



Research and data
Analogue and digital
Customers and money

Charitable Giving and Gift Aid

Research Report for HM Revenue & Customs

September 2016

HM Revenue and Customs Research Report 482



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Published by HM Revenue and Customs, March 2018
www.hmrc.gov.uk



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1 Glossary of key terms

This is a glossary of key terms used within the report. The terms and definitions apply specifically to these research findings. They are presented in alphabetical order.

12 months prior to interview	Donations made in the 12 months prior to the participant's interview (fieldwork conducted between November 2015 and January 2016).
Charitable giving/ charitable donation	<p>For the purposes of this study, this includes cash donations made to charity in the 12 months prior to interview, through the following ten donation channels:</p> <ul style="list-style-type: none"> • Sponsorship online (e.g. Just Giving) • Sponsorship not online (e.g. paper form rather than online) • Donations made by charity envelope/ cheque in the post • Cash collection at place of worship • Cash donation through buckets or tins • Direct debit or standing order (not payroll giving) • Donations by text message • Donations by telephone (not by text or online) • Donations directly to a charity through their website • Donations through cash machine/ ATM <p>Donations of goods (e.g. to a charity shop), time (e.g. volunteering) or other cash donations (e.g. payroll giving) not listed above do not fall within the definition of charitable giving/ charitable donations for the purposes of this study.</p> <p>This definition of charitable giving contributes to the reason why the value of charitable giving in this research differs from other published data (e.g. Cabinet Office Community Life Survey, Charities Aid Foundation UK Giving report or NCVO Almanac). This research also used a different methodology to these other published studies.</p>
Donation channel	One of the ten methods of donating/ facilities to donate to charity defined in 'charitable giving/ charitable donation'.
Donor	An individual who has donated to charity through any of the ten donation channels defined in 'charitable giving/ charitable donation'.
Eligibility to add Gift Aid status	<p>Eligible to add Gift Aid: individuals with a gross personal income of £10,600 or more a year (basic, higher or additional rate taxpayers)¹.</p> <p>Ineligible to add Gift Aid: individuals with a gross personal income of less than £10,600 a year (non-taxpayers)¹.</p> <p>Both <i>Income Tax</i> and <i>Capital Gains Tax</i> payers are eligible to add Gift Aid to donations. However, for the purposes of this research the</p>

¹ Based on the 2015/ 2016 income tax thresholds that applied when the interviews were conducted.



definition of eligibility was limited to *Income Tax Rate* and did not consider *Capital Gains Tax*.

Gift Aid

The government operated scheme enabling registered charities or community registered sports clubs (CASCs) to claim back 25p for every £1 donation made to that charity (i.e. amount of Gift Aid paid to charities is calculated as 25% of the value of donations where Gift Aid was added). Donors must pay income tax or capital gains tax and must have completed a Gift Aid declaration.

Gift Aid error

Donations that contribute to the Gift Aid tax gap or the value of unclaimed Gift Aid as a result of the following behaviours:

- Ineligible donors who add Gift Aid and thus contribute to the Gift Aid tax gap. They behave in a way which *contradicts the rules* governing the Gift Aid scheme.
- Eligible donors who do not add Gift Aid to their donations, and thus contribute to the value of unclaimed Gift Aid. They behave in a way which *contradicts the expectations* of the Gift Aid scheme: the individuals do not make use of the scheme to maximise income for charities.

Those who are eligible to add Gift Aid are not required to do so when donating as this is voluntary. Such occurrences are not incorrect per se; however, this behaviour contributes to the amount of unclaimed Gift Aid, and is therefore classified as 'incorrect' or 'Gift Aid error' for the purposes of this research.

Gift Aid Small Donations Scheme

The scheme enabling charities to claim 25% of the value of cash donations of £20 or less, on donations that do not have a Gift Aid declaration from the donor.

Gift Aid tax gap

The value of Gift Aid claims paid to charities from donations that were made by individuals who were ineligible to add Gift Aid. The Gift Aid tax gap is created when charities claim Gift Aid back from those donations; however, HMRC doesn't have the equivalent revenue from income tax paid by those donors to cover the additional amount paid to charities. The Gift Aid tax gap presented in the report is *up to* a certain value because HMRC runs compliance checks on some Gift Aid claims and is therefore able to recover some Gift Aid added by ineligible donors. Furthermore, Capital Gains Tax was not considered in the donor eligibility classification.

**Gift Aid Higher/
Additional Rate Tax Relief**

The tax relief scheme enabling higher and additional rate taxpayers to claim back the difference between the tax rate they pay and basic rate on their donation.

Personal income

Comprises income from earnings, self-employment, benefits, pension and interest from savings.



Taxpayer status

Non-taxpayer: Individual with a gross personal income of less than £10,600 a year.

Basic rate taxpayer: Individual with a gross personal income between £10,600 and £42,384 (inclusive) a year.

Higher or additional rate taxpayer: Individual with a gross personal income of £42,385 or more a year.

Unclaimed Gift Aid

The value of Gift Aid claims that could have been paid to charities, from donations made by individuals who were eligible to add Gift Aid, but did not do so. The unclaimed Gift Aid referenced in the report does not include Gift Aid claimed by charities through the Gift Aid Small Donations Scheme (on small cash donations of £20 or less – see definition above for details). As such, the value of unclaimed Gift Aid for charities could be at least 5% lower than estimated in this report.²

² Details on the annual value of the Gift Aid Small Donations Scheme (GASDS) are available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/532379/Table_10_2.pdf.



2 Executive summary

2.1 Research context and objectives

Gift Aid is an important source of income for charities through the provision of tax relief on charitable donations made by individuals in the UK. The scheme, while highly beneficial for the charitable sector, is not without its challenges. This is due to the potential for error within the current system caused when:

- ▶ Gift Aid is added to a donation made by an individual who is ineligible to do so – this generates a tax gap.
- ▶ Gift Aid is not added to a donation made by an individual who is eligible to do so – this generates a value of unclaimed Gift Aid.

The purpose of this research is to contribute to and enhance HMRC's evidence base with regards to charitable giving and use of Gift Aid. More specifically, to:

- Objective 1:* estimate the value of the Gift Aid tax gap and unclaimed Gift Aid, by generating robust and reliable estimates for the prevalence of, and £ value generated by charitable giving;
- Objective 2:* develop an understanding of correct and incorrect Gift Aid behaviours among donors.

2.2 Overview of methodology

HMRC commissioned Quadrangle to carry out a nationally representative study of individuals aged 16 or over and living in the UK. The following methodological approach was used:

Questionnaire design Including cognitive interviews to test comprehension and information recall

Sample design Stratified random probability sampling using an RDD³ sampling frame

Fieldwork Pilot followed by a full roll out of the survey. Interview length: 13 min (avg.)

Data collection CATI⁴ fieldwork took place between November 2015 and January 2016

Outcome 1,377 completed interviews (1,314 donors and 63 non-donors⁵)

³ Random Digit Dialling

⁴ Computer Assisted Telephone Interviewing

⁵ Non-donors: includes donors who donated only goods or time, i.e. were not cash donors.



2.3 Key findings

2.3.1 Charitable giving and use of Gift Aid

- ▶ The vast majority of the UK population aged 16 or over (95%) have given to charity in the 12 months prior to interview, generating £8.91bn in charitable donations. The most commonly used way of donating is by putting money in buckets and tins, however, direct debits account for the largest proportion of the money donated to charity⁶.
- ▶ Gift Aid was added to just over half (52%) of the total value of donations and the Gift Aid amount claimed back by charities amounts to £1.16bn⁷. Proportionally, online channels (online sponsorship and direct to charity website) generate the most Gift Aid activity as 73% of the value of these donations have gift aid added to them (in comparison to around 50% on average across the other channels). Whilst Gift Aid declaration is lower for direct debits, this channel generates the highest Gift Aid value because donation values are the largest.
- ▶ Donor awareness of Gift Aid was is high, with 88% stating that they had heard of the scheme prior to interview. Levels of awareness were higher among basic rate (91%) and higher/ additional rate taxpayers (94%) in comparison to non-taxpayers (83%). Among higher and additional rate taxpayers the Gift Aid Higher/ Additional Rate Tax Relief is reasonably well known (52% of them are aware), but fewer (22%) use it owing to the perceived effort required to claim tax back.
- ▶ The population is mixed in its understanding of Gift Aid, with just over a quarter (26%) having 'good' understanding and a further third (33%) 'fairly good' understanding. The remaining donors have a 'fairly poor' or 'poor' understanding (30% and 11% respectively).

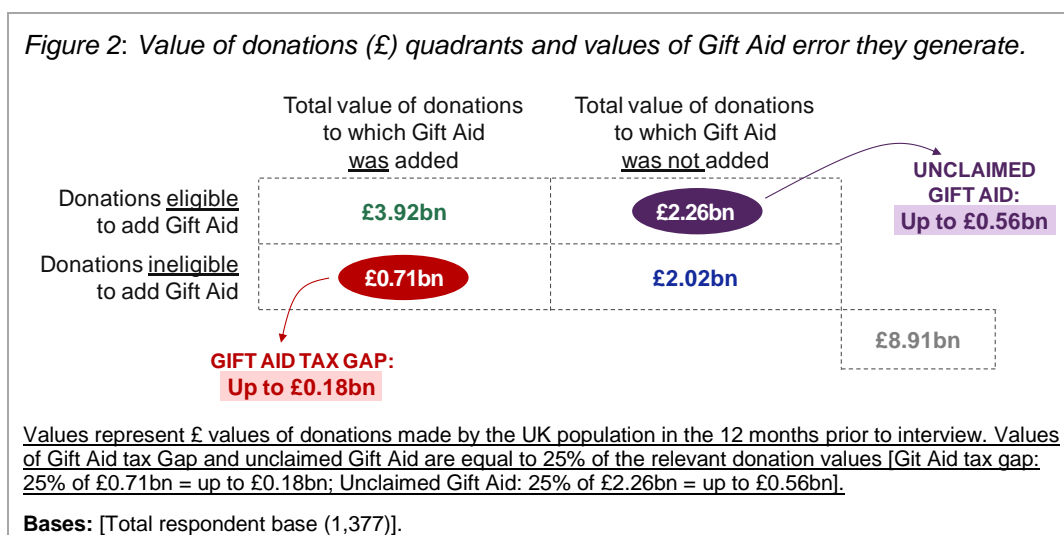
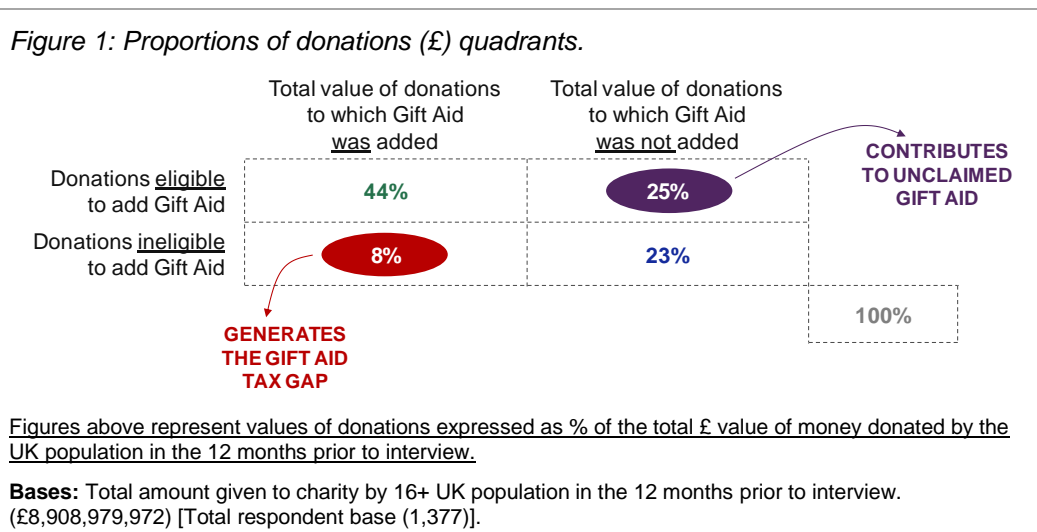
2.3.2 Quadrant analysis

- ▶ The quadrant analysis sizes the value (£) of charitable giving, from which the value of the Gift Aid tax gap and value of unclaimed Gift Aid can be calculated, and the errors⁸ in the system can be sized. Figure 1 presents this analysis expressed as a proportion of all donations, and Figure 2 presents the results as £ values.

⁶ Details of donation channels included in the scope of the research are presented in the Glossary.

⁷ Information on how Gift Aid is calculated is presented in the Glossary.

⁸ Full definition of error within the Gift Aid scheme is presented in the Glossary.



- ▶ Overall, 8% of the value of donations made in the 12 months prior to interview had Gift Aid incorrectly added to them by ineligible donors, generating a Gift Aid tax gap of up to £0.18bn⁹.
- ▶ Overall, 25% of the value of donations did not have Gift Aid added to them where the donor was eligible, contributing up to £0.56bn to the value of unclaimed Gift Aid¹⁰, representing potential missed income for charities.
- ▶ Both the Gift Aid tax gap and unclaimed Gift Aid are heavily driven by donations made through direct debits (in particular) and charity envelopes or cheques. As a proportion of

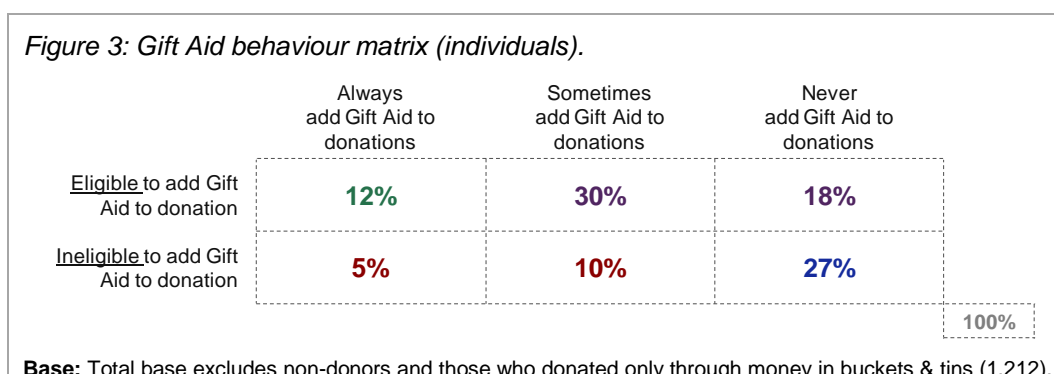
⁹ The Gift Aid tax gap is up to £0.18bn (£179m) because HMRC runs compliance checks on Gift Aid claims and is able to recover some Gift Aid added by ineligible donors. Furthermore, Capital Gains Tax was not considered in donor eligibility classification.

