Mind the Giving Gap

Unleashing the potential of UK philanthropy

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Anoushka Kenley, Jamie O'Halloran and Karl Wilding

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Summary

Each year, members of the UK public voluntarily donate nearly £20 billion of their own funds to help make possible the work of tens of thousands of charities, employing hundreds of thousands of people and providing services, opportunities and communities to millions across the country. This generosity has long been a part of British culture, and that has never been more evident than it was during the pandemic.

Yet there is a growing threat that such generosity of spirit is fading in Britain. Data from a range of surveys suggests that the proportion of people giving to charity has been shrinking for a number of years, with one ONS source suggesting that the proportion of households donating regularly to charity fell from 32% in 2000 to just 26% in 2018.

The decline in philanthropy among those with the greatest resources is of particular concern. Even after adjusting for inflation, incomes of the top 1% of earners in the UK have grown significantly since 2011. The typical income of someone in the top 1% of earners grew by 10% in real terms between 2011-12 and 2018-19, from £247,000 to £271,000. Yet over the same period, the typical donation to charity made by top earners fell by over 20% and now sits at just £48 a month.

Meanwhile, the process by which the tax system encourages philanthropy is not working hard enough. Gift Aid is claimed by charities on just over half of donations in the UK, but a further 25% of the total value of donations may be eligible for it.

The falling participation in philanthropy, the decline in average giving by the wealthiest, and persistently unclaimed Gift Aid have combined to create a three-fold 'giving gap': one which could be worth close to £3 billion a year for the country's charities. We estimate that:

- Closing the **participation gap** and restoring the proportion of the public that give regularly to 2000 levels could raise up to £1.4 billion a year for charities
- Closing the **generosity gap** among high earners so that everyone in this group donating below 1% of their income raised their giving to that level could raise up to £1.4 billion a year for charities
- Closing the **Gift Aid gap** so that a greater proportion of Gift Aid to charities was claimed could raise up to £380 million a year for charities

The scale of this opportunity is too large to ignore. And many of the ideas for closing these giving gaps not only exist, but have already been tried and tested for their effectiveness.

There is evidently a role for philanthropists themselves in how they share and help proliferate philanthropy among their peers. And there is an adjacent role for wealth managers and advisers in how they understand and advocate for tax-efficient giving. There is a role too for the charity sector in how it fundraises, targets its action and communicates and measures its impact. And there is a role for the UK government, in how it encourages innovation in fundraising, how it coordinates policy on philanthropy and how it approaches Gift Aid.

Of particular interest to the Commission is the potential for growing place-based giving as a means of combatting the significant regional variation in the strength and funding of civil society which currently exists. Among those people completing tax self-assessments, our analysis shows that those in the country's wealthiest areas declare seven times as many donations to charity as those in the most deprived areas (excluding London). The potential for targeted action to drive up donations in the parts of the country which need it the most, for example, through targeted match giving schemes or through leadership at the local level, is an exciting one.

To date, the combined effect of the trends identified in this report have been at least partially masked by the growing generosity of an ever-narrowing pool of committed donors. But that does not put public giving on a sustainable footing. Tackling the UK's three-fold 'giving gap' must now be a priority for all those concerned about the sustainability of the charity sector.

It is a priority for the Law Family Commission on Civil Society too. We have detailed a range of potential policy options in this paper – not designed, at this stage, to serve as recommendations, but rather as jumping off points for further discussion. To that end, across the coming weeks we will be working closely with policymakers, sector representatives, academics, economists and businesses to identify the most effective policy proposals for narrowing the giving gap, and to pursue making them a reality.

Introduction

The UK's strong tradition of philanthropic giving has helped to build the charity sector we see today: an agile, diverse group of tens of thousands of organisations, employing hundreds of thousands of individuals and improving the lives of tens of millions. The sector came to the fore during the Covid pandemic, responding rapidly to provide support to those who had nowhere else to turn.

Yet, the pandemic also resulted in many charities needing to manage a sharp and ongoing rise in demand and a precipitously falling income. PBE estimated that charities were facing a £10 billion funding gap in 2020, with 49% of organisations reporting that they lost income during the pandemic.

This dramatic change in the financial fortunes of many charitable organisations came after a decade in which securing sufficient and sustainable funding has become an increasing challenge and a defining concern for many organisations.[1] Strengthening and widening philanthropy is core to tackling this sustainability challenge, both to support the sector in its recovery from the pandemic and to ensure it can fulfil its potential for all who could benefit from it in the decades ahead.

As part of the Law Family Commission on Civil Society, PBE is investigating how to support and encourage philanthropic action. The Commission aims to improve the current level of UK philanthropy, including charitable giving by individuals. It is also interested in how effective philanthropy is and how to support better philanthropy. This topic is the subject of a sister report to this one, *Better Giving*,[2] as well as a series of essays from long-term observers of the sector.[3]

Navigating this report

Understanding the landscape of charitable giving is an essential precursor to any efforts to improve it. This report provides major new insights into charitable giving – monetary donations from the general public, and in particular giving by those with the highest incomes – in order to identify the challenges and opportunities that exist as we emerge from the Covid crisis.

Section 1 provides a snapshot of UK philanthropy. It illustrates both the important role such giving plays in maintaining a healthy civil society and the relative generosity of much of the British public. But it also notes the challenges associated with philanthropy, including in relation to its distribution across causes and locations.

Section 2 looks at trends in UK philanthropy, using ground-breaking new analysis to identify a three-fold 'giving gap'. More specifically, it highlights concerning trends in levels of participation, use of Gift Aid, and giving patterns among the UK's very highest

[1] Securing sufficient, sustainable funding was cited as one of the biggest challenges facing the social sector in the Commission on Civil Society's recent call for evidence. See *Summary of responses: unleashing the potential of civil society*, Pro Bono Economics, 12 August 2021
[2] See R Davies, *Better Giving*, Pro Bono Economics, December 2021
[3] These essays can be found on the Law Family Commission on Civil Society website, here.

income individuals. It includes a deep dive into the giving habits of the UK's top 1% of earners.

Section 3 focuses on the policy options worth considering as we seek to address these giving gaps. We set out ideas to support and expand UK philanthropy, with the specific aspiration of growing levels of charitable giving.

Changing the philanthropy conversation

In doing all this, this report is focused squarely on the *quantity* of giving. The accompanying report, *Better Giving*,[4] looks instead at the *quality* of philanthropy. It argues that simply increasing the quantity of philanthropy is not enough: to respond to criticism and increase impact, those interested in the health of philanthropy need to engage with issues like whether giving is happening in areas where philanthropy is most needed or can make the biggest difference; and whether approaches to philanthropy can at times do harm as well as good. A number of these issues are further explored in the additional collection of essays we have brought together from philanthropy experts and practitioners.

Taking all of these outputs together, our intention is to change the conversation about philanthropy – and in turn to generate a step-change in support for civil society.

While some current trends in philanthropy are concerning, several solutions appear to be readily available. Many are already well evidenced and proven to make a difference to giving. Barriers to action appear to relate more to inertia, habit and will than to imagination. Going forward then, we believe change can be secured, but only if it is the product of a coordinated and sustained effort on the part of philanthropists, charities and the wider sector, government at multiple levels, and the business community.

To take forward this agenda, the Law Family Commissioners will host a series of roundtables and interviews over the coming weeks aimed at driving towards conclusions about how best to enhance the scale, scope and effectiveness of UK philanthropy. The Commission will subsequently present its final policy proposals in this space, all with a view to making the difference required to philanthropy in the UK and – ultimately – to the people and causes that it supports across the country.

[4] See Davies, Better Giving

SECTION 1

The size and shape of UK philanthropy

Philanthropy is an umbrella term that describes voluntary action for public good.[5] It is any kind of voluntary donation: time, expertise, money or other tangible contributions like shares or property. While people often think of 'philanthropists' as those who make large donations, anyone who donates their 'time, talent or treasure' is making a philanthropic gift. Some of these donations attract tax benefits – notably, donations of money, land, shares and property. Others, like the value of volunteers' time, are not even counted in charities' annual accounts. For major donors in particular, involvement in a cause often means bringing expertise and connections, along with funding. The unifying thread is that these activities are undertaken for the public benefit, with evidence suggesting that they also benefit the wellbeing of donors.[6]

In this report, we focus specifically on monetary donations by individuals. This ranges from the small change given by the public to the large gifts made by major philanthropists. For ease, we have used 'philanthropy' as shorthand to describe this giving.

Philanthropy is critical to a healthy civil society

Like many societies, the UK has a proud tradition of voluntary action. However, modern philanthropy is rarely treated with the same priority or appreciation given by previous generations. Studies show that this is partly due to a limited or poor public understanding of the role of philanthropy in a modern welfare state: many people think that philanthropy has been superseded.[7] Philanthropy is rarely celebrated – indeed, it is increasingly criticised.[8]

Yet philanthropic capital plays a vital role in civil society. First, and most obviously, it supports associational life, a critical part of a healthy liberal democracy.[9] It is responsive to newly emerging needs, often before the state can act. It is frequently innovative, taking long-term risks where businesses cannot or government will not. It is less sensitive to the fluctuations of political and economic cycles than other funding sources. It usually has fewer constraints than statutory sources, allowing it to support a broader range of investments. And it is, of course, voluntary, supporting the public good without compulsion. It is also the cornerstone of charity sector funding.

The value of philanthropic support is more than monetary. By giving, donors develop connections with organisations, issues or communities they might not otherwise interact with. Philanthropy defines, shapes and supports civil society and, when sustained, public donations demonstrate broad democratic support for the work of the charity sector. Any inquiry into the future of civil society needs to reflect on the future of philanthropy.

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[5] R Payton & M Moody, "Taking philanthropy seriously", in *The Philanthropy Reader*, eds. M Moody & B Breeze (New York: Routledge, 2016)
[6] L B Aknin et al., "Happiness and Prosocial Behavior: An Evaluation of the Evidence", in *World Happiness Report 2019*, eds. J F Helliwell, R Layard & J D Sachs (New York: Sustainable Development Solutions Network, 2019)
[7] B Breeze, "UK Philanthropy's greatest achievements", in *The Philanthropy Reader*, eds. M Moody & B Breeze (New York: Routledge, 2016), 18
[8] For more on attacks – and defence – see P Buchanan, *Giving Done Right: Effective Philanthropy and Making Every Dollar Count* (New York: Public Affairs, 2019), and B Breeze, *In Defence of Philanthropy* (Newcastle upon Tyne: Agenda Publishing, 2021)
[9] This 'pluralism rationale' is argued by Rob Reich to be the strongest justification for tax incentives for philanthropy, over and above any net economic gain from the greater production of services. See B Soskis, "Philanthropy, Democratic Scrutiny, And Time: Soskis On Reich's Just Giving", *HistPhil*, 19 December 2018

