacement would affect your method of giving?
- What about other tax incentives for giving – do you think you would be more likely to use these if such a change were introduced?
- Do you think that this change is a good idea?
  - If yes, why is that?
  - If no, why is that?

5. **Views of participants**:
   - Would you like to share your views about how the current system of tax incentives for giving should evolve?
   - Are there any issues that we haven't discussed but that you would like to raise?

Total estimated time is between 30 and 40 minutes (5 mins per topic).