¹⁰ The unclaimed Gift Aid value is up to £0.56bn (£564m) owing to potential use of the Gift Aid Small Donations Scheme (for small cash donations such as money in buckets and tins) by charities – please refer to the Glossary for details.

money donated through each channel, online channels contribute more to the Gift Aid tax gap, while offline channels are more likely to contribute to unclaimed Gift Aid.

2.3.3 Understanding Gift Aid behaviour

- ▶ To understand Gift Aid behaviour at an individual level, we use the donors' propensity to add Gift Aid to donations (always, sometimes, never) and their taxpayer status as a proxy for eligibility. The result is the identification of six distinct Gift Aid behaviours (Figure 3):



- ▶ The Gift Aid tax gap, generated by ineligible donors who always (5%) or sometimes (10%) add Gift Aid, is caused in part by a lack of understanding of Gift Aid and in part by a misunderstanding of what it means to be a taxpayer, leading to ineligible donors incorrectly believing that they are taxpayers and therefore eligible to add Gift Aid. There is no evidence to suggest that there is a tendency among ineligible donors to wilfully incorrectly add Gift Aid to their donations.
- ▶ The value of unclaimed Gift Aid is generated by eligible donors who only sometimes (30%), or never (18%), add Gift Aid to their donations. It is mostly driven by a lack of opportunity to add Gift Aid, and to a lesser degree, by misunderstanding of Gift Aid and not recognising their eligibility to add it.

2.3.4 Conclusions

Analysis of Gift Aid behaviour among donors identified two key issues at the heart of errors in the Gift Aid scheme:

1. **Misunderstanding** of Gift Aid and what it means to be a taxpayer/ how to qualify as someone eligible to add Gift Aid
2. **Lack of consistent opportunity** to add Gift Aid to donations.

There is opportunity to reduce Gift Aid claims among ineligible donors and increase Gift Aid claims among eligible donors by improving knowledge. Providing information about (1) Gift Aid eligibility criteria (i.e. clarifying what it means to be a UK taxpayer and that the donor must be one to add Gift Aid to their donation) at each and every opportunity, and (2) information about the benefits of Gift Aid at the point of donation, could increase the likelihood of correct Gift Aid behaviour.



Providing this information on websites which offer the option to add Gift Aid to donations (e.g. online sponsorship or charity websites) is important in reducing risk of incorrect behaviour caused by misunderstanding of eligibility. There is a particular need for this information to be provided in relation to direct debits, which generated the highest value of donations, among eligible and ineligible donors alike, and contributed the largest proportion to the value of unclaimed Gift Aid and the Gift Aid tax gap. The longevity of this donation channel exacerbates the importance of ensuring that a clear definition of eligibility to add Gift Aid is presented to donors at the start of the process, and that their eligibility status is kept up to date.

However, widening opportunity across the full range of channels would also generate positive outcomes. This could be a challenge among offline channels, but focussing on opportunities to add Gift Aid for direct debits, offline sponsorships, cash collections at a place of worship and for donations made via charity envelopes or cheques would have a positive impact on reducing unclaimed Gift Aid and increasing charities' income.

It is critical that improvements are co-ordinated, with increased knowledge accompanying (or preceding) widening opportunities so as to avoid unintended consequences.

3 Introduction

3.1 Research context

Introduced in 1990, Gift Aid is a significant source of income for charities. It provides tax relief by allowing charities to claim 25p tax back for every £1 donated by an individual if Gift Aid is added to a donation.

This scheme, while highly beneficial for the charitable sector, is not without its challenges. As Gift Aid is a self-reporting system, individuals need to be aware of their own eligibility to add Gift Aid (they need to be a UK Income or Capital Gains taxpayer to do so), to avoid or minimise errors in the system.

A National Audit Office report (2013) outlined that there is potential for significant 'error' within the current Gift Aid scheme i.e. that Gift Aid is not claimed correctly in all instances. The report noted two behaviours which drive error:

- ▶ When Gift Aid is added to a donation made by an individual who is ineligible to add it. This generates the Gift Aid tax gap because charities claim Gift Aid back from those donations, however, HMRC does not receive the equivalent revenue from income tax paid by those donors to cover the additional amount paid to charities.
- ▶ When Gift Aid is not added to a donation by an individual who is eligible to add it. This contributes to unclaimed Gift Aid which generates a 'potential income' gap for charities. Charities cannot claim the additional Gift Aid amount from donations made by those donors.

3.2 Key research objectives

The purpose of this research is to contribute to and enhance HMRC's evidence base with respect to charitable giving and the use of Gift Aid. More specifically, there are two key objectives:

Objective 1

The primary objective is to generate robust and reliable estimates for the prevalence (proportion) of and value (£) of donations in the following categories:

	<i>Categories</i>	<i>Outcome</i>
A	Eligible donations where Gift Aid was added	<i>Correct</i>
B	Eligible donations where Gift Aid was not added	<i>Error¹¹ – contributes to unclaimed Gift Aid</i>
C	Ineligible donations where Gift Aid was added	<i>Error¹¹ – generates the Gift Aid tax gap</i>
D	Ineligible donations where Gift Aid was not added	<i>Correct</i>
E	Charitable giving among the UK population	<i>Total amount given (£)</i>

¹¹ Full definition of error within the Gift Aid scheme is presented in the Glossary.



In achieving this objective, the following matrix is created (Figure 4):

Figure 4: Value of donations (£) quadrants - framework.

	Gift Aid <u>was added</u>	Gift Aid <u>was not added</u>	Total
Donations made by <u>eligible</u> donors	A	B	£
Donations made by <u>ineligible</u> donors	C	D	£
<i>Total</i>	£	£	E

Objective 2

The second objective is to understand what types of donors contribute to the errors in the Gift Aid scheme, and to develop hypotheses on what could be done to minimise incorrect behaviour. As part of this, the objective is to assess the level of understanding of Gift Aid among the donor population.

Donor behaviour is not consistent across channels i.e. individuals may add Gift Add to donations made through some channels but not others. This means that individuals could make donations in cells A/B or in C/D in Figure 4. Therefore, to identify mutually exclusive groups of Gift Aid behaviour, individuals' **propensity to add Gift Aid to donations** is considered in terms of their propensity to always, sometimes, or never add Gift aid, and referenced against their eligibility to understand if Gift Aid activity is correct or incorrect (as illustrated in Figure 5).

Figure 5: Gift Aid behaviour matrix (individuals) - framework.

	Always add Gift Aid	Sometimes add Gift Aid	Never add Gift Aid
Individuals <u>eligible</u> to add Gift Aid to donations	✓	Unclaimed Gift Aid	Unclaimed Gift Aid
Individuals <u>ineligible</u> to add Gift Aid to donations	Gift Aid tax gap	Gift Aid tax gap	✓



4 Methodology

This chapter provides a summary of the research methodology. A separate Technical Report details the methodological approach in full.

4.1 Research population and sampling

The population for the research was defined as all individuals aged 16 or older living in the United Kingdom. This sample was drawn from a Random Digit Dialling (RDD) telephone landline sampling frame to provide coverage of all households in the UK with landlines. The research used a random probability sampling design, stratified by the 12 UK regions to ensure representativeness across the population aged 16 or over living in the UK.¹²

4.2 Data collection and questionnaire design

Interviews were carried out using a structured questionnaire and by telephone using Computer Assisted Telephone Interviewing (CATI). The final questionnaire design was informed by cognitive interviewing and a CATI pilot.

Cognitive interviewing was carried out to ensure the survey questions were understood and the survey instrument allowed respondents to express their responses accurately and in full. The cognitive interviewing was undertaken over two phases, from 14th to 15th October and 26th to 27th October 2015. At both phases, interviewing was carried out in two locations, with 8 interviews completed in each phase.

A full CATI pilot was then carried out to test the full questionnaire length. Fieldwork took place between 12th and 16th November 2015 and comprised 50 telephone interviews, with an average interview length of 17 minutes.

The opening section of the final questionnaire served to explain the purpose of the survey, to screen participants (to ensure respondents were 16 or over) and to classify participants as donors or non-donors in the 12 months prior to interview. All participants (donors and non-donors) were asked demographic information, with donors in the 12 months prior to interview taken through the following questionnaire structure:

- 12 months prior to interview donor behaviour: frequency of donation; value of donation; use of Gift Aid; reasons for not using Gift Aid (if applicable); use of Gift Aid Higher/ Additional Rate Tax Relief¹³ (for higher/ additional rate taxpayers); and reasons for not claiming Gift Aid Tax Relief (if applicable).
- 4 weeks prior to interview donor behaviour (if applicable): frequency of donation; value of donation; use of Gift Aid; and use of Gift Aid Higher/ Additional Rate Tax Relief (for higher/ additional rate taxpayers).
- Understanding of Gift Aid.
- Attitudes towards tax and self-reported aptitude for form filling.

¹² Please refer to the Sampling chapter of the Technical Report for more detail.

¹³ Full definition of Gift Aid Tax Relief is presented in the Glossary.

4.3 Fieldwork

Fieldwork took place between 30th November 2015 and 10th January 2016. A total of 1,377 interviews were completed with an average interview length of 13 minutes.

All fieldwork was carried out by Quadrangle's interviewing team. Prior to both the pilot and the main stage interviewing, interviewers were provided with:

- A face-to-face briefing.
- A set of written instructions containing information on the survey background and an overview of the various sections of the questionnaire, including supporting information for specific questions.

4.4 Data analytics and data preparation activities

The objective of the analytics activities was to produce a robust and reliable data set to represent the value of charitable donations with and without Gift Aid added (correctly or incorrectly) for a twelve month time period prior to interview. After fieldwork completion, data was prepared for use through a series of activities including imputation and weighting. Full details are provided in the Technical Report available as a separate document.

4.5 Reporting conventions

When interpreting the data presented in this report, please note that:

- The data presented in this report covers donor behaviour in the 12 months prior to interview.
- Results in Chapters 5 and 6 are presented in the past tense owing to the need to refer to donations made in the 12 months prior to interview. All other results are presented in the present tense.
- Results may not sum to 100% due to rounding and/ or due to participants being able to select more than one answer to a question.
- Data presented in this report are from a sample of the population rather than the total population. This means the results are subject to sampling error. Differences between sub-groups are only commented on in the text if they are statistically significant at the 95 per cent confidence level. This means there is no more than a 5 per cent chance that any reported differences are not real but a consequence of sampling error.
- The margin of error range for the total survey sample is $\pm 1.58\%$ to $\pm 2.64\%$. The following table acts as a guide to margin of error for different sample sizes.

		Reported Percentage				
		10% / 90%	20% / 80%	30% / 70%	40% / 60%	50%
Sample Size	500	$\pm 2.63\%$	$\pm 3.51\%$	$\pm 4.02\%$	$\pm 4.29\%$	$\pm 4.38\%$
	1,000	$\pm 1.86\%$	$\pm 2.48\%$	$\pm 2.84\%$	$\pm 3.04\%$	$\pm 3.10\%$
	1,377	$\pm 1.58\%$	$\pm 2.11\%$	$\pm 2.42\%$	$\pm 2.59\%$	$\pm 2.64\%$

This means that if, for example, 50% within a sample size of 1,377 select a particular answer, the result will be 50% plus or minus 2.64 percentage points, or within a range of



47.36% to 52.64%. Similarly, if 20% within the same sample size of 1,377 select a particular answer, the result will be 20% plus or minus 2.11 percentage points, or within a range of 17.89% to 22.11%.

- Statistically significant differences are indicated with arrows, as detailed below, and commented on where appropriate.



Significantly
higher/ lower
than average

This indicates that the percentage result reported for a single behaviour group is significantly higher or lower than the average result across all behaviour groups. Percentage figures indicate percentage points reported within the subgroup.

5 Charitable Giving and Gift Aid

5.1 Charitable giving among the UK population

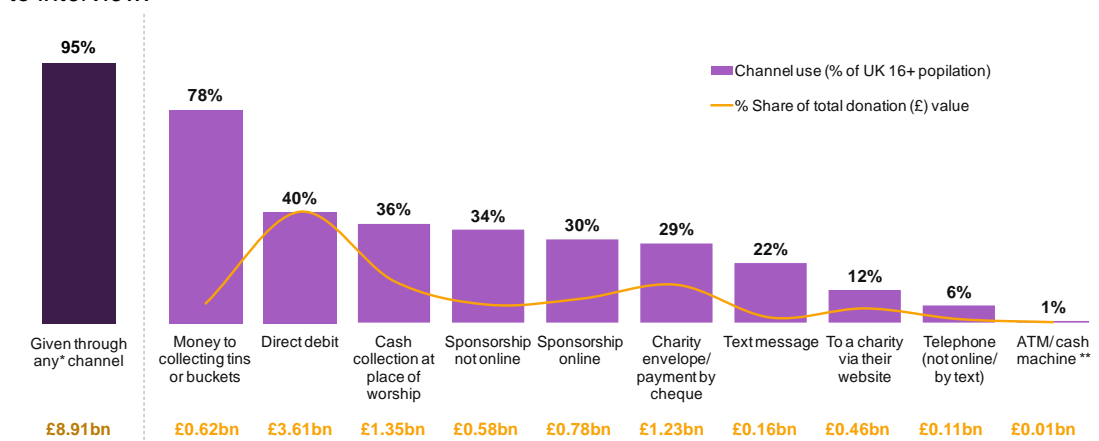
5.1.1 Overall charitable giving

Among the total UK population, 95% donated to charity¹⁴ in the 12 months prior to interview. Money donated through collecting tins or buckets was the most commonly used channel, with 78% donating in this way. Donations made through cash machines/ ATMs were the least common, with only 1% of the population making a donation in this way.

The overall value of charitable giving among the donor population was £8.91bn. This value includes cash donations made in a year through the ten channels investigated as part of this research but excludes the value of donations made in other ways, such as donating goods to charity shops or payroll giving. The definition of charitable giving used in this research contributes to the reason why the value of charitable giving differs from other published data (e.g. Cabinet Office Community Life Survey, Charities Aid Foundation UK Giving report or NCVO Almanac). This research also used a different methodology to these other published studies.

While donating by putting money in buckets and tins was the most widely used channel, direct debit donations generated the highest value for an individual donation channel, with £3.61bn being donated in this way (Figure 6).

Figure 6: Levels of charitable giving and value of charitable donations in the 12 months prior to interview.



* This covers only the 10 channels investigated in this study as explained in the Glossary.

** CAUTION: EXTREMELY LOW BASE

QS2. In the last 12 months, that's since [November/December/January] last year, have you given money to charity in any of the following ways?; Monetary figures represent values of donations made by the UK population in the last 12 months prior to interview.

Base: Total UK population (1,377); sponsorship online (413); sponsorship not online (479); charity envelope/ payment by cheque (511); cash collection at place of worship (541); money to collecting buckets or tins (1068); direct debits (662); text message (270); telephone (112); charity website (187); cash machine/ ATM (13).