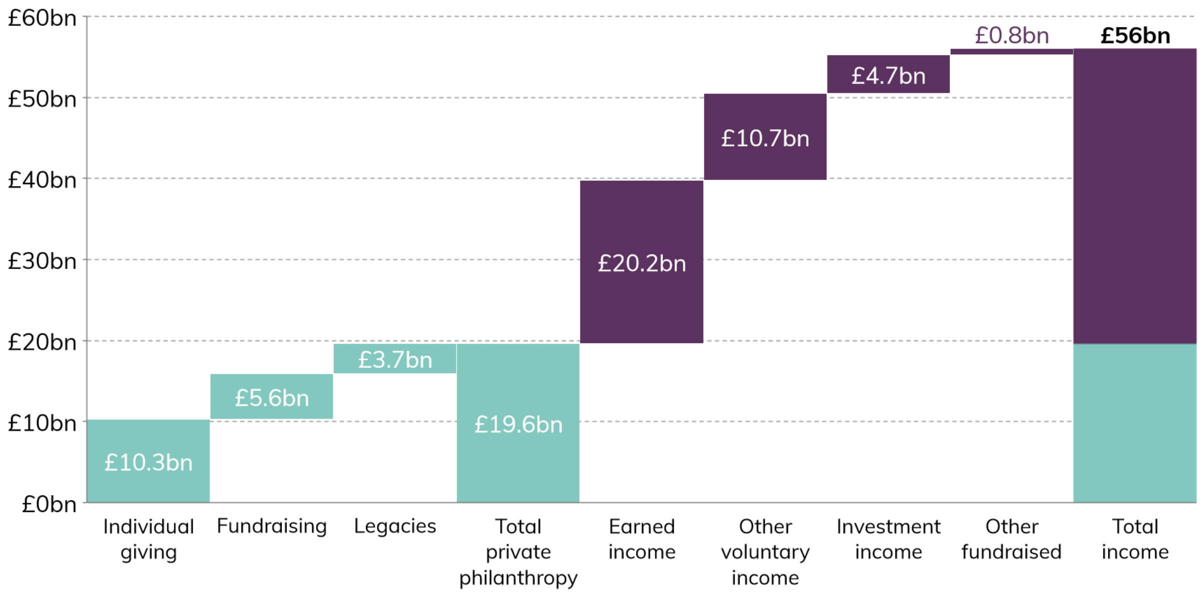
Philanthropy was worth £19.6 billion to charities in the UK in 2018-19

Giving to charity remains a widespread and popular activity, with one survey estimating that almost two-thirds of the population donate in a given four-week period.[10] Using data from charity annual reports and regulatory returns, NCVO estimated that philanthropy to charities in the UK was worth £19.6 billion in 2018-19 (Figure 1).[11] This comprised public donations of £10.3 billion,[12] fundraised income of £5.6 billion, and legacies of £3.7 billion.[13] In terms of public donations and fundraised income, the UK's top 1% of earners donate around 6% of this total, close to £1 billion a year.

Figure 1 also illustrates that in 2018-19, giving, legacies and public fundraising combined to provide over a third of the charity sector's income. They were also an important driver of overall income growth over the last decade. In real terms, giving to charities (donations, legacies and fundraising) has increased from £14.8 billion in 2011-12 to £19.6 billion in 2018-19 (£4.8 billion). As charities generated a total income of £56 billion, private philanthropy was equivalent to 35% of the sector's total revenue.

Figure 1: Charities in the UK receive nearly £20 billion from individual philanthropy

Sources of charity income in 2018-19, derived from annual accounts



Notes: Earned income includes purchases from the public, such as membership fees. Other fundraised income is from sources other than the public, such as sponsorship from businesses.
Source: NCVO (2021) UK Civil Society Almanac

[10] DCMS, Community Life Survey 2020/21, Gov.uk, 20 October 2021. There is substantial variation in reported levels of donor participation between different surveys. These are discussed in the accompanying technical report.
[11] A Martin et al., UK Civil Society Almanac 2021, NCVO, 2021. Surveys asking donors how much they gave produce different aggregate amounts. These are discussed in the accompanying technical report.
[12] Public donations include significant gifts from individuals but not grants from private or family foundations.
[13] NCVO recorded a further £7.5 billion in earned income from individuals. This included purchases from charity shops, memberships and subscriptions, fees for services and rental income. This forms part of the £19.4 billion earned income from all sources in figure 1.

For comparison, total government expenditure on all aspects of UK society totalled £818 billion in 2018. So charitable giving was equivalent to 2.1% of public spending, or 5.5% of government departments' revenue spending.[14]

And as government spending directly with the charity sector totalled £15.8 billion in 2018-19 – comprising £11 billion in contracts and £4.7 billion in grants – support from private philanthropy exceeded all incoming resources from government for charities.

Philanthropy as a share of national income has remained broadly static

Surveys indicate that the total amount donated to charity by the public has grown in real (inflation-adjusted) terms. However, as a proportion of GDP, philanthropy has remained broadly static, with growth in public donations approximately tracking economic growth between 2008 and 2018.[15]

Over the longer-term, evidence suggests that growth in disposable incomes and living standards for most households has been accompanied by increased charitable giving for those that give. Average weekly household donations *from donor households* increased 55% in real terms between 2000 and 2018.[16] At the same time, however, fewer people are regularly donating – partially offsetting this growth in generosity among those who continue to donate.

So although the increase in total charitable giving is hugely positive for charities and civil society, more worrying trends around the breadth of support are also evident. These are the subject of Section 2 of this report.

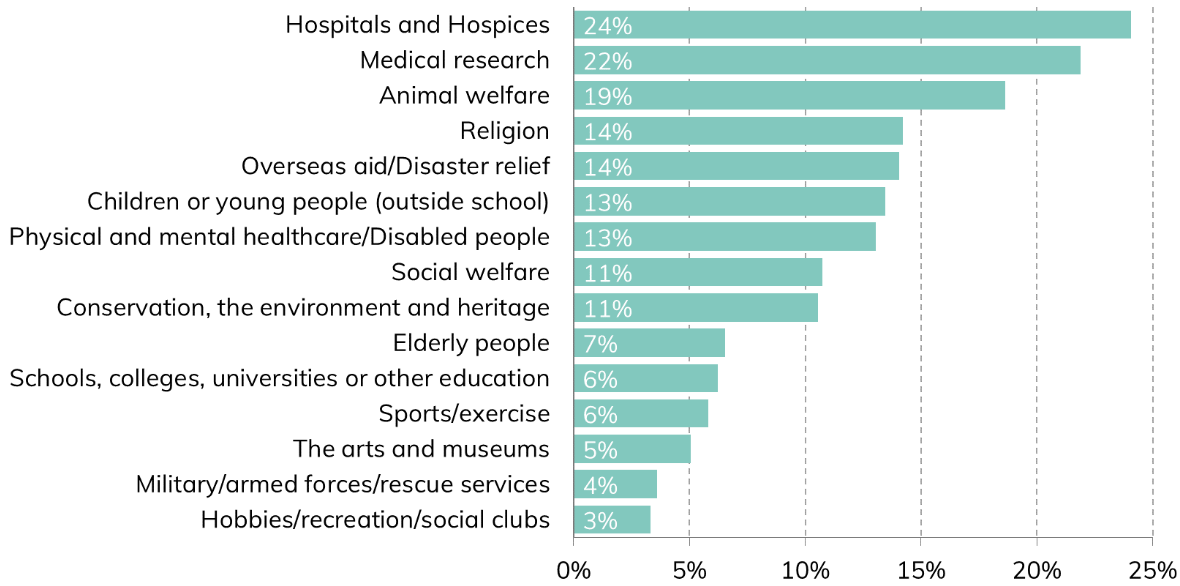
A small number of causes are consistently popular

Figure 2 sets out the various causes given to by UK donors in 2020-21, as captured in the government's Community Life Survey. It shows that the three most prevalent causes among donors are hospitals and hospices (24% gave to this cause in 2020-21), medical research (22%), and animal welfare (19%). Other prevalent causes include religion and overseas aid (both 14% of donors).[17]

[14] Budget 2018, HM Treasury, 29 October 2018. Resource DEL excluding depreciation in 2018-19 totalled £313 billion.
[15] J Franklin, M Graham & M Whittaker, *Is this time different? Charity funding in recession and recovery*, Pro Bono Economics, November 2020
[16] C Pharoah & T McKenzie, *Reframing the ask: Trends which will shape giving and fundraising post-Covid19*, Chartered Institute of Fundraising, 30 June 2020
[17] Research by CAF identifies a slightly different set of relatively popular causes (animal welfare, children and young people, medical research). See CAF UK Giving 2019: An overview of charitable giving in the UK, Charities Aid Foundation, May 2019

Figure 2: Hospitals and hospices, medical charities and animal welfare are some of the most popular causes for private giving

Causes given to in the last four weeks, 2020/21



Notes: Respondents select all causes that applied. Excludes 'Don't Knows' and missing values.
Source: Community Life Survey, 2020-21

However, popularity among donors does not translate into the total value of donations. For example, CAF estimates that 11% of donors give to religious causes but that 19% of the total value of donations goes to this cause. Evidence – and critique – from the UK and US suggests that wealthy donors tend to favour a different set of causes, typically arts and culture and higher education.[18] Higher education, in particular, has been effective at growing philanthropy over the last two decades, particularly in relation to major gifts.[19]

Private philanthropy could risk increasing geographic inequalities in civil society funding

As this Commission has argued in *Why Civil Society is Essential to Levelling Up*, various analyses show that more deprived places have fewer charities or voluntary organisations per capita than less disadvantaged areas.[20] Research by NPC shows there are 28% fewer local charities per 1,000 people in Levelling Up Fund priority one areas compared to the lowest priority areas.[21] Research for this Commission found that despite having higher demand, more deprived areas had a significantly lower supply of NHS Covid Volunteers than the least disadvantaged areas. This resulted in a greater level of

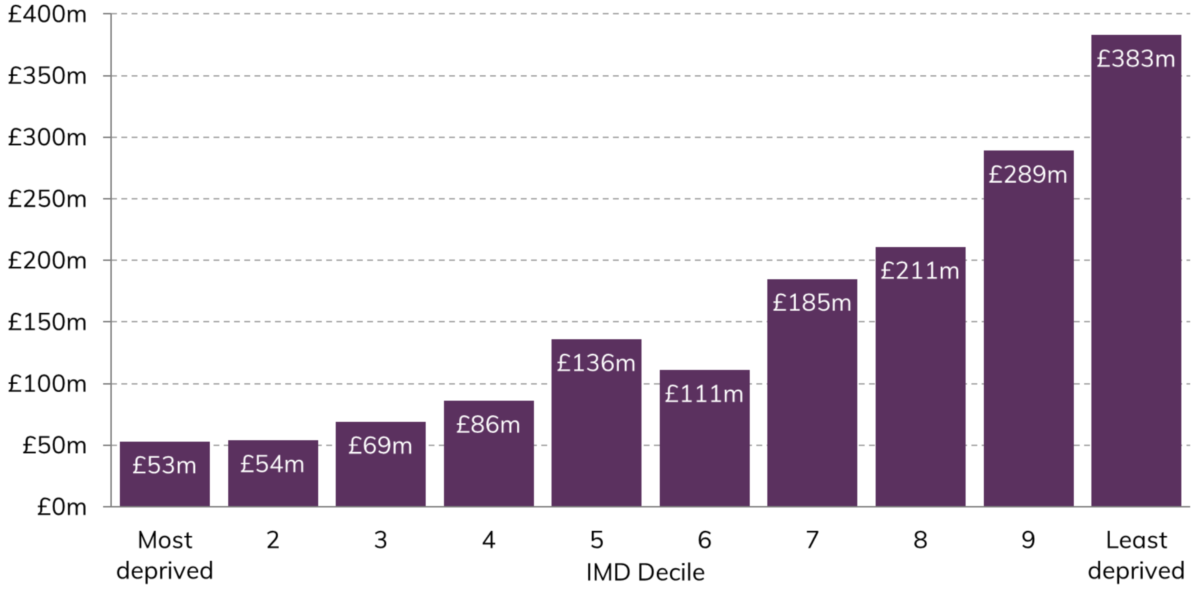
[18] M Maclean et al., "Elite philanthropy in the United States and United Kingdom in the new age of inequalities", International Journal of Management Reviews 23 (February 2021)
[19] For example, see Review of Philanthropy in UK Higher Education, More Partnership and HEFCE, September 2012
[20] J Larkham, Why Civil Society is Essential to Levelling Up, Pro Bono Economics, October 2021. See also D Corry, Where are England's Charities? NPC, 16 January 2020, and D Clifford, "Voluntary sector organisations working at the neighbourhood level in England: patterns by local area deprivation", *Third Sector Research Centre Working Paper* 65 (August 2011)
[21] Corry, Where are England's Charities?

unmet need for volunteer support. Almost 30% of requests in the most deprived areas went unfulfilled compared to just 10% in the least disadvantaged areas.[22]

Part of the reason for this is likely to be patterns in giving, with less deprived areas likely to have more people with the financial capacity to donate. The data supports this: looking at the tax records of people completing tax self-assessments, those in the country's wealthiest areas declare seven times as many donations to charity as those in the most deprived areas (excluding London).