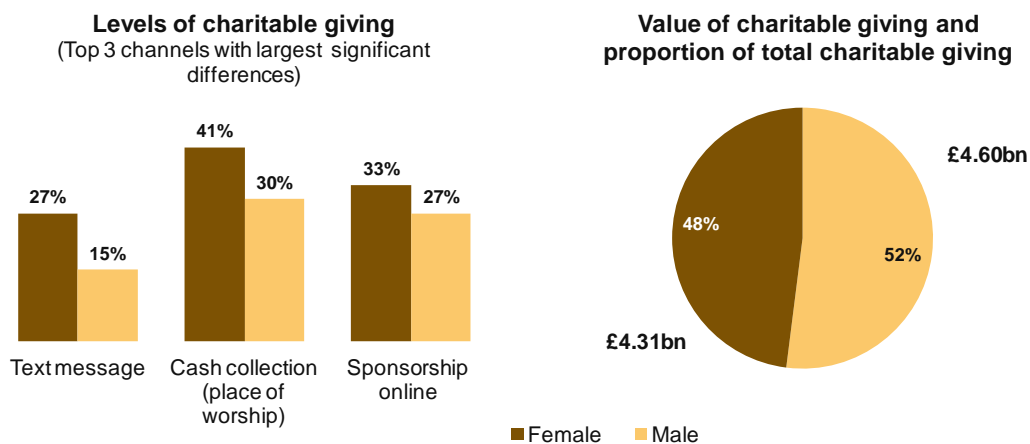
¹⁴ Ways of giving included in this research are presented in the Glossary.



5.1.2 Charitable giving by gender

Females had a higher propensity than males to donate across almost all donation channels, however the value of donations they made, at a total donor population level, were broadly comparable to those of males (£4.31bn vs. £4.60bn respectively – Figure 7). This is because the average donation value contributed by females is lower than the average donation value contributed by males.

Figure 7: Levels of charitable giving, value of charitable giving and proportion of total charitable giving, by gender



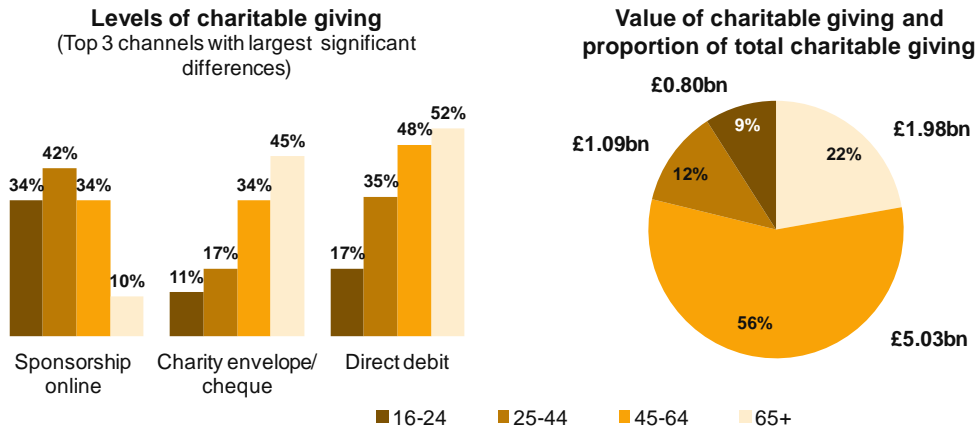
QS2. In the last 12 months, that's since [November/December/January] last year, have you given money to charity in any of the following ways?; Monetary figures represent values of donations made by the sub-populations in the last 12 months prior to interview.

Bases: Female (778); Male (599).

5.1.3 Charitable giving by age

When considering differences by age, those aged 45 or older were more likely to donate through 'traditional' donation channels e.g. charity envelope or cheque or through channels that suggested the donor had a stable income e.g. direct debits. As a proportion of total charitable giving, those aged between 44 to 64 years contributed the largest share, accounting for over half (56%) of the value of all donations made in the 12 months prior to interview (Figure 8).

Figure 8: Levels of charitable giving, value of charitable giving and proportion of total charitable giving, by age



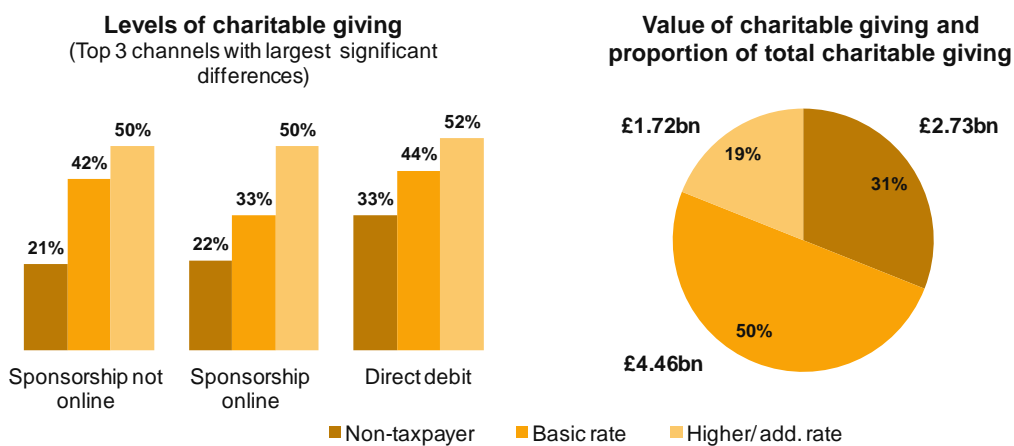
QS2. In the last 12 months, that's since [November/December/January] last year, have you given money to charity in any of the following ways? Monetary figures represent values of donations made by the sub-populations in the 12 months prior to interview.

Base: 16-24 (168); 25-44 (98); 45-64 (688); 65+ (423).

5.1.4 Charitable giving by taxpayer status

Higher and additional rate taxpayers had a higher propensity to donate to charity across most donation channels and on average contributed donations of higher value than basic rate taxpayers or non-taxpayers. However, due to their relatively small prevalence within the total UK population, their share of total charitable giving was significantly lower than that of other groups (19% vs. 31% for non-taxpayers and 50% for basic rate taxpayers – Figure 9).

Figure 9: Levels of charitable giving, value of charitable giving and proportion of total charitable giving, by taxpayer status



QS2. In the last 12 months, that's since [November/December/January] last year, have you given money to charity in any of the following ways? Monetary figures represent values of donations made.

Base: Non-taxpayer (418); Basic rate taxpayer (769); Higher/ additional rate taxpayer (190).

5.2 Gift Aid awareness and usage

Donor awareness of Gift Aid was high, with 88% stating that they had heard of the scheme prior to interview. Levels of awareness were higher among basic rate (91%) and higher/ additional rate taxpayers (94%) in comparison to non-taxpayers (83%); see Figure 10.

Figure 10: Donor awareness of Gift Aid



...overall are aware of Gift Aid

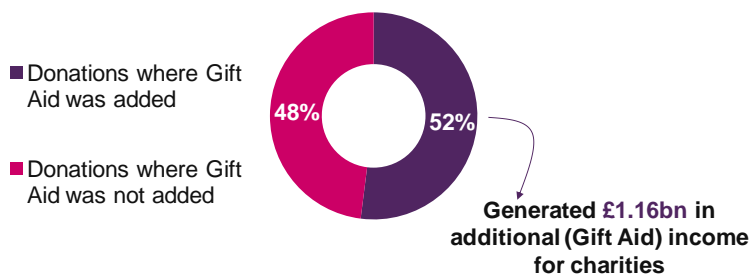
Awareness of Gift Aid by taxpayer status	
Non-taxpayers	83%
Basic rate taxpayers	91%
Higher/ additional rate taxpayers	94%

QS8a. Have you heard of Gift Aid before today?

Bases: Total donor population (1,314); Non-taxpayer (418); Basic rate taxpayer (769); Higher/ additional rate taxpayer (190).

Of the £8.91bn donated to charity in the 12 months prior to interview, Gift Aid was added to donations worth £4.63bn (52% of the total value of all donations)¹⁵. The value of additional Gift Aid income this generated for charities was £1.16bn. Gift Aid was not added to donations worth £4.28bn (48% of the total value of all donations – Figure 11).

Figure 11: Proportion of total value of donations where Gift Aid was and was not added



Donation value by Gift Aid activity	
Total value of donations where Gift Aid <u>was</u> added	£4.63bn
Total value of donations where Gift Aid <u>was not</u> added	£4.28bn
Total value of donations	£8.91bn

QA3a/QA4a 3. Have you added Gift Aid to this/ these [donation(s)/ direct debit]? £ values derived from constructed variable based on total £ given and £ given where Gift Aid was/ was not added.

Bases: Total value of donations as specified above. [**Respondent base:** Total donor population (1,314).]

Gift Aid was added to a higher proportion of donations made through online channels, specifically sponsorship online and charity websites. Gift Aid was added to 73% of the total value of donations made through these channels collectively. While these channels were used by fewer donors, they generated high average donation values (£57 given on average through

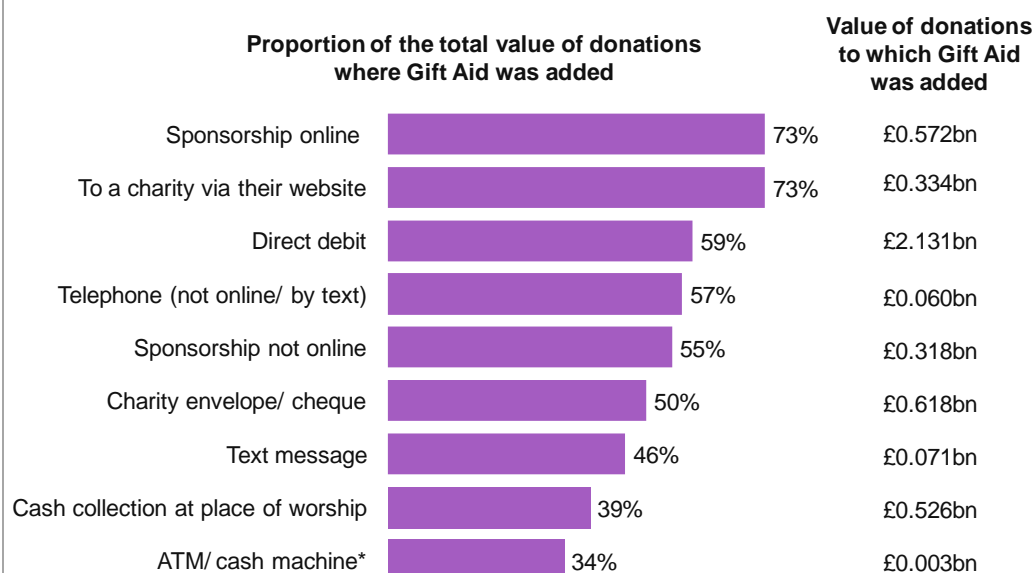
¹⁵ This is the value and proportion of all donations made where Gift Aid was added. This includes donations that correctly or incorrectly had Gift Aid added. The value and proportions of donations by the different four donation types is detailed in Chapter 6.

charity websites, and £26 given on average through online sponsorship across the donor population), thus generating a substantial proportion of the additional Gift Aid income for charities.

While donations made through online channels were more likely to have Gift Aid added, direct debit donations generated the highest Gift Aid value: Gift Aid was added to 59% of the total value of donations made in this way, which equates to donations worth £2.13bn (Figure 12). This high contribution to Gift Aid is driven by a combination of frequency of use (on average, donors have 2 direct debits, which means 24 individual donations in a year) and an average donation value of £12.

This is in contrast to donations made through cash collections at a place of worship, where Gift Aid was added to only 39% of the total value of donations made through this channel (average donation value is £8).

Figure 12: The proportion of total value of donations where Gift Aid was added and the value of donations where Gift Aid was added (by channel) among donors



* CAUTION: EXTREMELY LOW BASE

QA3a/QA4a 3. Have you added Gift Aid to this/ these [donation(s)/ direct debit]? % represent money (£) not people. £ values derived from constructed variable based on total £ given and £ given where Gift Aid was added.

Bases: Respondent bases [Sponsorship online (413); Sponsorship not online (479); Charity envelope/ payment by cheque (511); Cash collection at place of worship (541); Money to collecting buckets or tins (1068); Direct debits (662); Text message (270); Telephone (112); Charity website (187); Cash machine/ ATM (13)]. See Figure 6 for total £ values of money donated through each channel.

When Gift Aid was not added to donations, the most frequent reason overall was not being given the opportunity to add Gift Aid (32%)¹⁶. However, this reason was more prevalent among some channels than others. Not being given the opportunity to add Gift Aid increased to around

¹⁶ **Base:** Donors who have not added Gift Aid to at least some of their donations (995).

half among those who sponsored not online (56%¹⁷) or those who donated through cash collections at a place of worship (54%¹⁸).

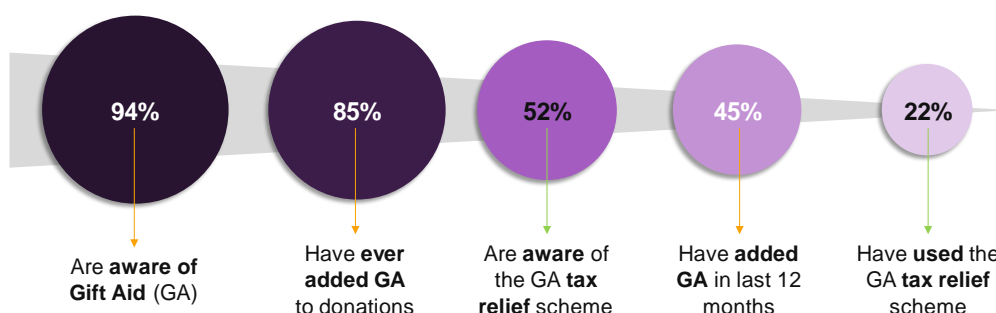
Other reasons for not adding Gift Aid to donations included recognising that they personally were not eligible to add it (16%), not having previously heard of Gift Aid (15%), and not knowing Gift Aid could have been added to this type of donation (9%)¹⁹. Not knowing it could have been added was an issue primarily for those who donated via direct debits (where the proportion increased to 17%²⁰), sponsorship not online (13%²¹), and charity envelopes or cheques (12%²²).

5.3 Awareness and usage of Gift Aid Higher/ Additional Rate Tax Relief

Awareness of Gift Aid was high among the higher and additional rate taxpaying donor population, with the vast majority having heard of Gift Aid (94% aware). However, levels of awareness of Gift Aid Higher/ Additional Rate Tax Relief, enabling higher and additional rate taxpayers to claim back the difference between the tax rate they pay and basic rate on their donation, were moderate (52% aware) and usage of the tax relief was substantially lower (only 22% had claimed tax relief for at least some of their donations – Figure 13).

Figure 13: Through awareness of Gift Aid to usage of Gift Aid Higher/Additional Rate Tax Relief among donors who are higher and additional rate taxpayers

Among donors who are higher and additional rate taxpayers...



QS8a. Have you heard of Gift Aid before today? QS8b. Have you ever added Gift Aid to a donation that you've made to charity? QS9. Are you aware that if you're a higher rate taxpayer you can claim tax relief from the government on the donations you have made to charity? Constructed 'added Gift Aid' variable. Constructed 'Propensity to claim tax relief' variable based on tax relief claimed for each donation.

Bases: Higher or additional rate taxpayers who donated to charity in the 12 months prior to interview (185).

The perceived effort involved in claiming Higher/ Additional Rate Tax Relief was the main barrier to usage. Of those not claiming or only partially claiming, one in three (32%) stated that it would take too much time and/ or effort to claim tax relief on donations made. Nearly one in five (18%) cited the process for claiming tax relief as too complicated, while a similar proportion (17%) stated that by claiming tax relief, they would only receive a small amount of money back.

¹⁷ Base: Donors who have not added Gift Aid to at least some of their donations when sponsoring not online (207).

¹⁸ Base: Donors who have not added Gift Aid to at least some of their cash collection (worship) donations (328).

¹⁹ Base: Donors who have not added Gift Aid to at least some of their donations (995).

²⁰ Base: Donors who have not added Gift Aid to at least some of their direct debit donations (126).

²¹ Base: Donors who have not added Gift Aid to at least some of their donations when sponsoring not online (207).

²² Base: Donors who have not added Gift Aid to at least some of their charity envelope or cheque donations (173).

5.4 Understanding of Gift Aid

5.4.1 Introduction

Understanding of Gift Aid was assessed by determining a donor's ability to correctly identify the main criteria for adding Gift Aid to a donation. Donors were presented with three true and one false statement and asked to state whether each statement was true, false or they were not sure. The statements were:

✓	TRUE	Gift Aid is paid to charities from the income tax individuals have already paid to the government
✓	TRUE	Individuals need to provide personal details when they add Gift Aid to their donation
✓	TRUE	Individuals have to be a current income taxpayer to add Gift Aid to donations
✗	FALSE	It costs an individual more to add Gift Aid to donations

Donors were also assessed on their ability to identify their own eligibility status i.e. whether they are eligible or ineligible to add Gift Aid. Their stated eligibility status was cross-referenced with their *known* eligibility status to determine whether they:

- Correctly identified their own status
- Were not sure of their own status
- Incorrectly identified their own status

From these statements, a composite 'Gift Aid understanding measure', assessing overall levels of understanding was created.

Donors were also asked if the following statement was true, false or they were not sure:

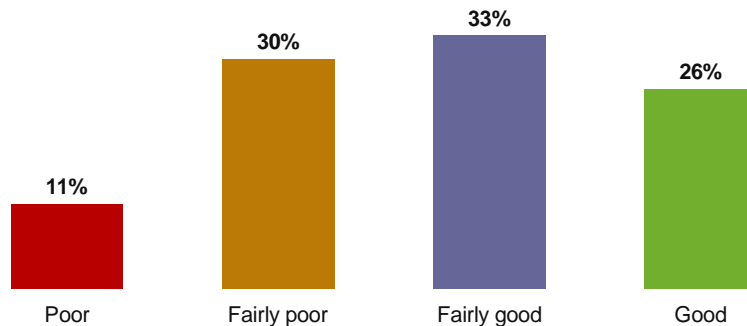
- The Government runs checks to make sure that individuals who add Gift Aid are eligible to do so.

This last statement was not included in the composite 'Gift Aid understanding measure', as the awareness of Government checks doesn't directly affect donors' capability to correctly add Gift Aid to their donations.

5.4.2 Understanding of Gift Aid

The population was divided in their understanding of Gift Aid, with close to 6 in 10 (59%) donors having 'good' or 'fairly good' understanding of it at an overall level. One in ten had 'poor' understanding of Gift Aid (Figure 14).

Figure 14: Understanding of Gift Aid among the donor population - Composite Gift Aid understanding measure.



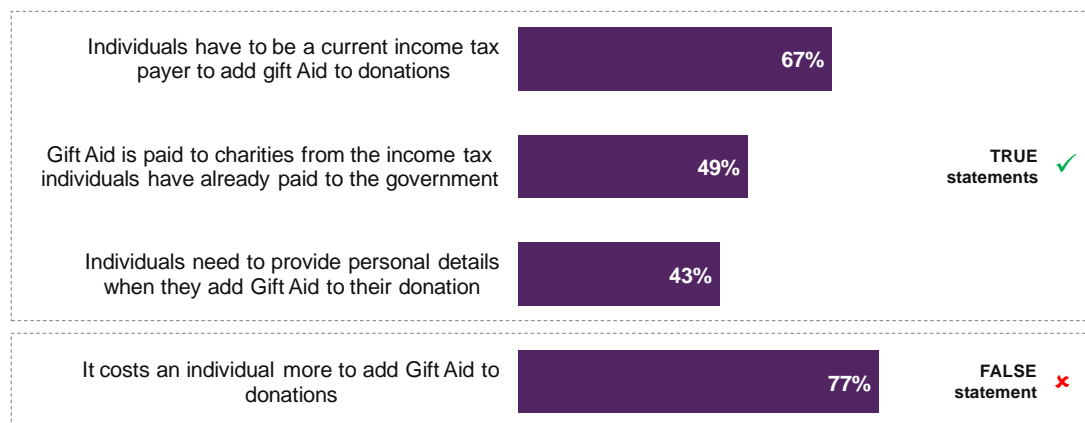
Composite Gift Aid understanding measure' derived from QC1 and QC2 and Taxpayer status variable.

Base: Total donor population (1,314).

There were specific pockets of weakness in terms of correctly answering questions about the Gift Aid scheme. Donors were most likely to know that it does not cost them more to add Gift Aid to their donations (77% correctly identified the statement as false) and were least likely to know that they are required to supply personal information when adding Gift Aid (43% correctly identified the statement as true). Only around half of donors were able to make the direct link between Gift Aid and income tax, with 49% correctly stating that Gift Aid is paid to charities from the income tax individuals have already paid (Figure 15).

Figure 15: Understanding of Gift Aid among the donor population – questions about the Gift Aid scheme.

% of donors answering correctly



QC2. I have some statements about Gift Aid and I would like to know whether you think they are true or false. I will read out each statement, and as I do, please can you say 'true', 'false' or 'not sure.'

Base: Total donor population (1,314).

Donor's awareness of their own eligibility status was relatively limited. Six in 10 donors (58%) were able to correctly state whether they were eligible or ineligible to add Gift Aid to their donations. Nearly a quarter (23%) were unsure of their eligibility status, while 18% incorrectly identified themselves as either eligible or ineligible to add Gift Aid. Proportionally, eligible donors



(income taxpayers and therefore eligible to add Gift Aid) were more likely than ineligible donors (non-taxpayers) to correctly identify their eligibility status (70% vs. 43% respectively).

Donors were unclear on whether or not the Government ran checks on Gift Aid claims: while 44% thought it was true (checks were made), just as many (45%) were not sure. A minority (12%) believed the government did not check Gift Aid claims.

6 Quadrant Analysis

6.1 Introduction

A key objective of this study was to understand the level of charitable giving and the occurrence of errors in the Gift Aid scheme. The quadrant analysis presented in this chapter sizes the prevalence and value of total charitable giving for the following categories to help identify the value of errors in the system:

1. Gift Aid was added and was eligible to be added
2. Gift Aid was not added but was eligible to be added
3. Gift Aid was added but was not eligible to be added
4. Gift Aid was not added and was not eligible to be added

Categories 1 and 4 demonstrate correct Gift Aid behaviour, while categories 2 and 3 create errors²³ within the Gift Aid scheme. Category 2 generates the value of unclaimed Gift Aid, and category 3 generates the Gift Aid tax gap.

All the figures in this chapter are monetary values presented in three ways: (1) as absolute figures representing the values of donations made by individuals, (2) as proportions of the total value of charitable giving or (3) as the value of £ Gift Aid generated by those donations²⁴. Figures do not represent individuals within the population.

6.2 Prevalence and value of charitable giving

Of the £8.91bn²⁵ donated to charity in the 12 months prior to interview, donations worth £0.71bn had Gift Aid added when the donations made were *not* eligible to have Gift Aid added to them. Conversely, donations which did not have Gift Aid added but which *were* eligible to do so were worth £2.26bn (Figure 16).

Figure 16: The prevalence of the four donation types presented as values.

	Total value of donations to which Gift Aid <u>was</u> added	Total value of donations to which Gift Aid <u>was not</u> added	Total
Donations <u>eligible</u> to add Gift Aid	£3.92bn	£2.26bn	£6.18bn
Donations <u>ineligible</u> to add Gift Aid	£0.71bn	£2.02bn	£2.73bn
Total	£4.63bn	£4.28bn	£8.91bn

Figures above represent values of donations made by the UK population in the 12 months prior to interview.

Bases: Total amount given to charity by UK population in the 12 months prior to interview £8,908,979,972 [Total respondent base (1,377)]

²³ Full definition of error specifically within the Gift Aid scheme is presented in the Glossary.

²⁴ Gift Aid value calculation is presented in the Glossary.

²⁵ Definition of charitable giving (covering 10 donation channels) and a different data collection method used contributes to the reason why this value differs from other published data – full explanation presented in the Glossary.

As a proportion of total charitable giving, donations that were not eligible to have Gift Aid added, but where Gift Aid was added accounted for 8% of the total value of all donations. This is in contrast to donations where Gift Aid could have been added but was not, which accounted for 25% of the total value of charitable donations (Figure 17).

Figure 17: The prevalence of the four donation types presented as a proportion of total charitable giving.

	Total value of donations to which Gift Aid <u>was</u> added	Total value of donations to which Gift Aid <u>was not</u> added	Total
Donations <u>eligible</u> to add Gift Aid	44%	25%	69%
Donations <u>ineligible</u> to add Gift Aid	8%	23%	31%
Total	52%	48%	100%

Figures represent values of donations expressed as % of the total £ value of money donated by the UK population in the 12 months prior to interview.

Bases: Total amount given to charity by UK population in the 12 months prior to interview £8,908,979,972 [Total respondent base (1,377)]

6.3 Sizing the Gift Aid tax gap and the value of unclaimed Gift Aid

The Gift Aid tax gap is the value of the Gift Aid paid to charities from donations made by those who are not eligible to add Gift Aid. As the value of incorrect donations of this type was £0.71bn, the value of the Gift Aid tax gap is up to £0.18bn²⁶ (£179m). This is a third of the size of the value of unclaimed Gift Aid, which is up to £0.56bn²⁷. Unclaimed Gift Aid is the value of Gift Aid claims which could have been paid to charities from donations made by those who were eligible to add Gift Aid, but who did not add Gift Aid to their donations.

6.3.1 Donation channels contributing to the Gift Aid tax gap

There were five donation channels which collectively accounted for 92% of the value of the Gift Aid tax gap. Direct debit donations contributed almost half (45%, £80m), with charity envelopes/cheques (16%, £28m), sponsorship online (14%, £25m), charity websites (9%, £17m) and sponsorship not online (8%, £15m) combined contributing approximately the same proportion (47%) to the Gift Aid tax gap (see Figure 18).

As a donation channel, direct debits generated the highest value of donations and the highest value of donations where Gift Aid was added, particularly by ineligible donors. This explains this channel's substantial contribution to the Gift Aid tax gap. The second highest contributor to the

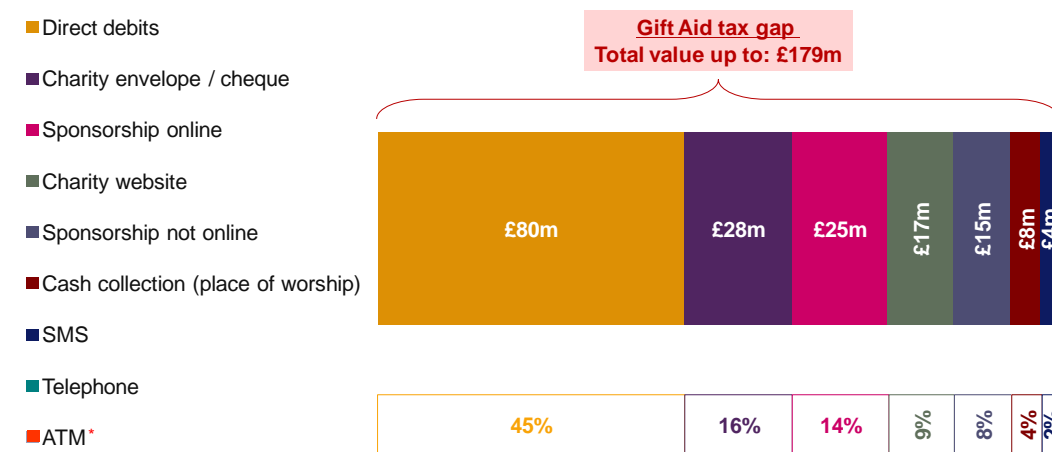
²⁶ The Gift Aid tax gap is up to £0.18bn (£179m) because HMRC runs compliance checks on Gift Aid claims and is able to recover some Gift Aid added by ineligible donors, furthermore, Capital Gains Tax was not considered in donor eligibility classification.

²⁷ The unclaimed Gift Aid value is up to £0.56bn (£564m) owing to potential use of the Gift Aid Small Donations Scheme (for small cash donations such as money in buckets and tins) by charities.

Gift Aid tax gap were donations made via charity envelopes or cheques, primarily due to the higher average donation value through this channel (£27.50 vs. £12 for direct debits).

Online donation channels collectively contributed a substantial amount to the Gift Aid tax gap. Online sponsorship in particular is one of the donation channels used most by ineligible donors who add Gift Aid to their donations at least some of the time, thus explaining its large contribution to the Gift Aid tax gap. Donations made direct via a charity's website, while less commonly used by ineligible donors who add Gift Aid, contribute to the Gift Aid tax gap owing to a higher average donation value (£37 average donation via charity website among ineligible donors).

Figure 18: Donation channel contributions to the Gift Aid tax gap.



* CAUTION: EXTREMELY LOW BASE

Figures represent values of Gift Aid in £m added to donations made by ineligible donors in the 12 months prior to interview. In the second row are the same figures expressed as a % of the total Gift Aid tax gap value.

Money in buckets and tins does not qualify as a channel that could contribute to the Gift Aid tax gap. This is because it is assumed that Gift Aid cannot be added via this channel. This point is also addressed in chapter 7.