Figure 3: In terms of where philanthropists live, many of the most deprived areas in England are home to much lower levels of private philanthropy

Total value of donations declared by individuals completing UK Self Assessments, grouped by Index of Multiple Deprivation rank 2019 (England only, excluding London)



Sources: HMRC, Table 7 - donations declared by individuals by geographic area, English Indices of Multiple Deprivation 2019

These trends in personal giving are reinforced by trends in other sources of charitable income. Research from Local Trust shows that charitable grant funding tends to disadvantage 'left-behind' communities.[23] Similarly, a University of Southampton study shows that the average charity in the most deprived decile of local authorities suffered a 20% decline in local government financing in recent years.[24] Average charities in the least deprived decile experienced little change.

In this context, private philanthropy focused on the areas with the greatest need can play a critical role in addressing geographical inequalities in civil society.

[22] Larkham, Why Civil Society is Essential to Levelling Up
[23] 'Left behind' Neighbourhoods: Community data dive, OCSI, 28 June 2021
[24] D Clifford, "Disparities by deprivation: The geographical impact of unprecedented changes in local authority financing on the voluntary sector in England", *Environment and Planning A: Economy and Space* 53 (July 2021)

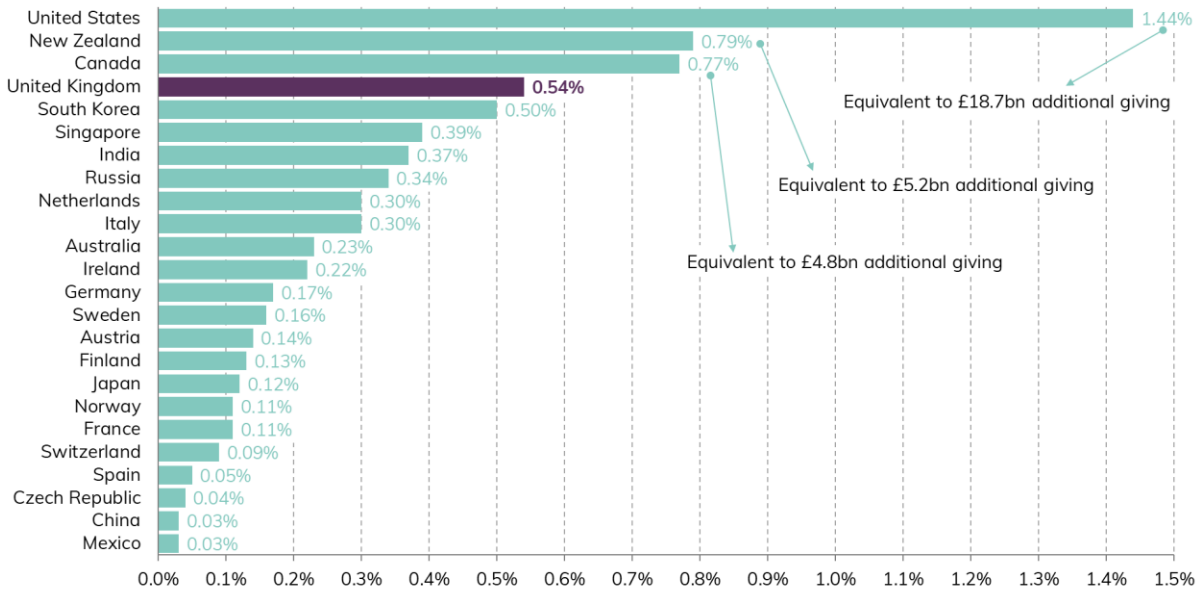
UK giving is high, but not top of the international table

Numerous factors explain differences in philanthropy across nations, from differing regulatory regimes to the prevalence of religious practice.[25] Research by CAF suggests that the UK population is relatively generous compared with many other countries (Figure 4).[26] The UK population is estimated to give 0.54% of national income to charity – more than most other countries in the CAF analysis.

The US population donates a more significant share of their wealth than any other country, nearly three times greater than the share of GDP donated by UK citizens.[27] But the US is an outlier with unique socio-economic circumstances. A more realistic comparison is Canada or New Zealand. If British people gave a similar share of their wealth, this would generate an additional £5 billion in annual donations.

Figure 4: If British people gave as much as in New Zealand or Canada, charities would receive an additional £5 billion in donations each year

Private philanthropic giving as a percentage of GDP, 2016



Notes: Giving as a percentage of GDP is calculated using 2016 GDP figures
Source: CAF (2016)

There are, however, concerns that the UK's current position in these rankings is at risk of falling rather than rising to compete with Canada and New Zealand. The donor pool in the UK is narrowing, and civil society is becoming more dependent on a 'civic core' who are giving more. Meanwhile, giving by the wealthiest in society is not keeping up with income growth. These long-term trends are the focus of the next section.

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[25] P Wiepking & F Handy, "Explanations for Cross-National Differences in Philanthropy", in *The Palgrave Handbook of Global Philanthropy*, eds. P Wiepking & F Handy (New York: Palgrave Macmillan, 2015)
[26] *Gross Domestic Philanthropy: An international analysis of GDP, tax and giving*, Charities Aid Foundation, January 2016
[27] *Gross Domestic Philanthropy*, Charities Aid Foundation

SECTION 2

UK philanthropy's giving gaps

Given philanthropy's essential nature in the UK, there are persistent questions among policymakers and the sector as to how to increase the scale and contribution of giving. A helpful starting point to evaluate the potential for philanthropy is to examine areas of underperformance where there is evident potential for growth. We have identified three areas, which combined create a three-fold giving gap in the UK:

- **the participation gap:** the disparity between the current and potential proportion of the population who make regular charitable donations;
- **the Gift Aid gap:** the annual amount of Gift Aid match funding that charities are eligible for but don't, or aren't able, to claim; and
- **the generosity gap:** the difference between the median amounts given by the highest 1% of earners compared with the average donation from this group.

We estimate that closing these three gaps could generate up to £2.9 billion[28] in additional charity income each year. This would move the UK considerably closer to giving levels seen in Canada and New Zealand.

The participation giving gap

The donor base is narrowing. While a large proportion of the population do give to charity, that proportion is in long-term decline. This is an essential issue for the health of civil society and a lost opportunity in terms of the causes supported by philanthropy. If the proportion of UK households donating to charity remained at 2000 levels, and other factors remained constant, we estimate that UK charities would receive up to £1.1 billion in additional donations each year (or £1.4 billion including the Gift Aid match). This assumes that average household donation levels increased as observed over this period.

Fewer people are giving – but giving more

As set out in Section 1, the total amount received by charities from the public has increased over time. However, over the past two decades, the proportion of people giving to charity has slowly and steadily fallen. Definitional and methodological differences mean different surveys report varying *levels* of giving, but all agree that participation rates are falling.

For example, the government's Community Life Survey shows a downward trend from 82% of people reporting that they have given in the last four weeks in 2013-14 to just 63% in 2020-21.[29] Likewise, CAF's annual UK Giving surveys show a decline from 67% of people giving in 2017 to 62% in 2021.[30] And, over a more extended period, the ONS's Living Costs and Food Survey shows that the proportion of UK *households* donating to

[28] This is the sum of: (i) £1.1 billion estimate for the 'participation gap', removing an estimation of how much of the participation gap would come from the top 1% of earners (we use a high end estimate of £220 million). This leaves a new 'participation gap' estimate of £880 million, worth £1.1 billion to charities including the Gift Aid match; (ii) £380 million estimate for the Gift Aid gap; (iii) £1.1 billion estimate for the 'generosity gap', worth £1.4 billion to charities including the Gift Aid match.
[29] DCMS, Volunteering and Charitable Giving - Community Life Survey 2020/21, Gov.uk, 29 July 2021
[30] UK Giving Report 2021, Charities Aid Foundation, 2021

charity fell from 32% in 2000 to 26% in 2018.[31] We are therefore not seeing a one-off Covid-related decline in participation, but a longer-term structural decline.

At the same time, average donations increased for those who are giving. The Living Costs and Food Survey reported a real term increase in the value of the average donor household's weekly donation from £8.48 in 2000 to £13.16 in 2018. Similarly, the Community Life Survey – which excludes all donations above £300 – reports a slight increase in individuals' average monthly donations from £22/month in 2013-14 to £24 in 2020-21.

These averages mask substantial differences within the donor population. CAF has consistently found that mean monthly donations are more than double the median monthly amount.[32] This suggests that a small number of larger donations are increasing the average amount given across the population.

Civil society is dependent upon a 'civic core' of supporters

This increase in the average amount donated combined with an increasing UK population may have muted the overall impact of a falling participation rate in philanthropy and helped to allow the total amount given to have increased in line with GDP. But total income from charitable donations is increasingly the product of a shrinking pool of more generous donors. This shrinking pool is likely to be made up of higher-income households, with a self-employed or full-time employed head of household. Donors also tend to be in a higher managerial or professional role[33] and are generally expected to be older.[34]

This aligns with analysis by CAF on 'Britain's Civic Core', which argues that a small minority of individuals in Britain are responsible for the majority of the social action.[35] This analysis suggests that 9% of the population account for 66% of charitable activity. The remaining 34% of charitable activity is carried out by 67% of the population, with 24% contributing little or nothing. The civic core is older (33% are over 65), female (60%) and in higher/more skilled jobs (if working), suggesting they are both more time-rich and wealthier.

This growing concentration of giving by the general public among fewer, better-off households is a trend that has been building over a long period. The phenomenon of rising concentration, driven by changes at the top and bottom of the overall distribution, is a concern for fundraising organisations as, in effect, "the donor pool is both shrinking and becoming top-heavy".[36] The concentration of donations at the top end of the income distribution is therefore critical to the future of the social sector and is discussed later in this report.

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[31] Pharoah & McKenzie, Reframing the Ask

[32] UK Giving Report 2021, Charities Aid Foundation. CAF reports average monthly donations of £54 in 2021, and median monthly donations of £20.

[33] Pharoah & McKenzie, Reframing the Ask

[34] *Britain's Civic Core: Who are the people powering Britain's charities?* Charities Aid Foundation, September 2013

[35] Britain's Civic Core, Charities Aid Foundation. See also J Mohan & S L Bulloch, "The idea of a 'civic core': what are the overlaps between charitable giving, volunteering, and civic participation in England and Wales?" *Third Sector Research Centre Working Paper* 73 (February 2012)

[36] N J Duquette, "The Evolving Distribution of Giving in the United States", *Nonprofit and Voluntary Sector Quarterly* 50 (December 2020)

Why does the participation gap matter?