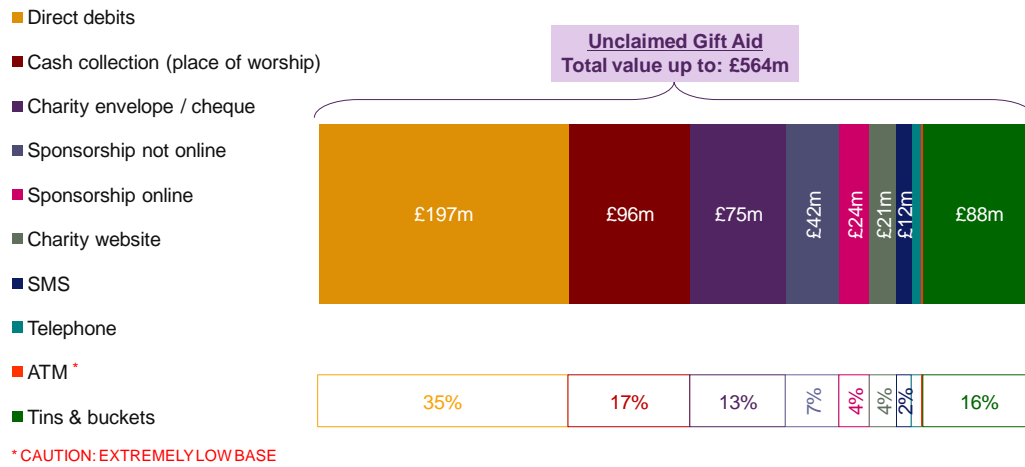
Bases: Respondent bases [Sponsorship online (82); Charity website (40), Telephone (22), Direct Debits (149), ATM (3), Sponsorship not online (97), Charity envelope / cheque (129), SMS (79), Cash collection at a place of worship (158)].

6.3.2 Donation channels contributing to unclaimed Gift Aid

Four channels account for 72% of the value of unclaimed Gift Aid. Direct debit donations contributed the largest proportion to the value of unclaimed Gift Aid (35%, £197m) and, as with their contribution to the Gift Aid tax gap, this reflects the finding that this channel generates the largest contribution to the overall value of charitable giving.

Three other donation channels made a substantial contribution to the value of unclaimed Gift Aid: cash collections at a place of worship (17%, £96m), charity envelope/ cheque (13%, £75m), and sponsorship not online (7%, £42m), see Figure 19. Combined, these three channels are less likely to have Gift Aid added at the point of donation, perhaps due to the offline nature of the channel, and thus a lower likelihood of having a Gift Aid declaration form to hand.

Figure 19: Donation channel contributions to the value of unclaimed Gift Aid.



Figures represent values of Gift Aid in £m not added to donations made by eligible donors in the 12 months prior to interview. Below them are the same figures expressed as a % of the total unclaimed Gift Aid value.

Bases: Respondent bases [Sponsorship online (331); Charity website (147); Telephone (90); Direct Debits (513); ATM (10); Sponsorship not online (382); Charity envelope / cheque (382); SMS (191); Cash collection at a place of worship (383)].

7 Understanding Gift Aid behaviours

7.1 Introduction

Sizing and profiling the groups of donors displaying correct and incorrect Gift Aid behaviours is vital to understanding the Gift Aid tax gap and unclaimed Gift Aid. This is the second objective of this research and requires a re-focus from money donated (outlined in Chapter 6) to the individuals making the donations.

The reason for this re-focus is that donor behaviour is not consistent by channel; individuals may add Gift Aid to donations made through some channels but not others and/ or to add donations to some but not all donations within a channel. The implications of this are important when considering the quadrant analysis outlined in Chapter 6. It is not possible to simply use the quadrant framework to identify groups representing the four distinct Gift Aid behaviours because an individual does not necessarily sit uniquely within one cell.

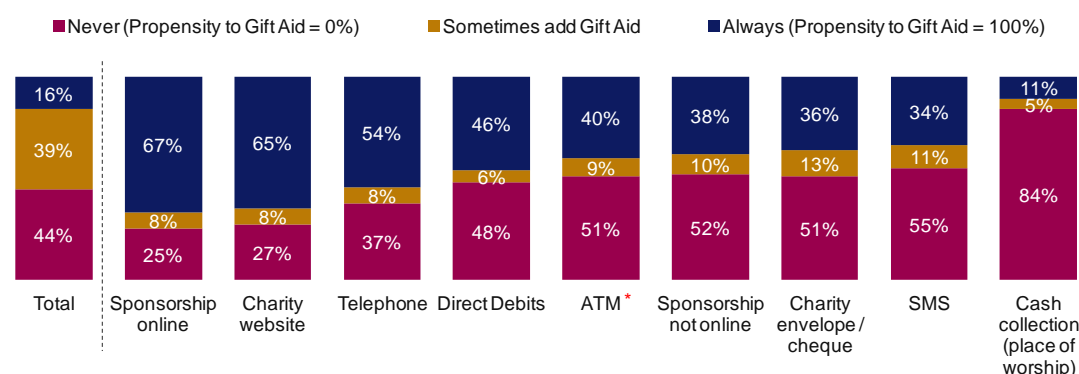
To enable HMRC to identify the populations which are most prone to incorrect Gift Aid behaviour and to devise a cohesive strategy to address this, it is important to identify mutually exclusive groups. Individuals' propensity to add Gift Aid to donations needs to be considered for this purpose.

Propensity to add Gift Aid is the value of donations where Gift Aid was added as a proportion of the total amount donated by an individual. It is important to recognise the role of donation channel(s) used by individuals in determining their propensity to add Gift Aid to each donation. Certain channels may make it easier to add Gift Aid at the point of donation, for example in the case of online donations channels, whereas others may make it more difficult, such as for cash collections at a place of worship. Thus an individual's preference for certain donation channels (often driven by personal circumstances such as income) may impact their propensity to add Gift Aid to their donations. This relationship between individuals, their behaviour and the channels they typically use, is explored in detail within this chapter.

7.2 Gift Aid behaviour framework

When propensity to add Gift Aid is evaluated at the total population level (i.e. across all donation channels), the results indicate that 39% of individuals present mixed Gift Aid behaviour i.e. sometimes add Gift Aid. The remaining 61% of individuals present consistent behaviour irrespective of the donation channel they have used. However, when considering the behaviours within channel, the results are less mixed, with around 9 in 10 donors displaying consistent Gift Aid behaviour for that channel i.e. they always or never add Gift Aid when donating money through that channel (Figure 20).

Figure 20: Propensity to add Gift Aid overall and across channels.



*CAUTION: EXTREMELY LOW BASE (BELOW 30)

Constructed 'Propensity to add Gift Aid' variable based on £ given where Gift Aid was added expressed as a proportion of total £ given.

Bases: Total (1,212), Sponsorship online (413), Charity website (187), Telephone (112), Direct Debits (662), ATM (13), Sponsorship not online (479), Charity envelope/ cheque (511), SMS (270), Cash collection at a place of worship (541).

This means that there are three distinct types of Gift Aid activity that can be identified:

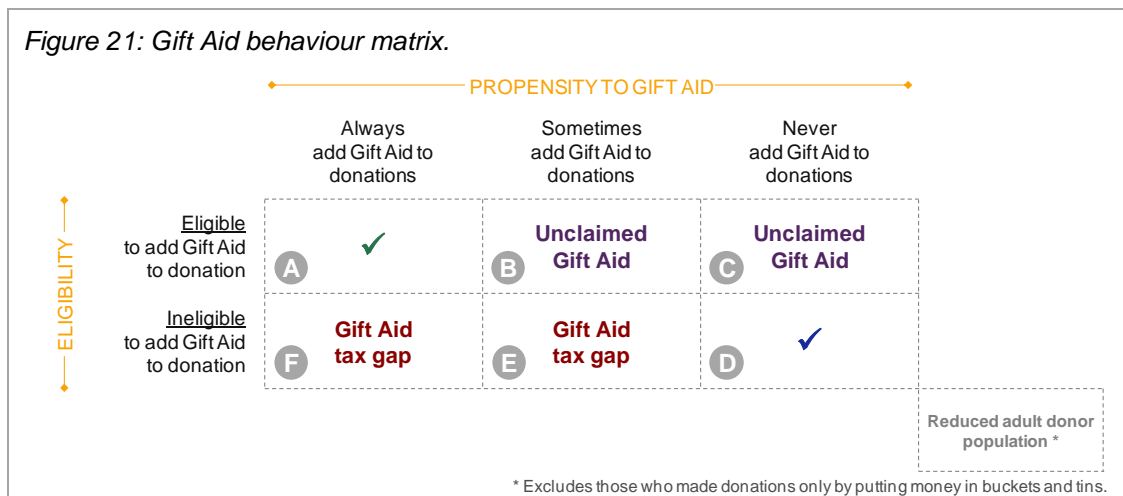
1. **Always add Gift Aid** to donations irrespective of channel (propensity to add Gift Aid is 100%)
2. **Never add Gift Aid** (propensity to add Gift Aid is 0%)
3. **Mixed tendency to add Gift Aid** within or across channels (propensity to add Gift Aid higher than 0% but lower than 100%)

To assess whether or not these activities represent correct or incorrect Gift Aid behaviours among individuals, propensity to add Gift Aid is referenced against eligibility to add Gift Aid status to create six distinct behavioural groups:

- A. Eligible and always add Gift Aid (correct behaviour)
- B. Eligible and sometimes add Gift Aid (donations where Gift Aid was not added contribute to unclaimed Gift Aid)
- C. Eligible and never add Gift Aid (all donations contribute to unclaimed Gift Aid)
- D. Ineligible and never add Gift Aid (correct behaviour)
- E. Ineligible and sometimes add Gift Aid (donations where Gift Aid was added contribute to the Gift Aid tax gap)
- F. Ineligible and always add Gift Aid (all donations contribute to the Gift Aid tax gap)

This means that the four quadrants become a six-cell matrix (Figure 21).

Figure 21: Gift Aid behaviour matrix.



It is important to note that when evaluating the six distinct behaviour groups, all donations made through money in buckets or tins were excluded. Although in theory donors can add Gift Aid to these donations, in reality it rarely, if ever, happens as it is not practical to do so. Therefore, to avoid distorting behavioural patterns observed among donors, the underlying assumption made for the purposes of this study is that donors were not able to add Gift Aid to donations of this type.

Throughout the following chapter, the following exclusions have been made in relation to money in buckets and tins:

- Where an individual donates *only* through money in buckets and tins, they are excluded from this analysis, and
- Where an individual donates through money in buckets and tins *and* through other channels, their behaviour is assessed only in relation to these other channels.

This means that, in this chapter, any reference to the donor population refers specifically to this 'reduced' donor population and the value of donations contributed by this population by putting money in buckets and tins is excluded from analysis.

7.3 Profiling Gift Aid behaviours

Among the reduced donor population (for simplicity, referred to in the rest of this chapter as donors), around 4 in 10 individuals (39%) consistently displayed correct Gift Aid behaviour; 12% are eligible donors who always add Gift Aid and 27% are ineligible donors who never add Gift Aid. Just under a quarter (23%) consistently displayed incorrect Gift Aid behaviour; 18% are eligible donors who never add Gift Aid and 5% are ineligible donors who always add Gift Aid (Figure 22).

Figure 22: Gift Aid behaviour matrix – sizing the groups.

	Always add Gift Aid to donations	Sometimes add Gift Aid to donations	Never add Gift Aid to donations	Total
<u>Eligible</u> to add Gift Aid to donation	A 12%	B 30%	C 18%	59%
<u>Ineligible</u> to add Gift Aid to donation	F 5%	E 10%	D 27%	41%
Total	16%	39%	44%	100%

Base: Total base excludes non-donors and those who donated only through money in buckets & tins (1,212).

Profiling information for each of the six behavioural groups is presented in this chapter in the following order:

- Groups displaying correct Gift Aid behaviours (A and D),
- Groups displaying mixed Gift Aid behaviours (B and E),
- Groups displaying incorrect Gift Aid behaviours (C and F).

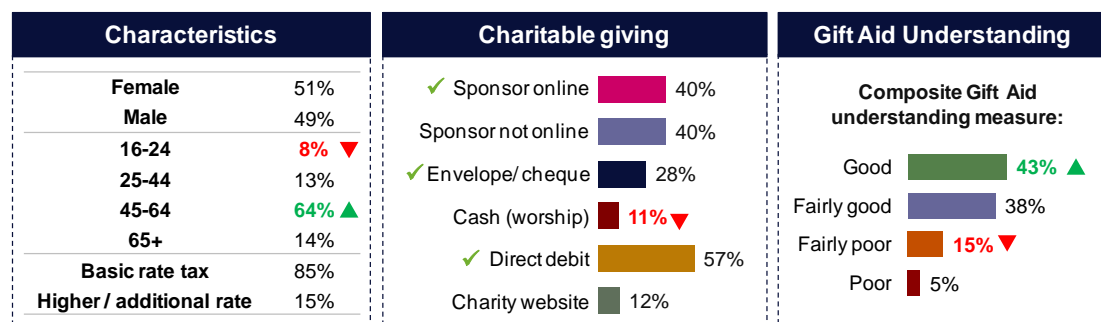
Summary information is provided to highlight key characteristics and behaviours for each group. More detailed data profiles can be found in Appendix 2. When presenting levels of charitable giving for each behavioural group, channels which generated the lowest total donation values have been omitted from profiling information (that is, donations made via telephone, SMS, and ATMs), as well as donations made by putting money in buckets and tins (as explained in section 7.2).

7.3.1 Groups displaying correct Gift Aid behaviours

A. Eligible and always add Gift Aid

Donors in this group are important to charities as their support for charitable causes generates a sizeable proportion of charities' income. They will consistently generate additional income for charities by adding Gift Aid to their donations, primarily via direct debit donations.

Figure 23: Key characteristics, levels of charitable giving and Gift Aid understanding among eligible donors who always add Gift Aid.



▲▼ Significantly higher/lower than average
 ✓ Channels that contribute most to the Gift Aid value added by the group

Base: Eligible donors who always add Gift Aid (190).

This group accounts for 12% of donors. They are likely to be aged between 45 and 64 years, suggesting financial stability from a steady income stream. Most (85%) are basic rate taxpayers, while 15% are higher or additional rate taxpayers.

The channels this group are most likely to donate through are direct debits (57%), online sponsorship (40%) and sponsorship not online (40%). Their levels of giving, channels of giving and general involvement with the charitable sector are similar to the average donor with one exception. This group is significantly less likely than average to donate cash through collections at a place of worship (11% vs. 43% respectively), see Figure 20.

This group's donations contribute £1,279m to the amount of charitable giving by the reduced donor population (this equates to 15% of total giving) and, through adding Gift Aid, £320m to charities' income (this equates to 28% of all such income). Direct debits and online sponsorship are not only among the two most frequently used channels among this group, they are also among the two biggest contributors to charities' income. A third significant channel contributing to charities income is charity envelopes or cheques: This replaces sponsorship not online in the 'top 3' because although less frequently used, it generates a higher average donation value (£36 rather than £16 as is the case with sponsorship not online).