First and foremost, the participation gap matters because of the scale at which it operates. If the proportion of households regularly donating to charity had remained at 2000 levels, charities could have received up to £1.1 billion of additional donations each year or £1.4 billion, including the Gift Aid match.[37]

However, this participation gap also matters because the social sector needs broad financial support for sustainability and growth. A reliance on fewer, more generous donors is a short-term strategy that evidence suggests ultimately leads to fewer such gifts over time.[38] The participation gap also matters because a healthy civil society and the legitimate and broad-based associational life it helps sustain is built upon mass voluntary activity. This includes all expressions of philanthropy, with broad-based philanthropy often argued to be a necessary counterweight to giving by major donors.[39] Widespread engagement in philanthropy also demonstrates public support for civil society and its privileges, such as tax reliefs.

The Gift Aid gap

Research suggests that a quarter of all donations are not made using the Gift Aid match, despite being eligible. Closing this giving gap could generate an additional £380m for charities each year.

The UK has a generous system of tax incentives for donors

The UK has several tax reliefs to incentivise the giving of money, shares, property or legacies.

When it comes to giving from income, Gift Aid is a relatively generous tax incentive that means the Exchequer, in effect, foregoes income tax when people donate their earnings to charity. Because donors have generally already paid their income tax when they donate,[40] HMRC has to refund this tax once a donation has been made.

HMRC distributes this to charities at the basic tax rate – the so-called 'match' element. To claim the match, charities have to demonstrate that donations were received from UK taxpayers (requiring donors to "Tick the Box").[41]

In 2020-21 the Gift Aid match was worth £1.4 billion to UK charities (Figure 5), of which half was claimed by the 2% of charities with annual incomes of £10m or more.[42] Despite this concentration, Gift Aided donations are more important to smaller charities as a

[37] Analysis of the Living Costs and Food Survey indicates that average donor households donate £13.16 weekly in 2018. If an additional 6% of the UK's 27.8 million households donated £13.16 weekly, this would generate £1.1 billion of additional donations annually. See Pharoah & McKenzie, Reframing the Ask
[38] Nonprofits Under Pressure to Shore Up Eroding Donor Base, PND, June 6, 2018
[39] Initiatives to democratise philanthropy by engaging a wider range of donors making smaller gifts include the community foundation movement. See B Soskis, "What We Talk about when We Talk about Democratizing Philanthropy", *Urban Institute*, June 2017
[40] Unless they donate via Payroll Giving
[41] *How your charity can get involved in Gift Aid Awareness Day 2021*, Charity Finance Group
[42] D Kane, *UK charity tax statistics overview*, NCVO, January 2019

proportion of their income. For charities with incomes below £500,000, Gift Aided donations were estimated to be worth between 10-11% of income in 2013-14.[43]

Higher and additional rate taxpayers can then claim the difference between the basic rate and their higher income tax rate paid on a donation – the 'rebate' element. This relief was worth £530 million to higher and additional rate taxpayers in 2020-21.

Box 1: Gift Aid in practice

Gift Aid works on the principle that you shouldn't have to pay tax on income you donate to charity.

Gift Aid has two elements – the 'match' and the 'rebate'.

Charities can claim the basic rate of income tax paid on donation. This is the Gift Aid 'match' and means that for every £1 donated by a UK taxpayer, charities can claim an extra 25p from HMRC.

Higher and additional rate taxpayers can also claim the difference between their tax rate and the basic rate of income tax paid on a donation. This is the Gift Aid rebate, and means that for every £1 donated by a higher or additional rate UK taxpayer, charities can claim an extra 25p from HMRC (the 'match'). The donor can also claim a 25p or 31p tax rebate if they are a higher or additional rate payer, respectively.

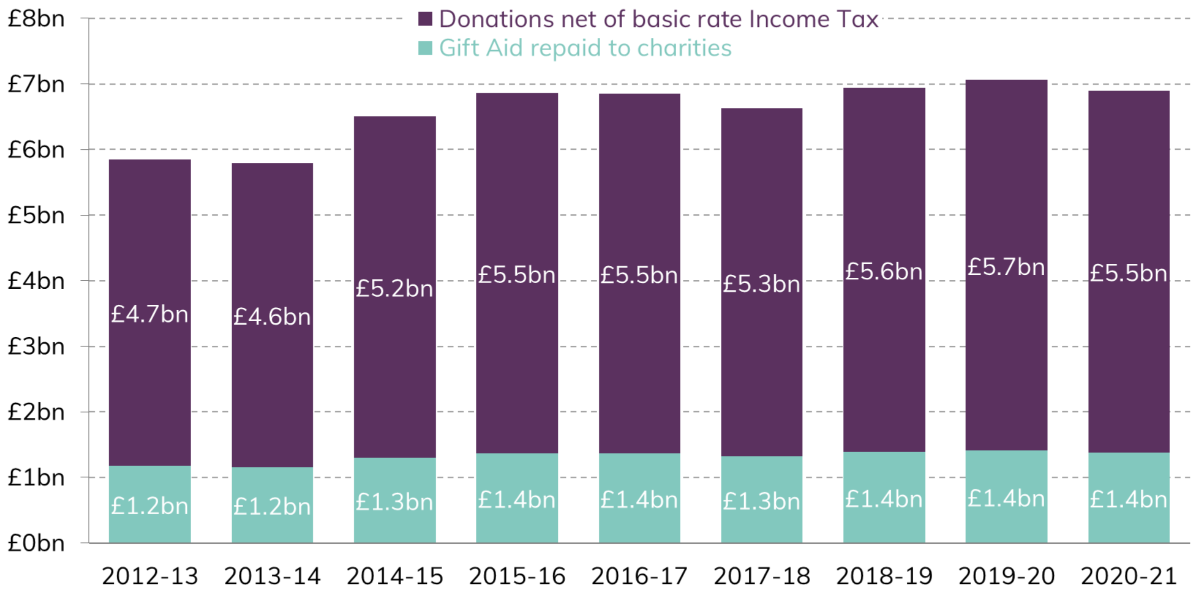
For example:
Phil Anthrope is a basic rate income taxpayer. To donate £1 to charity, he needs to earn £1.25 because he has to first pay 20% of that (25p) to the government in income tax, leaving him with £1 to donate to charity. The Gift Aid match means the charity can reclaim the 25p of tax Phil has already paid. This means the gross value of his donation to the charity is £1.25.

Donna Maker is a higher rate income taxpayer. As in Phil's case, the Gift Aid match means the charity can reclaim the 25p of tax Donna has already paid. The Gift Aid rebate means that Donna can also reclaim the difference between the higher rate and basic rate of income tax paid on her donation – in this case, also 25p (£1.25 x (40% - 20%)). This means that it 'costs' Donna just 75p for the charity to receive £1.25.

[43] Kane, UK charity tax statistics overview

Figure 5: Donations made to charity using Gift Aid

Donations net of basic rate income tax, and Gift Aid repaid to charities, 2012-13 to 2020-21. Adjusted for inflation



Source: Summary of Tax Reliefs for Charities and Donors, HMRC, 2021

The Gift Aid match is not claimed on a quarter of the total value of donations

Research commissioned by HMRC estimates that the Gift Aid match was added to just over half of the total value of donations in 2016. But the study also suggested that a further 25% of the total value of donations may be eligible for Gift Aid but is not claimed - meaning charities are missing out on a sizeable chunk of Gift Aid income.[44] Moreover, small and medium charities are likely the organisations most likely to be missing out as they are less likely to claim Gift Aid than larger organisations.[45]

This is partly due to a lack of understanding of the scheme among donors. HMRC's research found that although awareness of Gift Aid was high among donors – 88% were aware of the scheme – two in five donors consider their understanding of it "poor".

And the higher and additional rate Gift Aid rebate scheme is not particularly widely used

Similarly, HMRC found that only half (52%) of higher and additional rate taxpayers were aware of the rebate element of the Gift Aid scheme. The new evidence we set out below adds further weight to this finding, showing that only around a third (37%) of the top 1% of income earners claim a Gift Aid rebate. Research suggests the administrative cost of using this incentive could outweigh the benefits for some donors, while relatively low levels of understanding also explain why it's under-used.

[44] HMRC, Charitable Giving and Gift Aid, Gov.uk, September 2016
[45] See Kane, UK charity tax statistics overview

Why does the Gift Aid gap matter?

With generous incentives in place to encourage people to donate to charity, it is likely that the Exchequer won't consider any additional arrangements to incentivise giving unless existing arrangements have been proven to have been exhausted. HMRC's research indicates that this is not yet the case, suggesting that addressing misunderstanding of the Gift Aid system, and creating a more consistent opportunity for donors to use Gift Aid, would help reduce wrongful claims and increase use of the relief by donors.

If charities claimed the further 25% of the total value of donations potentially eligible for Gift Aid in 2018, this would have represented an additional £380 million for charities.[46]

In addition, the fact that relatively few higher and additional rate taxpayers claim the rebate suggests this is a tax incentive to donate which is not currently working hard enough – nearly two thirds of the top 1% of earners make no use of the Gift Aid rebate at all. It's difficult to estimate the scale of giving that might be incentivised if more people were aware of the rebate and the application process was simplified. Nonetheless, research suggests that tax incentives that reduce the cost of giving for donors, impact *both* the likelihood of someone becoming a donor at all *and* the amount that they donate. It is true that donors tend to be more responsive to Gift Aid's 'match' element than the 'rebate' element,[47] but it remains the case that under-use of the rebate scheme means that fewer higher earners are donating or are donating less than they otherwise might.

The generosity gap

Charities and civil society benefit tremendously from the philanthropy of the wealthy. We estimate that the top 1% of income earners give at least £950m a year. But the data suggest there's capacity for many top earners to be doing more. Incomes and donations in this group appear to be diverging – if donations had kept pace with incomes since 2011, the top 1% would have been donating close to £300m more in 2018-19. Moreover, much of current giving by the top 1% of earners comes from a small civic core. Most high earners give relatively small amounts, typically less than 0.2% of their income. If everyone in this group donated at least 1% of their income, UK charities would receive up to £1.4 billion additional revenue each year (including the Gift Aid match).

While giving by the population as a whole is an important way of understanding general engagement with the work of charities, giving by top earners is worth analysing separately. This is an essential group for fundraisers to engage because the top 1% of adults receive around 14% of UK pre-tax income, rising to nearly 17% when capital gains

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[46] HMRC, Charitable Giving and Gift Aid. Charities could potentially receive £560 million in unclaimed income from the Exchequer if it rectified the under-use of the Gift Aid match. However, wrongly claimed Gift Aid is worth £180m. When deducted from the £560 million potential figure, this represents a net potential gain for charities of £380 million per annum.

[47] K Scharf & S Smith, *The Price Elasticity of Charitable Giving: Does the Form of Tax Relief Matter?* Institute for Fiscal Studies, March 2010

are included.[48] Approximately 344,000 people in the UK are in the top 1% of personal income earners - those earning over £175,000 before tax.[49] However, there is significant variation within this group: the top 0.2% earn over £463,000, while the top 0.1% earn at least £715,000.

Giving by this group represents a notable proportion of overall private philanthropic giving in the UK. Tax-efficient giving[50] by those in the top 1% of incomes represents around 6% of total giving in the UK, or around £950m annually. This is a sizeable proportion of overall public donations. But the data suggests there's capacity for many top earners to play an even more significant role.