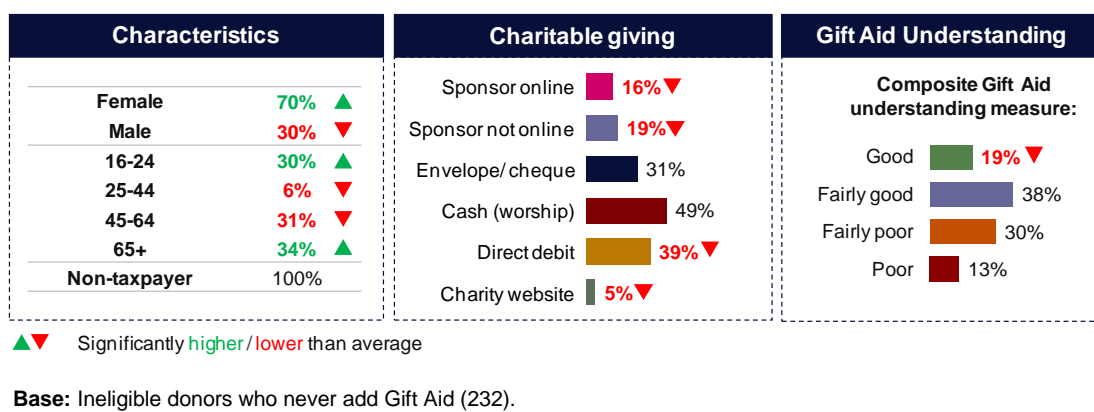
Donors in this group have fairly good level of understanding of Gift Aid and appear to be consciously making the decision to add it to their donations. A majority (88%) correctly identified their eligibility to add Gift Aid, which is significantly higher than the donor population overall (58% correctly classify their eligibility), and 80% have a 'good' or 'fairly good' understanding of Gift Aid. This includes knowing that they have to be a taxpayer to add Gift Aid to donations. Only 15% agree that they need help with filling in official forms (this is significantly lower than

the average at 24%), which could suggest they are comfortable completing a Gift Aid declaration.

D. Ineligible and never add Gift Aid

Donors in this group are less likely to donate through channels where Gift Aid is more commonly added. They have lower levels of understanding of Gift Aid overall and of their own eligibility status.

Figure 24: Key characteristics, levels of charitable giving and Gift Aid understanding among ineligible donors who never add Gift Aid.



This is a sizable group that accounts for 27% of donors. They are significantly more likely to be female (70%) and more likely to be aged 16-24 (30%) or 65 or older (34%).

Individuals in this group are significantly less likely to donate through online channels, i.e. sponsorship online or charity website, or through direct debits (16%, 5% and 39% respectively). They tend to give through channels such as cash collections at a place of worship (49%), or charity envelope or cheque (31%), which are typically less likely to have Gift Aid added due to reduced opportunity to do so. Donations made through these channels are typically of lesser value than other channels, but the size of this group means that the income generated for charities accounts for 18% (£1,491m) of all money donated.

While just over half correctly classified their ineligibility to add Gift Aid to donations (55%), 13% stated incorrectly that they were eligible to add Gift Aid, with a further 32% not sure of their status. Being ineligible to add Gift Aid is also the most cited reason for not doing so, with 36% stating this reason.

There is evidence of lack of understanding of Gift Aid among this group, suggesting there could be risk of incorrect Gift Aid behaviour in the future:

- ▶ Close to half (43%) have 'poor' or 'fairly poor' understanding of Gift Aid, and
- ▶ One in 10 (10%) cited a 'lack of opportunity' as the reason for not adding Gift Aid to their donations.

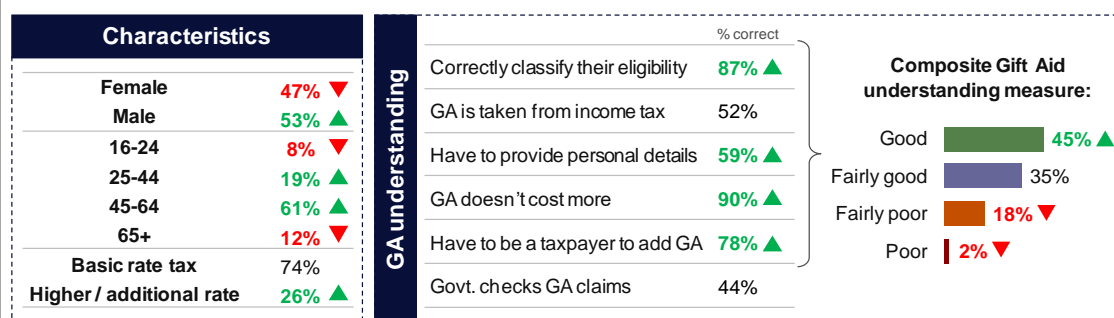
While a lack of understanding may increase this group's risk of incorrect future behaviour, the channels through which this group currently donate reduce the opportunity to easily add Gift Aid. In addition, 38% agree they need help with filling in official forms. This could suggest donors in this group are less comfortable completing a Gift Aid declaration, and this could further reduce their risk of incorrect Gift Aid behaviour.

7.3.2 Groups displaying mixed Gift Aid behaviours

B. Eligible and sometimes add Gift Aid

Despite high levels of understanding (and high levels of giving through most donation channels), this group displays inconsistent Gift Aid behaviour. The cause of any unclaimed Gift Aid is primarily due to a lack of opportunity to add Gift Aid.

Figure 25: Key characteristics and Gift Aid understanding among eligible donors who sometimes add Gift Aid.



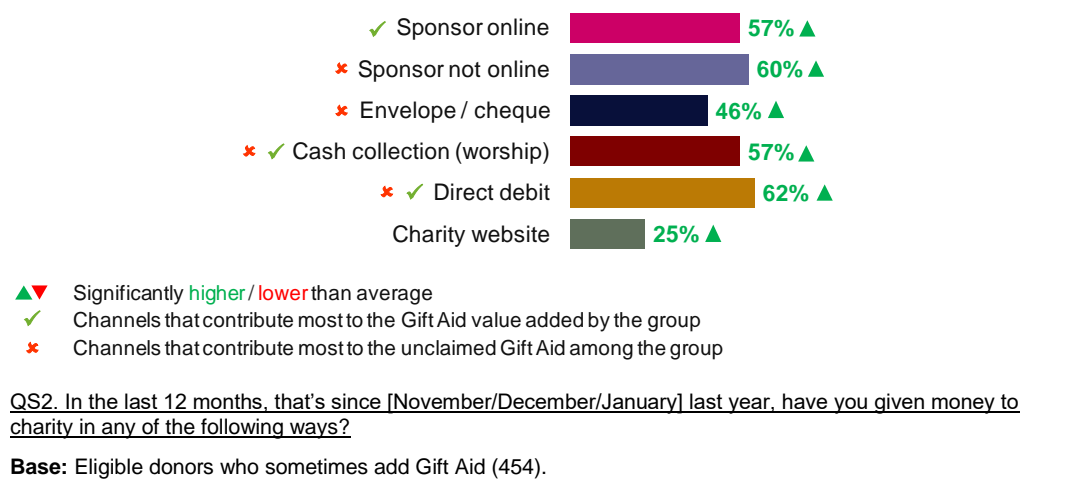
▲▼ Significantly higher / lower than average

Base: Eligible donors who sometimes add Gift Aid (454).

This is the largest behavioural group accounting for 30% of the donor population. They are more likely than the average to be male (53% vs. 44% average within the reduced donor population) and are more likely to be aged between 25 to 44 years or 45 to 64 years than the average (19% vs. 13% and 61% vs. 48% respectively). They are also significantly more likely to be higher or additional rate taxpayers (26% vs. 12% on average).

Their donations account for 45% (£3,713m) of the value of all money donated to charity. This is in part due to the size of this group and in part due to the higher proportion of higher income earners in this group. Their engagement with the charitable sector also extends to non-monetary involvement, as individuals in this group are more likely than other groups to volunteer (41% vs. 33% average). They are significantly more likely than average to give through the full range of channels, which in part explains their mixed Gift Aid behaviour (i.e. they are likely to give through channels which enable easy addition of Gift Aid, such as online channels, as well as channels which make it more difficult to do so, such as cash collections at a place of worship).

Figure 26: Charitable giving among those who are eligible but only sometimes add Gift Aid to their donations.



This group contributes 56% (£268m) to the value of unclaimed Gift Aid. Of the donations where Gift Aid was not added, lack of opportunity was the most commonly cited reason for this (62%). This was the case for those sponsoring not online, where 69%²⁸ cited lack of opportunity as the reason for not adding Gift Aid, and donating through cash collections at a place of worship (61%²⁹). Fewer (42%³⁰) cited lack of opportunity as the reason why they had not added Gift Aid when donating via direct debits. Another key reason for not adding Gift Aid was simply not knowing that it was possible to add Gift Aid to particular types of donations (18%). This reason was cited in relation to donations made via direct debit (20%³¹), to charity envelope or cheque (17%³²) and to cash collections at a place of worship (13%³³).

The main contributor to both the unclaimed Gift Aid and the claimed Gift Aid generated by this group is direct debits. The combination of high donation frequency (26 individual direct debit transactions on average among 62% of this group) and an average donation value of £13 means that this channel contributes the most to both values. Cash collections at a place of worship contribute more to unclaimed Gift Aid than claimed Gift Aid (primarily due to lack of opportunity). However, the average number of these donations (13 times in the 12 months prior to interview among 57% of this group) means that it is the second largest contributor to claimed Gift Aid. The third largest contributor to claimed Gift Aid among this group is online sponsorship. Despite a high average donation value (£24), the relatively low (3) number of donations typically

²⁸ Base: Those who are eligible and sometimes add Gift Aid, donated via sponsorship not online but have not added Gift Aid to all donations via this channel in the 12 months prior to interview (133).

²⁹ Base: Those who are eligible and sometimes add Gift Aid, donated via cash collection at a place of worship but have not added Gift Aid to all donations via this channel in the 12 months prior to interview (225).

³⁰ Base: Those who are eligible and sometimes add Gift Aid, donated via direct debit but have not added Gift Aid to all donations via this channel in the 12 months prior to interview (60).

³¹ Base: Those who are eligible and sometimes add Gift Aid, donated via direct debit but have not added Gift Aid to all donations via this channel in the 12 months prior to interview (60).

³² Base: Those who are eligible and sometimes add Gift Aid, donated via charity envelope or cheque but have not added Gift Aid to all donations via this channel in the 12 months prior to interview (109).

³³ Base: Those who are eligible and sometimes add Gift Aid, donated a cash collection at a place of worship but have not added Gift Aid to all donations via this channel in the 12 months prior to interview (225).

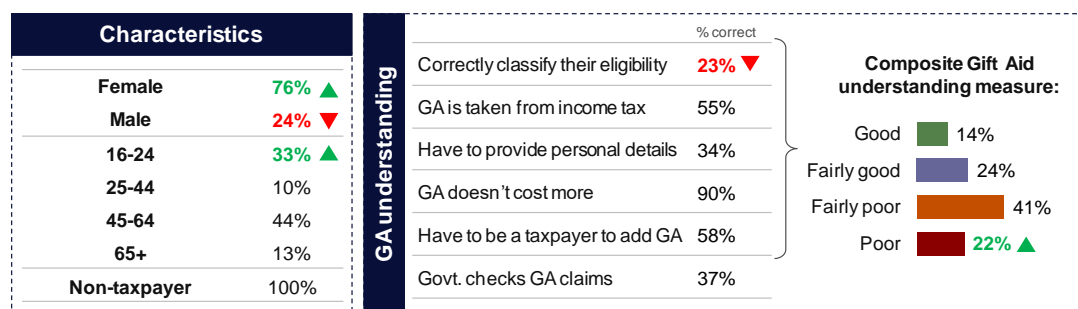
made in the 12 months prior to interview means that this channel contributes less to the value of claimed Gift Aid.

This group has the best understanding of Gift Aid among the donor population, with 80% having 'good' or 'fairly good' understanding. This suggests that this group's mixed Gift Aid behaviour is not caused by the lack of understanding of Gift Aid, but by the reduced opportunity to add it to certain types of donations. If there was greater consistency across and within channels in the opportunity to add Gift Aid, this group would be more likely to do so.

E. Ineligible and sometimes add Gift Aid

This group contributes a significant proportion to the Gift Aid tax gap, and if given the opportunity to add Gift Aid, will do so. This is due to poor levels of understanding of Gift Aid overall, and specifically, a lack of understanding of their own eligibility status.

Figure 27: Key characteristics and Gift Aid understanding among ineligible donors who sometimes add Gift Aid.



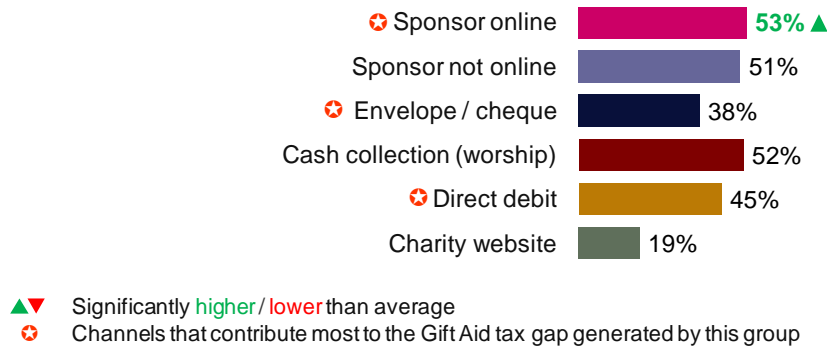
▲▼ Significantly higher/lower than average

Base: Ineligible donors who sometimes add Gift Aid (75 – LOW BASE).

This is a relatively small group which accounts for 10% of donors. They are significantly more likely to be females (76%), more likely than average to be aged 16-24 years (33% vs. 19%), and more likely than average to have worked for a not-for-profit organisation (26% vs. 13%).

As a group, they contribute only a small amount to the total value of donations made by the reduced donor population (8%, £678m). The value of donations where Gift Aid was added is £419m, resulting in relatively low Gift Aid value claimed by charities (9%, £105m). However, this group contributes a significant amount to the Gift Aid tax gap, accounting for 59% of its total value. The channels that contribute the most to the Gift Aid tax gap among this group are direct debits, online sponsorship and charity envelope or cheque donations. This is owing to a combination of high use of these channels and relatively high average donation values.

Figure 28: Charitable giving among those who are ineligible but sometimes add Gift Aid to their donations.



QS2. In the last 12 months, that's since [November/December/January] last year, have you given money to charity in any of the following ways?

Base: Ineligible donors who sometimes add Gift Aid (75 – LOW BASE).

This group has a low level of understanding about Gift Aid, with 22% having 'poor' and 41% having 'fairly poor' understanding. They also have low levels of awareness of their own eligibility status with only 23% correctly stating they are not eligible to add Gift Aid. Among those who haven't added Gift Aid to their donations, the most commonly cited reason for this was lack of opportunity to do so (54%). This was primarily in relation to charity envelopes or cheques³⁴, cash collections at a place of worship (63%³⁵), and was also the main reason why Gift Aid was not added to direct debit donations made by this group³⁶. This suggests that given the opportunity, they *would* add Gift Aid to a greater number of donations, though the risk is currently limited due to their choice of channels (they tend to contribute less in Gift Aid overall). This group has also demonstrates potential to further increase the Gift Aid tax gap through donations via other channels, such as online sponsorship or direct debits.