Donations have not kept pace with the growth of top incomes

The typical (median) income of someone in the top 1% of earners grew by 10% in real terms between 2011-12 and 2018-19, from £247,000 to £271,000. Yet over the same period, the typical donation made by top earners fell by over 20% and now sits at just £48 a month.

And overall, the total annual income of the top 1% of earners was 22% higher in real terms in 2018-19 than in 2011-12, but total donations by this group fell by 7% over the same period.

While this trend will not be valid for all donors – many people will have continued to be as generous, or more generous, as their incomes have grown – overall, there is a growing gap between the incomes of the wealthiest in society and how much this group is giving.

Had total tax-efficient donations kept pace with income growth since 2011, charities would have received an additional £280 million of donations in 2018-19. Over the entire seven years of donations failing to keep pace with income growth, charities have missed out on £1.6 billion donations, or £2.1 billion including the Gift Aid basic rate match.

A small "civic core" drives the overall value of donations among the top 1% of earners

Most top earners who declare annual charitable donations typically give less than 0.2% of their gross income. This means someone earning £180,000 pre-tax typically donates about £30 a month, while someone earning £250,000 gives around £40 a month. For context, across the UK population, typical people who donate to charity give around £20 a month.[51]

So while the top 1% of earners are an essential part of the UK's overall philanthropy ecosystem, in fact only a very small proportion of top earners significantly impact overall

[48] The share of the top 1% of UK adults' pre-tax, taxable income was 13.8% in 2017-18. Reranking people's incomes after including capital gains, the top 1 per cent's share rises to 16.8%. See A Corlett, A Advani & A Summers, Who gains? The importance of accounting for capital gains, Resolution Foundation, May 2020. Looking purely at those who pay income tax, the top 1% received 12.7% of total pre-tax income in 2017-18. See HMRC, National Statistics: Table 2.4 Shares of total Income Tax liability, Gov.uk, 30 June 2021

[49] HMRC, National statistics: Percentile points for total income before and after tax, Gov.uk, 31 March 2021

[50] In this paper, we focus on cash donations declared by the top 1% of earners on tax self-assessment forms for the purposes of claiming the higher and additional gift aid rebate.

[51] CAF UK Giving 2019, Charities Aid Foundation

donation levels. At least 63% of the total value of money donated by the UK's top earners comes from less than 0.4% of this group.

In part, this is explained by the fact that while the top 1% of earners is a varied group (encompassing everyone earning over £175,000), at every income level, there are a handful of donors who are much more generous than their peers – mirroring the 'civic core' we see in the wider population. Among top earners, the most generous tenth of donors tend to give at least ten times as much as their peers – often considerably more.

The impact of this trend is felt most keenly when we focus on the very wealthiest donors. Annual donations over £1m account for 0.14% of the total number of declared donations by the top 1% of earners, but 33% of their total value.

A small number of generous donors representing such a large proportion of giving presents a risk: it means that the charity sector overall (and some charities in particular) are dependent on the decisions and providence of a handful of people. Moreover, that handful has a considerable influence on where philanthropic funding flows and how it's being used.

On the flip side, the highly uneven landscape of donations among the top 1% of earners presents an opportunity: a large number of potential wealthy donors not yet deeply engaged with the charity sector; and a growing capacity among top earners to donate that isn't currently being fully tapped into. Understanding and engaging this group might require a different approach – what Paul Schervish has called 'the new physics of philanthropy'.

The resultant "high earners giving gap" means charities are missing out on up to £1.4 billion each year

There is no set level for generosity or expectations of a 'normal' annual donation. Tithing, for example, requires a contribution of 10%, while the "Give what you can" community advocates for at least 10% of lifetime income to be donated to charity. Research from the Beacon Collaborative on perceptions of generosity among wealthy individuals finds that donating around 1% of asset value each year is considered "generous" for most people. Most top earners contribute considerably less than this.

If everyone in the top 1% of earners increased their annual donations to at least 1% of their pre-tax income, and those already giving more maintained their current behaviour, this would generate between £900m and £1.1 billion of additional donations each year. Adding in the Gift Aid basic rate match, this means charities could be receiving an additional £1.1 billion to £1.4 billion of annual income.[52]

[52] The lower estimate in this range assumes that everyone *not* declaring donations on their tax self-assessment form already donates at the median rate of 0.18%. The higher estimate assumes that those not declaring donations currently donate nothing.

Deep dive into the giving habits of the UK top 1% of income earners

Giving by those in the UK's top 1% of earners

Defining the super-rich is a difficult endeavour, as is capturing any aspect of their behaviour. There are a number of ways in which 'wealth' might manifest itself, and a relative paucity of data on the circumstances and experiences of those who – by definition – lead lives which are often far removed from 'normal'.

Around 344,000 people in the UK are in the top 1% of personal income earners - those earning over £175,000 before tax. [53] However, there is significant variation within this group. For example, the top 0.2% earn over £463,000, while the top 0.1% earn at least £715,000.

In this analysis, we choose to focus on individuals in the top 1% of the personal income distribution. This covers both earned (e.g. via employment) and unearned (e.g. via investments and rents) income. But it takes no account of assets. It does, however, allow us to make use of administrative data from HMRC to delve into the philanthropic behaviour of those at the very top of the income distribution. Personal income is also likely to be the most relevant measure when considering how much people give, or if they might be able to give more, since asset value may often be tied-up in illiquid forms.

The analysis therefore relates to the 344,000 people in the UK with personal incomes above £175,000 before tax. While already relating to a very particular minority of the overall population, it is far from a homogeneous group. For example, those who sit in the top 0.2% of the distribution have incomes over £463,000; while those in the top 0.1% report incomes of at least £715,000 a year.

Our focus is on the charitable giving of this group. But more specifically, on 'tax-efficient' donations. That is, those donations from cash income where a Gift Aid 'rebate' claim is made (see Box 1). We take this approach out of necessity, because the giving data we access relates to that which is declared in self-assessment tax returns and then reported in HMRC's Survey of Personal Incomes dataset.[54] As Box 2 describes, it therefore inevitably under-estimates total giving by the top 1%.

Nevertheless, we believe it provides a useful picture of giving behaviour among a key philanthropic population. By focusing on the distribution of giving within this specific

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[53] By "the top 1% of earners", we mean the people receiving the top 1% of total earned and unearned income, who are UK taxpayers.

[54] We use data on the charitable donations declared in self-assessment tax returns by the top 1% of earners using the Survey of Personal Incomes (SPI). We downrate the giftaid variable to ensure that the giftaid amounts only include donations from individuals' net income and does not include any additional money the charity receives. SPI is based on information held by HMRC on individuals who could be liable to UK income tax. It is the most comprehensive and accurate official source of data on personal incomes for those earning above PAYE thresholds. We use a sample of around 31,000 taxpayers to describe the behaviour of around 344,000 people, once the weights have been applied. Higher and additional income tax rate payers have the option to claim a tax rebate on their charitable donations (the rebate available is the difference between their income tax rate and basic rate – see Box 1). For people earning over £100,000, self-assessment tax returns are mandatory and it's on these returns that they can declare donations and claim the rebate.

group of individuals who are donating in a tax efficient way, we hope to be able to draw lessons about giving behaviour among the top 1% of earners more generally.

Box 2: A note on methodology

To provide a reliable picture of giving, unless otherwise specified, we use an average of 2016-17 to 2018-19 data to describe current giving behaviour among the UK's top 1% of earners. This provides a more reliable picture of giving by smoothing out the impact of significant donations, which can vary from year to year and substantially affect total and mean donation figures.

What this data does not cover:

1. Donations that are not made tax effectively

While only 37% of the top 1% of earners declare charitable donations in their tax returns, survey data suggests that a much higher proportion of people make a donation of some sort.[55] Nonetheless, Gift Aid declarations are the most detailed data we have about giving behaviour, particularly giving among the UK's top earners. Therefore, the trends described in this report are based on the behaviour of people who choose to give tax-efficiently. The remaining 63% of top earners may donate at a similar rate and choose not to declare it, or they may not donate at all. The reality is likely to sit somewhere between these two.

2. Donations made out of wealth that exceed income

It is not possible to claim a Gift Aid rebate on a donation larger than your annual earnings. For wealthy donors making donations from a stock of wealth (including inherited wealth), where their annual donation exceeds their annual income, these donations will not be captured in our analysis. However, this is unlikely to be a significant omission for most people in the top 1% of earners. Research into the giving habits of the global wealthy finds that only 0.6% of the ultra-high net worth population outside the US tend to give large gifts from assets due to the illiquid nature of most people's wealth.[56]

3. Tax efficient donations of shares, securities, land or buildings

Donations of shares, securities, land or buildings are eligible for Gift Aid rebates. However, we have not included these gifts in our analysis to keep our findings as clear as possible. In reality, donations of these types tend to be made by only a handful of donors: between 0.7-0.9% of donors in our analysis made such gifts between 2011-12 and 2018-19. While the value of these donations can be significant, they vary significantly from year to year, from 8% to 32% of total tax-efficient donations.

[55] The Community Life Survey reports 63% of people donated to charity in a given four-week period in 2020-21. See DCMS, *Volunteering and Charitable Giving*. Beacon Collaborative research among wealthy individuals finds that 91% say they donated to charity in the past year. See *The Giving Experience: Overcoming the Barriers to Giving Among the Wealthy in the UK*, The Beacon Collaborative, 26 October 2020
[56] *Barriers to Giving: Research into the evolving world of philanthropy*, Barclays, 15 November 2019

4. Donations that have already received beneficial tax treatment.
This analysis only captures donations made by individuals out of their annual income. This means donations made into vehicles, such as family trusts and foundations or DAFs will be captured. But donations made out of these vehicles will not. This approach also means we avoid double-counting, which occurs when estimates of philanthropy count both money moving into tax-efficient vehicles and donations paid out of them.

5. Legacies
Legacies represent a sizeable proportion of public donations – for example, in 2018-19, of £14 billion donated by the public to charities (or £19.6 billion including fundraising activities), £3.7 billion came from legacies.[57] Gifts left to charities in wills are not subject to the Gift Aid scheme, as these gifts are not made out of income (though other tax benefits apply).[58] As such, data about legacy gifts is not included in our analysis.