³⁴ Base too low to cite percentage.

³⁵ Base: Those who are eligible and sometimes add Gift Aid, donated via cash collection (worship) but have not added Gift Aid to all donations via this channel in the last 12 months prior to interview (32).

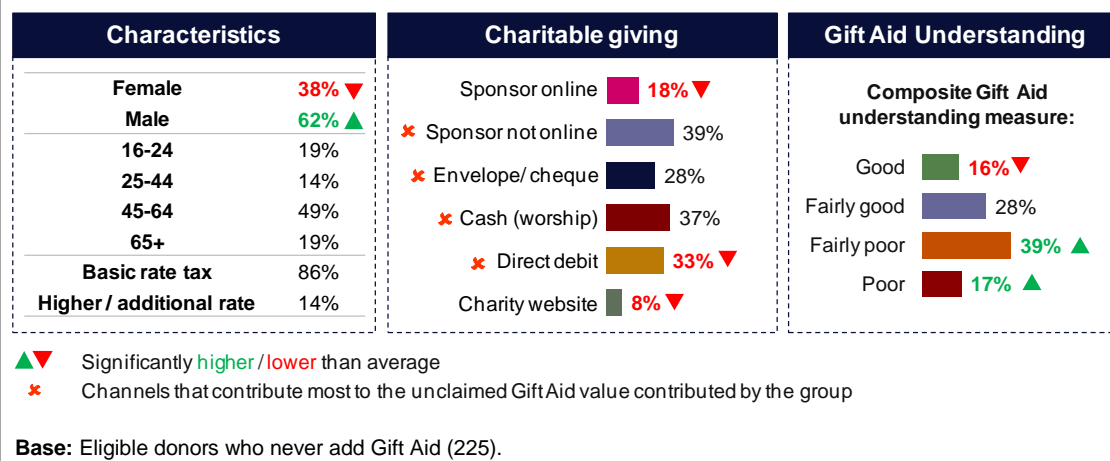
³⁶ Base too low to cite percentage.

7.3.3 Groups displaying incorrect Gift Aid behaviours

C. Eligible and never add Gift Aid

This relatively sizeable group are less likely to donate to charity than other groups. They have low levels of awareness and understanding of Gift Aid.

Figure 29: Key characteristics, levels of charitable giving and Gift Aid understanding among eligible donors who never add Gift Aid.



This group accounts for 18% of the donor population. They are significantly more likely to be male (62%) and have lower levels of engagement with the charity sector than the average donor. They are less likely to donate to charity than other groups and 59% have not fundraised, volunteered or worked for a charity in the past 3 years.

When they do donate, they tend to give through offline channels (e.g. sponsorship not online, cash collection at a place of worship), where there is limited opportunity to add Gift Aid. Overall, this group contributes 10% of all money donated (£831m). The Gift Aid that could have been claimed on those donations made by this group contributes 44% of the unclaimed Gift Aid value (£208m). The two frequently used offline channels, along with direct debits, contribute most to this by virtue of being the most commonly used channels by this group and the channels generating the most income for charities from this group.

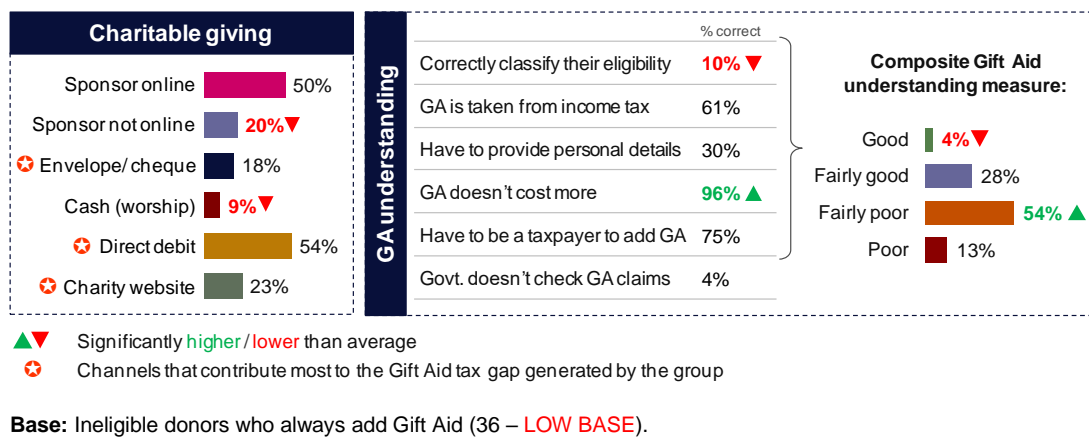
The majority (60%) have 'poor' or 'fairly poor' understanding of Gift Aid. In particular, lack of understanding of their eligibility status appears to impact on overall levels of understanding, as only 43% correctly identify themselves as eligible. Furthermore, this group is significantly less likely to be aware that income taxpayers are eligible to add Gift Aid (58% are aware vs. 68% average). The low levels of understanding are reinforced by a lack of awareness of Gift Aid. When asked why Gift Aid was not added to their donations, around a quarter (24%) said they had not heard of Gift Aid. Lack of opportunity to add Gift Aid is cited by a similar proportion (23%); this is the case mainly among those who donated cash at a place of worship, via direct debit or sponsored someone not online³⁷.

³⁷ Bases are low therefore percentages are not cited here.

F. Ineligible and always add Gift Aid

This small group misunderstands what it means to be a taxpayer, which impacts significantly on their overall understanding of Gift Aid.

Figure 30: Levels of charitable giving and Gift Aid understanding among ineligible donors who always add Gift Aid.



This group accounts for only 5% of the reduced donor population, and has an 'average' demographic profile. This indicates that there is no one specific demographic characteristic that could explain this particular type of error within the Gift Aid scheme.

The channels through which they are most likely to donate to charity are direct debits (54%) and sponsorship online (50%). Overall, donors in this group contribute 4% (£295m) of the total value of money donated by donors. All of the Gift Aid claimed on these donations contributes to the Gift Aid tax gap and accounts for 41% (£74m) of its value. The channels which contribute the most to the Gift Aid tax gap generated by this group are direct debits (because of high usage), charity website (mainly due to higher average donation value), and charity envelope or cheque (also due to higher average donation value).

The typical level of understanding of Gift Aid among this group is fairly poor or poor (68% combined). This is largely because only one in 10 (10%) are able to correctly identify their eligibility status; as many as three quarters incorrectly believe themselves to be eligible (74%). This seems to be caused by a fundamental misunderstanding of what it means to be a UK taxpayer. A majority in this group (75%) correctly state that donors need to be taxpayers in order to add Gift Aid, however, 74% among the group incorrectly identify themselves as eligible to add Gift Aid. This suggests that individuals within this group are not wilfully adding Gift Aid incorrectly, but are instead doing so through a lack of understanding of their own taxpayer, and therefore, eligibility status.



8 Summary and conclusions

8.1 Summary of key findings

- ▶ The vast majority of the UK population aged 16 years or over have given to charity in the 12 months prior to interview (95%). The total value of money donated to charity is £8.91bn.
- ▶ The most commonly used channel for donating to charity is by putting money in buckets and tins, however, direct debits account for the largest proportion of the money donated to charity. Gift Aid was added to just over half (52%) of the total value of donations and the Gift Aid amount claimed back by charities amounts to £1.16bn.
- ▶ Overall, 8% of donations made in the 12 months prior to interview had Gift Aid incorrectly added to them by ineligible donors. This generated a tax gap of up to £0.18bn, although the actual tax gap will be lower than this once HMRC audit and compliance checks are taken into account.
- ▶ Overall, 25% of donations did not have Gift Aid added to them where the donor was eligible, contributing up to £0.56bn in unclaimed Gift Aid, and representing potential missed income for charities. Some of this Gift Aid may be claimed back by charities through the small donations scheme so the actual figures could be lower.
- ▶ The **Gift Aid tax gap** is mostly caused by a lack of understanding of Gift Aid and what it means to be a taxpayer, leading to ineligible donors incorrectly believing that they are taxpayers and therefore eligible to add Gift Aid. There is little evidence to suggest that there is a tendency among ineligible donors to wilfully incorrectly add Gift Aid to their donations.
- ▶ Just over half of donors demonstrated a 'good' or 'fairly good' understanding of Gift Aid. A significant factor in the assessment of donors' understanding of Gift Aid is their ability to correctly identify their own eligibility, with fewer than 6 in 10 overall being able to do so (58%).
- ▶ The value of **unclaimed Gift Aid** is mostly driven by a lack of opportunity, and to a lesser degree, by misunderstanding of Gift Aid and not recognising their eligibility to add it to donations.
- ▶ Donation channels are critical to understanding how the Gift Aid tax gap and unclaimed Gift Aid are generated. Both are heavily driven by donations made through direct debits (in particular) and charity envelopes or cheques. Proportionally, online channels are more likely to contribute more to the Gift Aid tax gap, while offline channels contribute more to unclaimed Gift Aid.

8.2 Conclusions

Analysis of Gift Aid behaviours among donors identifies two key issues at the heart of errors in the Gift Aid scheme:

- ▶ **Misunderstanding** of Gift Aid and what it means to be a taxpayer/ how to qualify as someone eligible to add Gift Aid; and
- ▶ **Lack of consistent opportunity** to add Gift Aid to donations.



Understanding of Gift Aid could be improved by tackling some of key knowledge gaps: what it means to be a current UK taxpayer, followed by a connection between being a taxpayer and eligibility to add Gift Aid. Those elements are most commonly misunderstood among those who incorrectly add Gift Aid to donations, but also explain misunderstanding among eligible donors.

Providing information on Gift Aid eligibility criteria, and on the benefits of Gift Aid to donors, can increase likelihood of correct Gift Aid behaviour. Ideally, this would be displayed or provided every time a donation is made to ensure the information is relevant and timely. The key channel which needs to address this is direct debits. The longevity of this donation channel exacerbates the importance of ensuring that a clear definition of eligibility to add Gift Aid is presented to donors at the very start of the process, and that updates are provided to the donor throughout the time that the direct debit stands (so that the donors status is kept up to date). It is also important to make it easier for donors to update their Gift Aid status in relation to the direct debit should their circumstances change, and critically, inform them that how to make such changes.

Online channels are also important to address (online sponsorship and donating directly through the charity website). Donors add Gift Aid to a higher proportion of donations made through these two channels compared to other channels, increasing the chance of incorrect Gift Aid behaviour within that channel should eligibility be misunderstood. Providing the relevant information on websites which offer the option to add Gift Aid to donations is important in reducing risk of incorrect behaviour caused by misunderstanding of eligibility.

More consistent **opportunity to add Gift Aid** to donations across channels could significantly reduce the amount of unclaimed Gift Aid. It is important that improving understanding of Gift Aid accompanies – or precedes – interventions to increase opportunity to add Gift Aid, in order to minimise the risk to HMRC of further increasing the Gift Aid tax gap by clarifying what it means to be eligible to add Gift Aid. The majority of donation channels are offline, presenting a key challenge for charities in consistently offering a standardised process to add Gift Aid to donations. This is due to direct and timely access to donors becoming more difficult in such circumstances. Channels which are most commonly used and contribute most to unclaimed Gift Aid should be prioritised so as to reduce the level of unclaimed Gift Aid; this includes direct debits, cash collections at a place of worship and charity envelopes or cheques.

9 Appendices

9.1 Appendix 1: Composite Gift Aid understanding measure

A composite Gift Aid understanding measure was created to assess overall levels of understanding. The basis of this measure is a scoring system, and an explanation of how this was developed is outlined below:

1. Key questions which assessed understanding of Gift Aid criteria were identified
2. A scoring system was developed to assign values to the answers provided
3. The resulting distribution of scores were analysed, based on accuracy of response, and understanding 'classifications' were assigned

Step 1: Identifying the key questions

Donors were asked whether they thought the following five key understanding measures statements were true, false or if they were not sure:

- Gift Aid is paid to charities from the income tax individuals have already paid to the government
- Individuals need to provide personal details when they add Gift Aid to their donation
- It costs an individual more to add Gift Aid to donations
- Individuals have to be a current income taxpayers to add Gift Aid to donations
- The Government runs checks to make sure that individuals who add Gift Aid are eligible to do so

In addition, donors were asked, 'Are you personally eligible to add Gift Aid to monetary donations that you make to charity? If you are unsure, please say.' Answers provided to this question were checked against the known eligibility status of each donor to assess whether donors could correctly identify their eligibility status.

Step 2: Developing a scoring system

For each correct answer provided to the above questions a donor received a score of one. Incorrect answers received a score of zero, while 'not sure' answers were assigned a half score. In this way donors were assigned a score of between zero and six. Figure 31 outlines the scoring system, detailing the correct and incorrect answers by eligibility status.

Figure 31: Scores allocated to participants' answers to Gift Aid understanding 'measures'.

	Ineligible donors						Eligible donors					
	If Q=	Pts.	If Q=	Pts.	If Q=	Pts.	If Q=	Pts.	If Q=	Pts.	If Q=	Pts.
Are you personally eligible to add Gift Aid to monetary donations that you make to charity?	Y	0	N	1	NS	0.5	Y	1	N	0	NS	0.5
Gift Aid is paid to charities from the income tax individuals have already paid to the government.	T	1	F	0	NS	0.5	T	1	F	0	NS	0.5
Individuals need to provide personal details when they add Gift Aid to their donation.	T	1	F	0	NS	0.5	T	1	F	0	NS	0.5
It costs an individual more to add Gift Aid to donations.	T	0	F	1	NS	0.5	T	0	F	1	NS	0.5
Individuals have to be a current income taxpayer to add Gift Aid to their donation.	T	1	F	0	NS	0.5	T	1	F	0	NS	0.5

Key

If Q=	Response to question
Pts.	Score assigned to response
Y	Yes
N	No
T	True
F	False
NS	Not sure

Step 3: Analysing the score distribution and assigning levels of understanding

By analysing the distribution of scores, four 'levels' of understanding were identified:

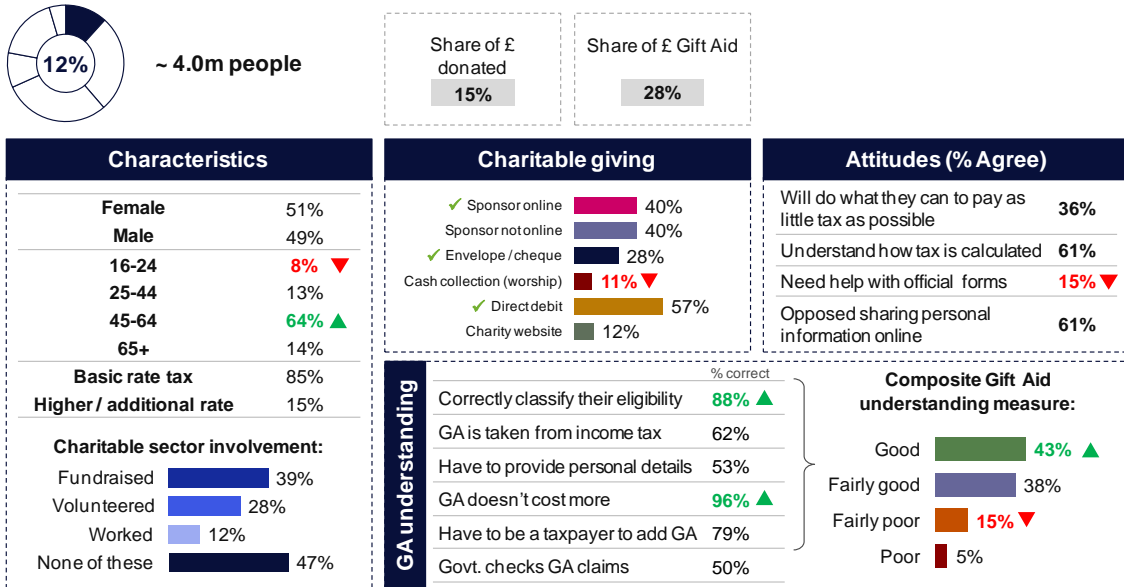
Figure 32: Distribution of Gift Aid understanding scores.