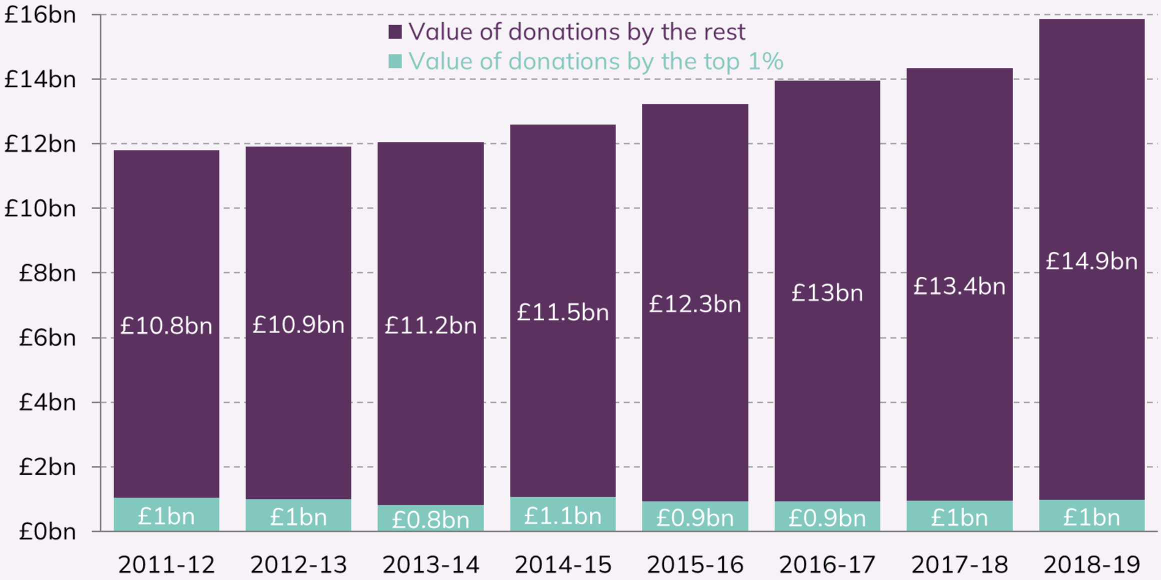
Those at the top of the income scale provide a notable slice of charities' incomes

Overall, the people in the top 1% of incomes declare around £950m of annual charitable cash donations each year, or around 6% of total giving from the public.[59] In other words, this is an important group of donors when it comes to charities' finances. But the data suggests there is significant capacity for many top earners to play a greater role.

[57] Martin et al., UK Civil Society Almanac 2021
[58] See "Tax Relief when you donate to a charity", Gov.uk
[59] We have included "Voluntary: The Public" and "Earned – activities for fundraising: The public" from NCVO's UK Civil Society Almanac in this calculation, on the basis that we expect money raised through fundraising activities (such as sponsorship) would be declared by a higher or additional rate taxpayer in their Gift Aid rebate claim. As per Box 2: Methodology, we have not included legacies.

Figure 6: The top 1% of earners are responsible for at least 6% of overall public giving

Giving by people in the top 1% of incomes and remaining total public giving, excluding legacies (2018-19 prices)



Notes: All donations are in real terms in 2018-19 prices. Donations by the top 1% of income earners includes donations declared for Gift Aid rebate in tax self-assessment of people within the top 1% of earners, derived from the Survey of Personal Incomes. Total public donations includes voluntary and fundraising income from the public ("Voluntary: The public" and "Earned – activities for fundraising: The public") from the UK Civil Society Almanac, NCVO. We use this definition of total public donations because we expect that money raised through fundraising activities (such as sponsorship) would be declared by a higher or additional rate taxpayer in their Gift Aid rebate claim. Legacies are not included in total public donations here because they are not eligible for Gift Aid, meaning "Donations by the top 1% of incomes" data reported here does not include legacy giving.

Sources: HMRC Survey of Personal Incomes; UK Civil Society Almanac.

Donation levels for most top earners are not keeping pace with growth in their incomes

When the economy grows, so do many people's incomes. Between 2011 and 2018, the median income of someone the top 1% of earners grew from £247,000 to £271,000 in real terms,[60] an increase of 10%. But over the same period, median tax-efficient donations declined in real terms from £680 in 2011 (or £57 a month) to £538 a year in 2018 (or £48 a month), a reduction of 21%.[61]

The result for many of the UK's top earners is a growing gap between their income and the amount of money they donate to charity.[62] This is also reflected in the declining proportion of overall public giving received from top earners, from 9% in 2011-12 to 6% in 2018-19 (as illustrated in Figure 6 above).

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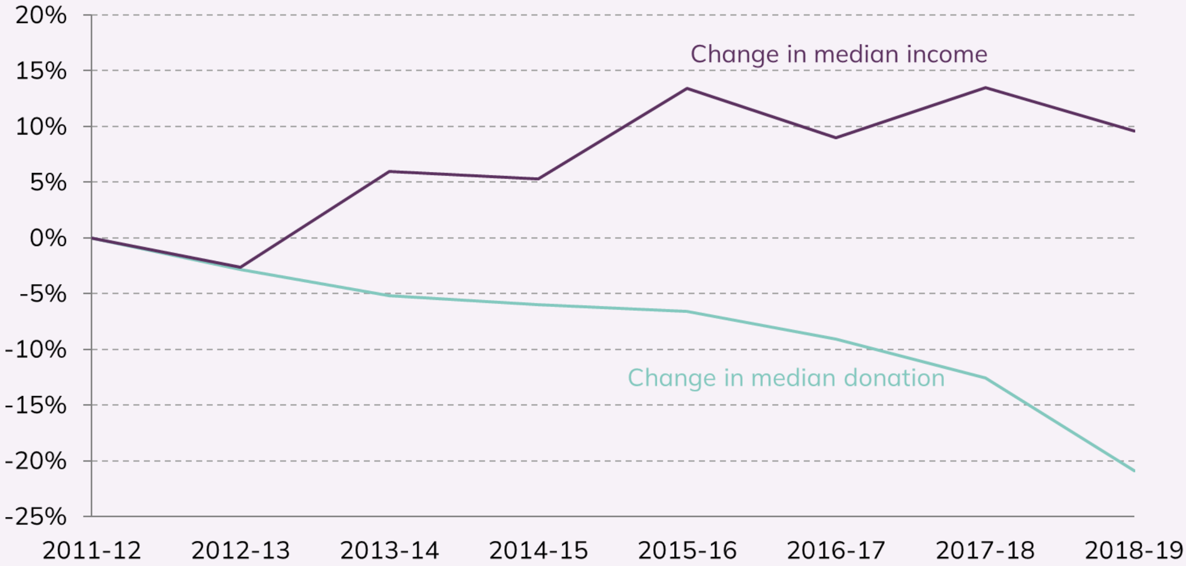
[60] In 2018-19 prices.

[61] As a reference point, the ONS Living Costs and Food Survey indicates that average donations per household increased in real terms from 0.5% of weekly spending in 2000 to 0.6% in 2018. See Pharoah & McKenzie, Reframing the Ask

[62] It is worth noting that in 2013-14, the additional rate of income tax fell from 50% to 45%, effectively reducing the value of the Gift Aid additional rate rebate to additional rate payers (those earning over £150,000). However, this does not appear to have translated into either a jump in median donation rates or gift aid participation rates.

Figure 7: For many of the UK's top 1% of income earners, the gap between their income and their charitable donations is growing

Real terms changes in median income of donors and median donations among the top 1% of earners, compared to 2011



Source: HMRC Survey of Personal Incomes

Indeed, the total annual income of the top 1% of earners was 20% higher in real terms in 2018-19 than in 2011-12 (rising from £114 billion to £139 billion), yet the total donated to charities fell by 7% over the same period (falling from £1.04 billion in 2011-12 to £969 million in 2018-19). Had donations kept pace with income movements among this group of top earners, charities would have received an additional £280 million in 2018-19.

Over the seven years, the total giving gap associated with average donations not keeping pace with income growth among the top 1% of earners amounts to £1.6 billion. Including the Gift Aid match, this means charities have missed out on £2.1 billion of income. And while there are some very generous donors, most top earners make relatively small annual donations to charity

Most top earners who declare annual charitable donations give relatively small donations to charity each year

We've seen from the discussion above that between 2011-12 and 2018-19, donations from the top 1% of earners overall failed to keep pace with income growth. But a story of declining generosity isn't true for everyone. In this section we take a snapshot[63] of giving habits among the top 1% of earners by putting them in five income groups. This helps us understand what typical donors at different income levels tend to give, and how reliant charities are on a small core of generous donors at different income levels.

[63] As per Box 2, to provide a reliable picture of giving, we use an average of 2016-17 to 2018-19 data to describe current giving behaviour among the UK's top 1% of earners.

"Put simply, wealthy people are not engaged in contributing to civil society at a significant level." - Philanthropy Impact, Public Affairs Policy Positions

The typical donor in the top 1% of earners gives less than 0.2% of their income to charity each year. This is equivalent to a cash donation of around £32 a month for donors sitting towards the bottom of the group, those people with annual incomes of approximately £187,000. Donations rise to £41 a month for those in the middle group - people with incomes around £263,000. In the top group, which includes people with incomes around £722,000, the typical donation is £113 a month.

For context, across the whole UK population, typical people who do donate to charity give around £20 a month.[64]

Table 1: Most top earners give less than 0.2% of their income to charity each year

Median income and median donations for five income groups within the top 1% of earners

	Income Bracket	Median Income	Median Yearly Donation	Median Monthly Donation	Median proportion of income
Group 1	£175,000 - 197,000	£187,000	£390	£33	0.21%
Group 2	£198,000 - £233,000	£215,000	£420	£35	0.19%
Group 3	£234,000 - £298,000	£263,000	£490	£41	0.18%
Group 4	£298,000 - £458,000	£360,000	£610	£51	0.17%
Group 5	£459,000+	£722,000	£1,360	£113	0.16%

Source: HMRC Survey of Personal Incomes

Nonetheless, the top 1% of earners also includes very generous donors. 63% of the total value of tax efficient donations by the UK's top earners come from just 1% of donors - less than 0.4% of top earners.

63% of the total value of tax efficient donations from the UK's top earners comes **from just 1% of donors**

[64] CAF UK Giving 2019, Charities Aid Foundation

This is partly explained by the very large donations made by a handful of donors at the very top of the income scale. Annual donations over £1m account for 0.14% of the total number of declared donations by top earners, but 33% of their total value.

But while a handful of considerable gifts drives the total value of donations, there is always a small number of donors who give far more than their peers. This pattern of concentrated generosity (a small number of donors giving a much larger proportion of income than their peers) is something we see throughout the top 1% of earners.

Across the income spectrum of top earners – from those earning £175,000 to those earning more than £450,000 – a small number of generous donors consistently give a far larger proportion of their income to charity than their peers.

This is illustrated in Figure 8 by a consistent difference between mean and median donation rates when we break up the top 1% of earners into smaller income groups.

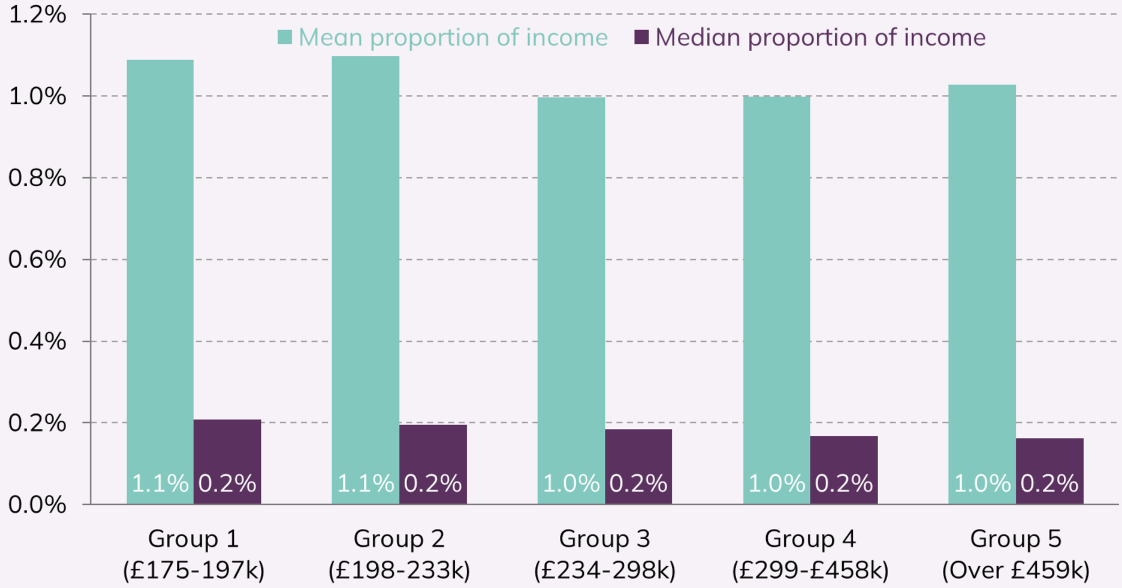
It is also illustrated in Figure 9, which shows the most generous 10% of donors are responsible for three quarters (or more) of the total value of donations of their peers, whichever "income group" they sit in.

This reflects a trend we often see in the broader population regarding civic engagement, specifically the 'civic core' – the 9% of the people responsible for around 66% of charitable activity.[65]

[65] *Britain's Civic Core*, Charities Aid Foundation

Figure 8: As a proportion of income, average generosity looks similar among the top 1% of earners, wherever they sit in the distribution

Mean and median donations as a proportion of income, among the top 1% of income earners who declare a donation

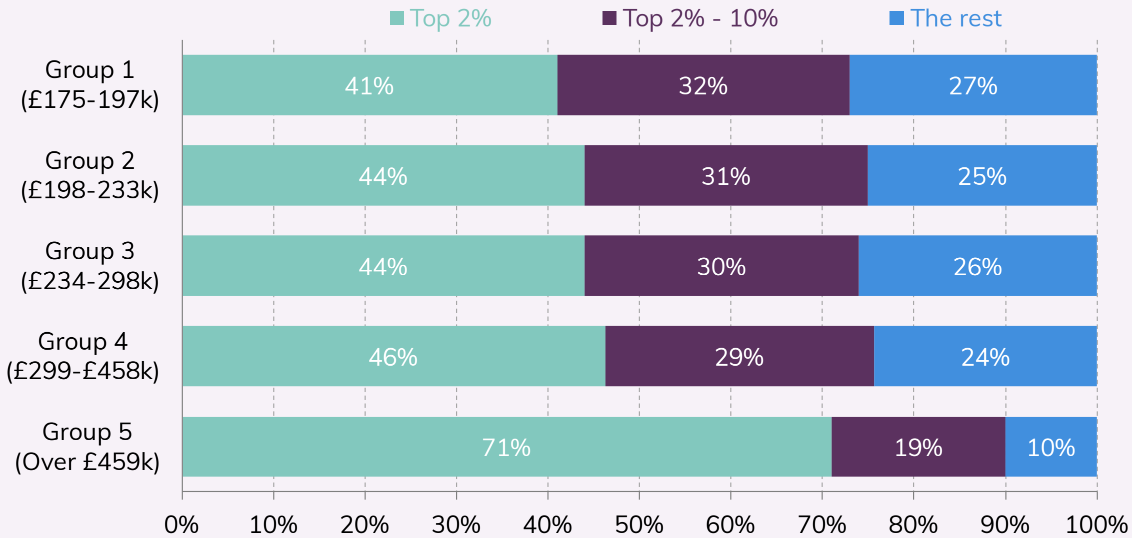


Notes: The median refers to the midpoint of the dataset - half of the population gives above this level and half below. It is a valuable indicator of what is happening across the population more broadly, and we use the median when talking about the "typical donor" behaviour. The mean is the sum of all the data points, divided by the number of data points. It is sensitive to outliers, such as major gifts. Because a small number of very large donations will impact the mean but not the median, we consider the median a more valuable indicator of the behaviour of most donors.

Source: HMRC Survey of Personal Incomes

Figure 9: The most generous 10% of donors are responsible for at least 73% of all donations at all income levels

The proportion of donation value given by the most generous 2% of donors, 10% of donors and all remaining donors, split by income group



Source: HMRC Survey of Personal Incomes

So, while a small handful of very wealthy donors are essential for charity finances, it is more widely the case that generosity tends to be concentrated in a handful of individuals. Most people are not donating even close to the levels of their most generous peers. And for many people, this perhaps suggests there is scope to give more.

If all of the top 1% of earners donated at least 1% of their gross annual income to charity (and those already giving more maintained their current behaviour), this could generate between £900m and £1.1 billion of additional donations each year. Adding in the Gift Aid match means charities could receive an additional £1.1 billion to £1.4 billion of income each year.[66]

Table 2: There are significant differences in thresholds of being in the top 50% of donors compared to being in the top 10% of donors

Minimum donation amount (in 2018 prices) to be in the most generous 50%, 10% and 2% of donors by income group. (Median donations of the most generous 50%, 10% and 2% of donors are shown in brackets)

Donations	Group 1 (£175 - £197k)	Group 2 (£198 - £233k)	Group 3 (£234 - £298k)	Group 4 (£299 - £458k)	Group 5 (Over £459k)
Minimum annual donation to be in the top 50% of donors	£370 (£380)	£390 (£400)	£460 (£480)	£570 (£590)	£1,220 (£1,300)
Minimum annual donation to be in the top 10% of donors	£3,650 (£4,220)	£4,220 (£4,880)	£ 4,450 (£5,060)	£6,160 (£7,050)	£21,930 (£25,350)
Minimum annual donation to be in the top 2% of donors	£18,930 (£33,070)	£21,705 (£40,170)	£21,620 (£43,075)	£31,550 (£57,880)	£223,310 (£648,650)

Source: HMRC Survey of Personal Incomes

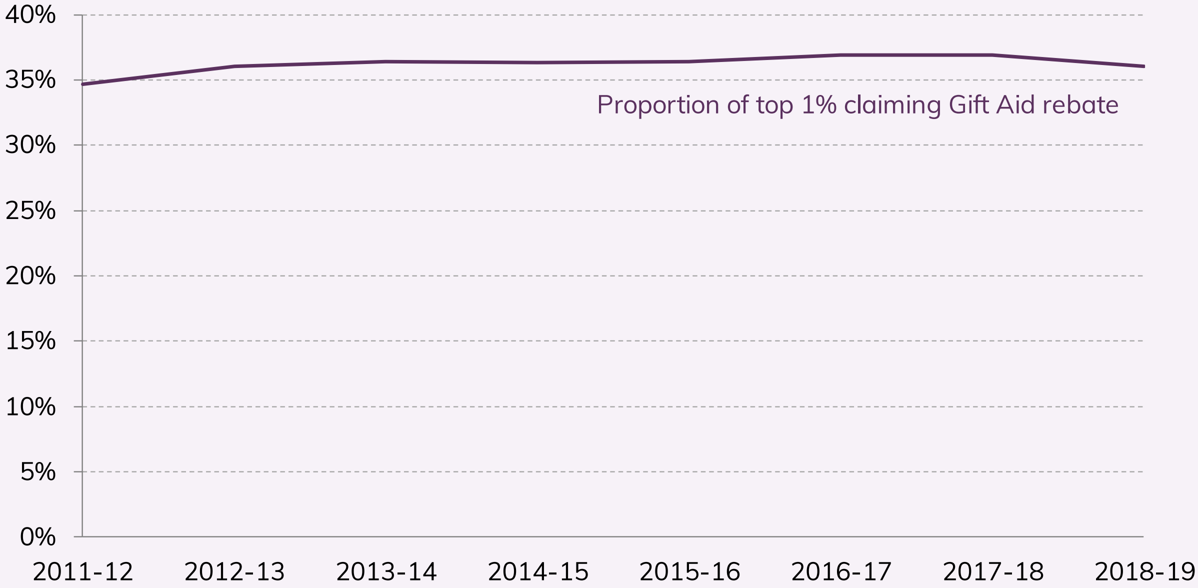
Gift Aid isn't working hard enough: only 37% of top earners declare charitable donations in their tax returns each year

37% of the top 1% of earners declare a charitable donation in their annual tax return, allowing them to claim Gift Aid higher and additional rate relief. This is a little higher than claim rates in 2007, but since self-assessments were enforced in 2010 for people earning over £100,000, Gift Aid take-up among this group has remained stable.

[66] The lower estimate in this range assumes that everyone *not* declaring donations on their tax self-assessment form already donates at the median rate of 0.18%. The higher estimate assumes that those not declaring donations currently donate nothing.

Figure 10: With little change since 2011-12, it's still the case that most of the UK's top 1% of earners declare no charitable donations

Proportion of the top 1% of earners making a Gift Aid rebate claim



Notes: From 2010 onwards, completion of a self-assessment was enforced for people earning over £100,000
Source: HMRC Survey of Personal Incomes

In practice, it is unlikely that only 37% of top earners donate to charity each year. For example, in 2016-17, the participation rate for the UK population was closer to 70-75%,[67] while a survey for the Beacon Collaborative suggests as many as nine-in-ten wealthy people donate to charity each year.[68]

Low levels of Gift Aid rebate take-up are unlikely to reflect the worst-case scenario – that the majority of top earners don't give anything at all. But at best, they demonstrate that Gift Aid is a tax incentive that could be working much harder. Research for HMRC finds that only half of higher rate taxpayers are aware of the Gift Aid rebate scheme[69] , and of those that are, the administrative costs of making a claim often outweigh the benefits.

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[67] The Community Life Survey reports that 75% of people surveyed had made a donation in the past four weeks consistently between 2016-17 and 2019-20, but the latest survey shows a significant drop in 2020-21 to 63%.
[68] The Giving Experience, The Beacon Collaborative
[69] HMRC, Charitable Giving and Gift Aid

SECTION 3

Closing the giving gaps

The potential prize on offer for closing the three-fold giving gap we have seen so far is significant: potentially close to £3 billion invested in civil society each year. In this section, we use the lens of a donor journey to explore how the giving gap might be addressed.

Our intention here is not to present a series of final recommendations, but to set out a range of policy levers that could be used to address the gaps. Some of these ideas are new ideas, while others are already well researched and tested.

The challenge – which will be the topic of conversations and roundtables we will hold in the coming weeks - is ensuring the best of these are developed, sustained and scaled as part of a long-term, funded programme of activity to grow UK philanthropy.

Understanding why people give

To unlock as much potential funding as possible, we should start with why people do and do not donate.

A well-established literature demonstrates that the reasons people donate range from pure altruism to enlightened self-interest, such as supporting a cause that the donor may benefit from one day. These motivations include the direct benefits that donors expect to enjoy from giving, such as the sense of joy or the 'warm glow' from giving.[70]

Why people do not donate is perhaps even more telling. Changes in fundraising tactics over the time that giving gaps have widened are thought to play a role, with the combination of better data and stricter rules around fundraising and data protection meaning fundraisers are more likely to target existing high-value donors, rather than find new ones.[71] Some have also suggested that civil society has not sufficiently engaged with a rapidly changing, more diverse population with different tastes and habits compared to existing donors.[72] And while it has been argued that a decline in public trust in charities is responsible, evidence indicates that this is at best a marginal explanation.[73] Finally, previous initiatives have argued for the need to make it easier to give, advocating for wider opportunities (such as cash machine giving) or greater promotion of existing channels such as payroll giving.[74]

The wealthy provide a range of reasons for not giving

It is important to consider differing financial circumstances when considering the factors that prevent people from donating. Research suggests that feelings of financial insecurity and a sense of having 'nothing to spare' is the most significant self-reported

[70] For a longer discussion of motivations, see J Dean, The Good Glow: Charity and the Symbolic Power of Doing Good (Bristol: Bristol University Press, 2020)
[71] D Fluskey, "Why Fewer People Are giving To Charity And What We Can Do About It", *Civil Society*, 8 May 2019
[72] For example, see arguments that the fundraising community does not adequately reflect the population it seeks to raise donations from. See V Cipriani, "Understand BAME communities to appeal to their major donors, fundraisers told", *Civil Society News*, 28 January 2020
[73] *Trust in Charities 2020 - overview of findings*, Charity Commission, June 2020. A recent meta-review by the University of Queensland concluded that rises and falls in overall trust account for only 5% of the variation in giving. See A Purkis, "The Charity Commission's research into public trust remains a quagmire", *Civil Society*, 19 August 2021
[74] *A call to action to encourage more people to give and people to give more: Recommendations from the Philanthropy Review, June 2011*, Esmée Fairbairn Foundation, 19 June 2011. The review compared payroll giving in the UK, where 1% of employers have a payroll giving scheme, with the US (35%).

barrier to giving for many in the highest income brackets.[75] A recent survey by Barclays, for example, found that the primary reason for not donating, cited by 28% of wealthy people surveyed, was that other financial priorities take precedence over donations.[76]

And while, overall, trust in charities may be a less significant issue, a quarter of wealthy people in Barclays' survey cited a lack of control over how money is used, a lack of faith in charities, and a lack of knowledge or experience with charities as the main barriers to giving.