Gift Aid understanding score	Count (unweighted)	Level of understanding
0.5	3	Poor
1	15	
1.5	25	
2	66	
2.5	125	Fairly poor
3	207	
3.5	170	Fairly good
4	314	
4.5	156	Good
5	233	
Total	1,314	

Those classified as 'good' were able to correctly answer the majority of the questions and the other 'levels' of understanding were classified using the distribution of scores.

9.2 Appendix 2: Detailed data profiles for the six Gift Aid behaviour groups

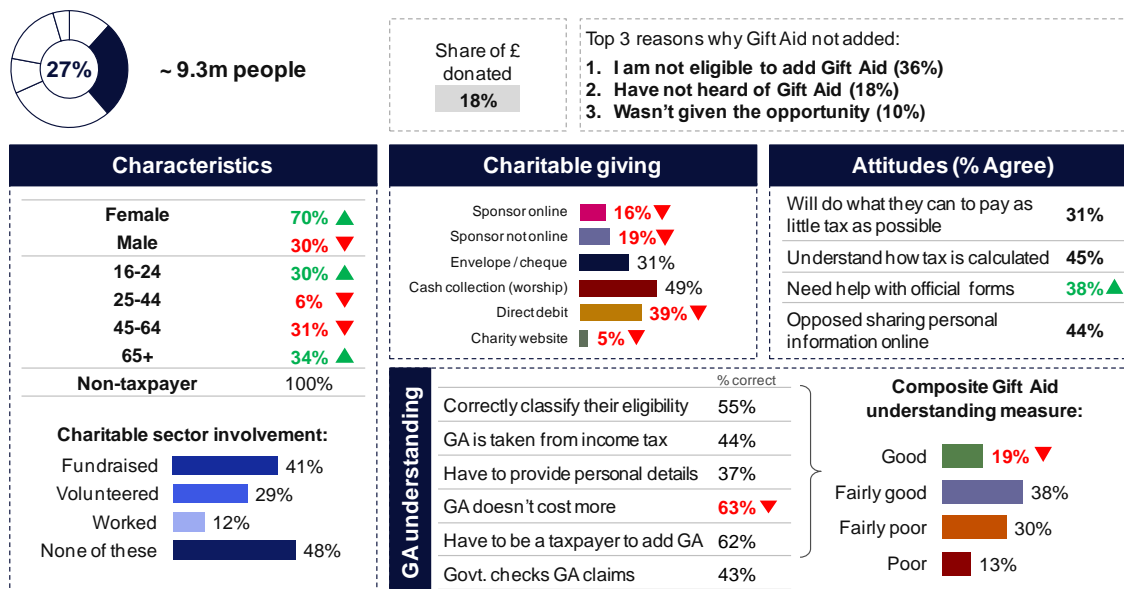
A. Eligible and always add Gift Aid – data profile



▲ ▼ Significantly higher/lower than average
✓ Channels that contribute most to the Gift Aid value added by the group

Base: Total (190).

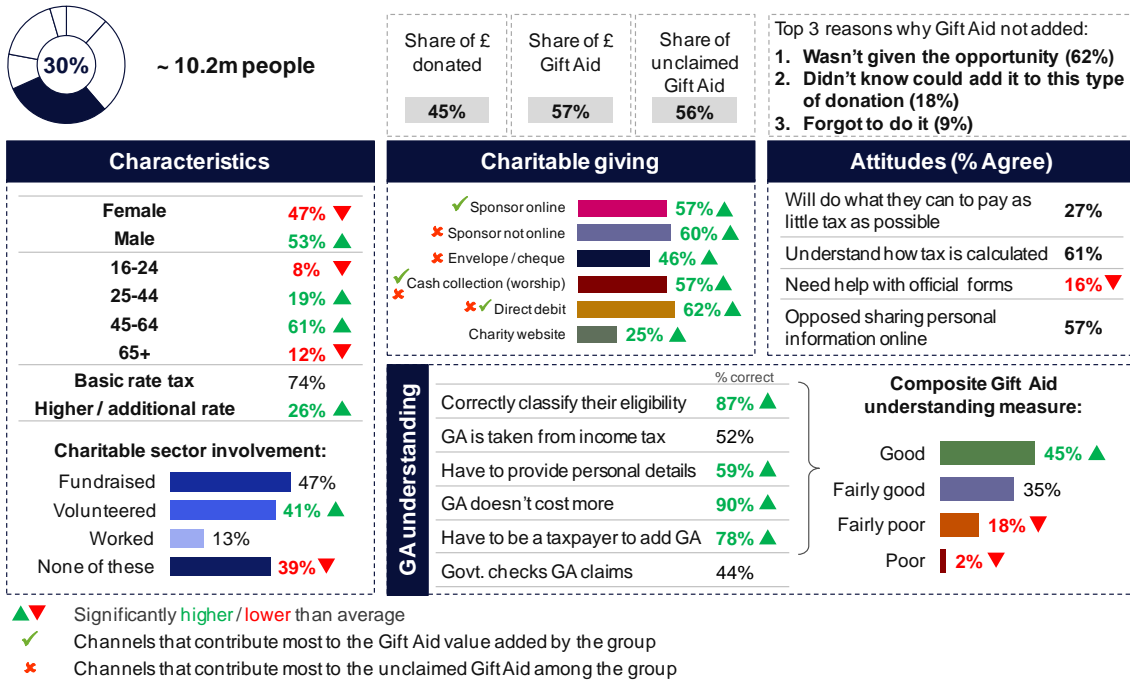
B. Ineligible and never add Gift Aid – data profile



▲ ▼ Significantly higher/lower than average

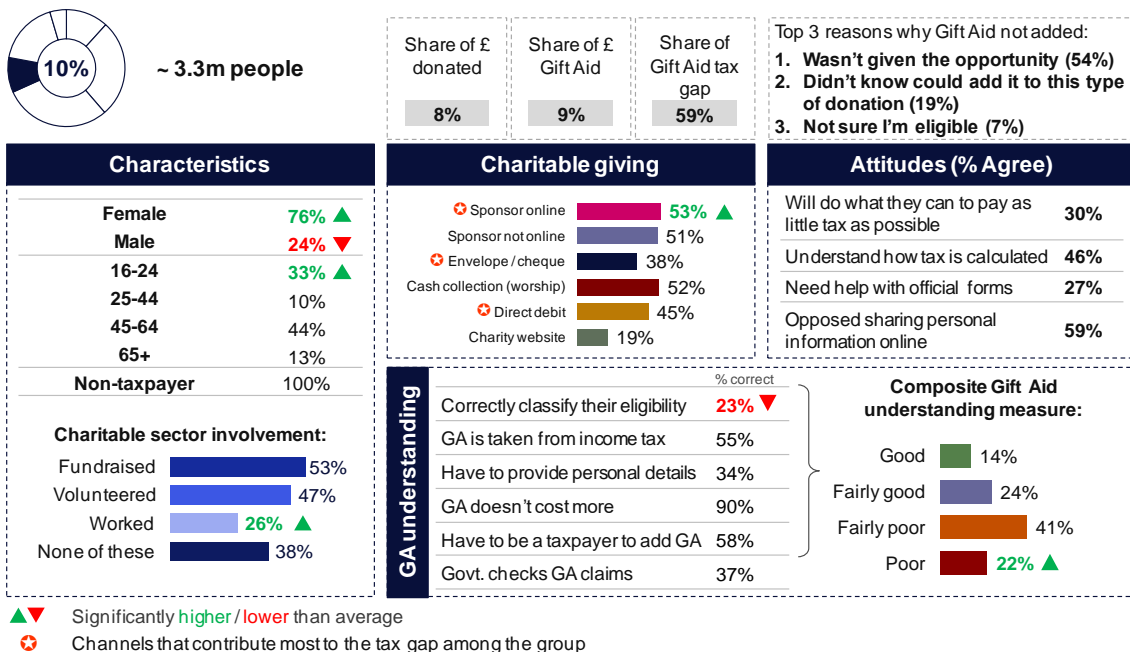
Base: Total (232), Those who provided reasons why they have not added Gift Aid to their donations (230).

C. Eligible and sometimes add Gift Aid – data profile



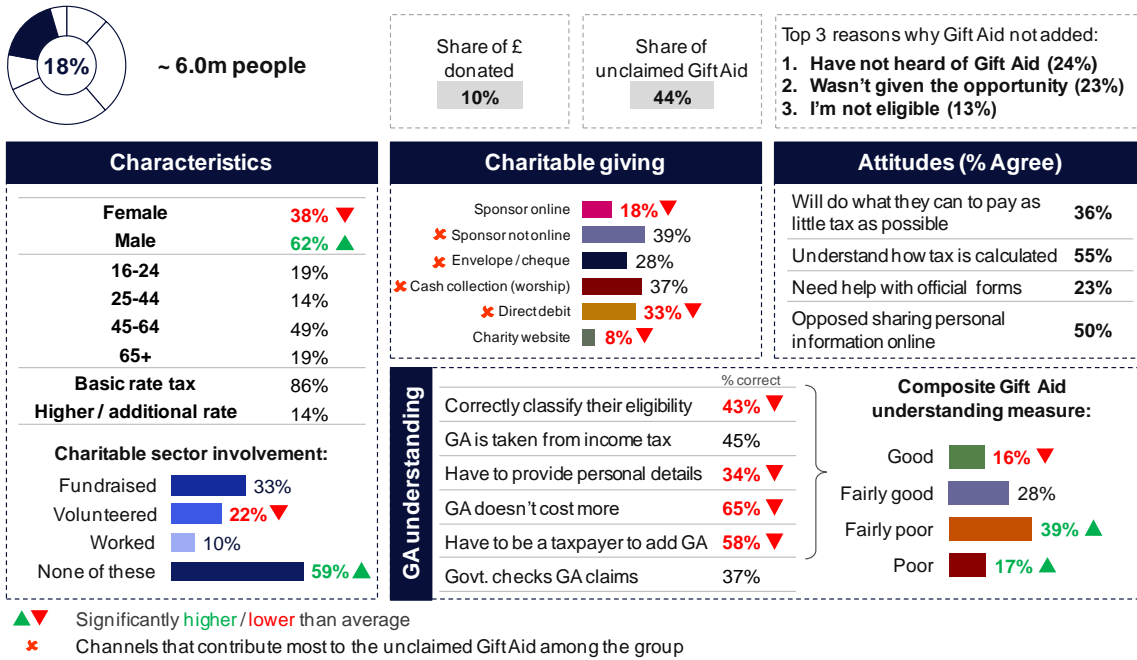
Base: Total (454), Those who provided reasons why they have not added Gift Aid to some their donations (412).

D. Ineligible and sometimes add Gift Aid – data profile



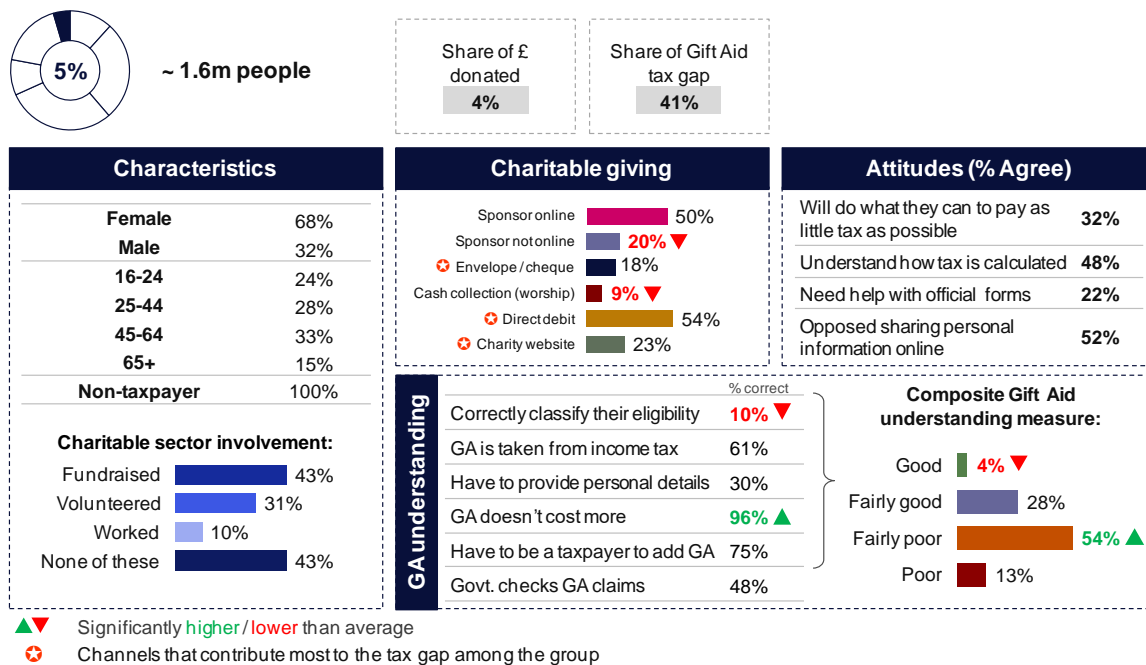
Base: Total (75), Those who provided reasons why they have not added Gift Aid to some of their donations (68).
 LOW BASE

E. Eligible and never add Gift Aid – data profile



Base: Total (225), Those who provided reasons why they have not added Gift Aid to their donations (220).

F. Ineligible and always add Gift Aid – data profile



Base: Total (36).
LOW BASE

Quadrangle Research Group
The Butlers Wharf Building
36 Shad Thames
London SE1 2YE

+44 (0)20 7357 9919
www.quadrangle.com