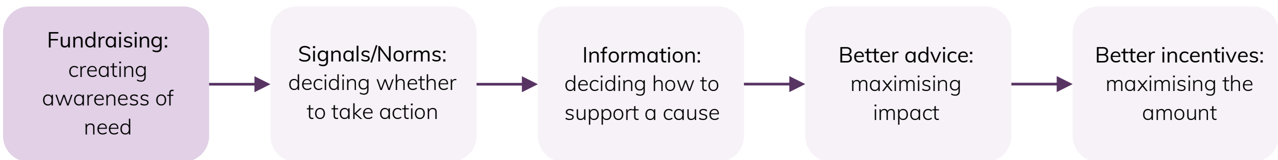
Wealthy individuals are also particularly exposed to public perceptions of philanthropy and encompassing expectations and norms. Research for Prism the Gift Fund finds that while most people think philanthropic donations are good, there is more scepticism about philanthropists themselves.[77] Less than half of people surveyed[78] said they trust donors to do what is right with their contributions, with a tenth defining a "philanthropist" in terms of personal finance (using words like "rich") and others offering negative definitions (like "crafty", "tax-dodger" or "egotist"). These in turn influence giving behaviour: almost 20% believe negative perceptions of philanthropy are likely to deter people from giving, and less than two-fifths of people in Prism's research say they talk to friends and family about the charities they support. This creates missed opportunities not just for increasing donations but for judging the appropriate level of philanthropy, with peer effects thought to be critical for the giving of wealthy individuals.

From theory to policy and practice

Armed with this understanding, we can explore some of the policy and practice levers that could boost philanthropy. These range from tax incentives to cross-sector information campaigns, through making philanthropy easier or more compelling, to strengthening fundraising and the infrastructure for philanthropy.

Considering the journey a donor goes on can help us to do so effectively. At every stage of the journey, from initial actions by charities to donors deciding how much to give, there is potential to improve.

Better asking supports better fundraising



There would be no charity sector without fundraising: almost nine out of ten donation acts follow being asked.[79] Fundraising plays a critical role in raising awareness of need,

[75] See for example B Breeze & T Lloyd, Richer Lives: why rich people give, Directory of Social Change, 2018
[76] The survey was of over 400 high net worth individuals in key wealth markets outside the US, including the UK, France, Germany, Italy, Saudi Arabia, UAE, Hong Kong, Singapore and India. All participants held assets of £5m or more. See Barriers to Giving, Barclays
[77] B Breeze, The Philanthropy Paradox: Public Attitudes and Future Prospects for Planned Giving, Prism: The Gift Fund, November 2020
[78] Based on data collected in 1,215 interviews by NatCen Social Research in November and December 2019.
[79] R Bekkers & P Wiepking, Generosity And Philanthropy: A Literature Review, 8 November 2007. The review identified studies estimating that 85-86% of donation acts followed a solicitation.

an essential early step in the decision to give, and supporting better fundraising is likely to be integral to addressing the giving gaps set out in the previous section. As the demographics and priorities of donors change, and the methods of reaching them continually develop, so fundraising must too.

This starts with understanding the way potential donors are changing. Better asking in the charity sector comes from better strategic analysis informed by a firmer understanding of the changing donor base, broader trends in society and evolving norms and values. There is evidence of the sector having some success in this arena, such as where it has increased focus on equity in fundraising and the development of ideas some might consider counter-intuitive, such as community-centric fundraising, which may grow overall giving levels.[80]

Investing in innovation

Boosting innovation in fundraising has been proven to increase monies raised. The Cabinet Office/NESTA Innovation in Giving fund was a great success, supporting organisations such as Pennies and Crowdfunder to prototype and scale ideas such as micro-donations and crowdfunding.[81] An up-to-date version of this would be incredibly timely as non-cash fundraising tools such as blockchain, cryptocurrencies and non-fungible tokens start to emerge more fully as a new potential route to resources for charities. Other relatively new ideas, such as Giving Circles, could also be scaled.[82]

Nurturing the skills required

Skills are critical here. A recent survey for the Law Family Commission on Civil Society found that strengthening fundraising was the skillset charities most wanted to improve. Four in ten charities highlighted this as a way to increase impact significantly.[83] This is particularly crucial for small charities and those working with marginalised communities that may face their own 'gaps' in terms of support and have the most capacity to benefit from growing philanthropy. In higher education, where the role of philanthropy has increased substantially in recent decades, it has been argued that this has been directly correlated with investment in fundraising staff – albeit with the caveat that further growth requires investment in staff and development of career paths in fundraising.[84]

Initiatives in the past, such as providing subsidised fundraising training for small charities, may be worth repeating. The Small Charities Fundraising Training Programme, established in 2015, would offer learnings.[85] Funders could also play a role in scaling and replicating new digital forms of learning and development, including supporting fundraising content on MOOCs such as FutureLearn, or online events such as FundraisingEverywhere.[86]

[80] See *CCF's 10 Principles*, Community Centric Fundraising
[81] See Innovation to Grow Giving, NESTA, December 2014 and "Innovation in Giving", *NESTA*, 16 May 2018
[82] Philanthropy Together estimates there are 2,000 Giving Circles in the US, where it predominantly operates. It supports 50-60 Giving Circles in the UK. See PhilanthropyTogether.org
[83] J Larkham, *Hysteresis in the making? Pandemic scars and the charity sector*, Pro Bono Economics, November 2021
[84] *An emerging profession: The Higher Education Philanthropy Workforce*, More Partnership and Richmond Associates, April 2014
[85] See DCMS, OCS & Tracey Crouch MP, "Press release: Fundraising training programme for small charities now open", *Gov.uk*, 14 July 2017
[86] See futurelearn.com and fundraisingeverywhere.com

Policy levers:

- Increasing access to non-cash fundraising tools, data and insight
- Rebooting the Innovation in Giving Fund for testing and scaling new ideas to encourage people to give to charity
- Building fundraising capacity and capability, particularly among small charities

Better signals: civic norms

Fundraising: creating awareness of need → **Signals/Norms: deciding whether to take action** → Information: deciding how to support a cause → Better advice: maximising impact → Better incentives: maximising the amount

Civic norms are the implicit ‘rules of behaviour’ in society that impose constraints on narrow self-interest, leading individuals to contribute to the provision of public goods rather than free riding.[87] Civic norms around giving and philanthropy help individuals decide whether giving is the right thing to do: research suggests that even for the wealthiest individuals, there is a perception that the state/taxation is responsible for causes that they are solicited to support. Norms also play a role in deciding what level of support is correct.

Establishing norms of generosity

Establishing a shift in the culture of philanthropy requires sustained change and specific investment. Well-resourced attempts, including the Giving Campaign in 2000-2002, the government white paper on philanthropy,[88] the Hughes-Hallett Philanthropy Review,[89] and the subsequent Give More campaign[90] (2012), have sought to more widely embed the giving habit. Each has had its successes and demonstrated the value of efforts around citizenship education and better recognition for donors. Yet with the long-term narrowing of the donor base now an even greater risk, the ideas and lessons from these reviews need revisiting urgently.

With the wealthy in particular, peer influence and social norms have been well demonstrated to be effective in unlocking higher giving levels. For example, one-third of wealthy donors report donating after being encouraged by friends or family.[91] Public declarations of giving intentions are often used as a tool to influence others to give, with significant payoff. The Giving Pledge, for example, is establishing a new social norm that billionaires should commit most of their wealth to philanthropy and has over 200 global signatories.[92] At the same time, Common Goal asks footballers to pledge 1% of their annual earnings to charity.[93]

A widespread public conversation to establish giving 1% of income as a ‘norm’ of generosity could overcome some of these cultural barriers. This could be particularly

[87] J R de Wit & C Lisciandra, “Measuring norms using social survey data”, *Economics & Philosophy* 37 (July 2020)
[88] See Giving White Paper, HM Government, May 2011
[89] See S Hudson, “Philanthropy Review to publish ‘call to action’”, *ThirdSector*, 20 June 2011
[90] See V Mair, “Give More campaign launches with public sofa tour”, *Civil Society News*, 26 April 2012
[91] Barriers to Giving, Barclays
[92] See givingpledge.org
[93] See common-goal.org

effective if it was targeted at a specific group, such as the top 1% of earners, and supported by better information about philanthropy in wealth planning discussions, as detailed below.[94]

Championing philanthropy

The Minister for Civil Society is responsible for philanthropy, but policies that impact philanthropy sit across several government departments. Appointing a Philanthropy Commissioner[95] to promote and enhance philanthropy in the UK would simultaneously signal to interested parties that the government takes giving seriously and champion and coordinate philanthropy activity within government, ideally from the Cabinet Office. This role could learn from previous initiatives, such as the establishment of a UK Government Ambassador for Philanthropy.[96] This should sit alongside a Philanthropy Lead civil service role within HM Treasury or the Cabinet Office, as the lack of Treasury insight into a £20 billion source of expenditure for the public good is a major oversight in policymaking. This Commission recommended appointing a Philanthropy Commissioner and civil service philanthropy lead as part of its Spending Review and Budget submission.[97]

Philanthropy Champions at a local level could also significantly influence driving giving, particularly in areas where civil society is weakest. For example, every Metro Mayor could nominate a Philanthropy Champion, drawn from civic society, responsible for encouraging giving by their peers, the business community, and wealthy individuals who grew up in their area. This could be a revolving role, passed on every three years to keep ideas fresh but allow enough time for action, and build on models like local Business Advisory Panels to tap into local expertise and ambition.[98] Local Philanthropy Champions would also be able to spread best practice around giving and – working with Mayors and expert local organisations like Community Foundations - develop a strong understanding of local need, so philanthropic resource could be channelled into the causes where they can make the most significant difference.

Celebrating philanthropy

"The British public feels far more positively about the fruits of philanthropy than it does about those who fund it".[99]

Establishing civic norms on giving requires changing how we feel about philanthropy. Existing philanthropists have a role to play here by increasing the transparency and accountability of philanthropic giving to address issues of public trust[100] and encourage

[94] The Giving Campaign's final report proposed that 1.5% should be established as the norm for donations, a figure subsequently endorsed by CAF. See "Call for wealthiest to support a UK Giving Pledge", *Philanthropy Impact*, 11 November 2011. Subsequently, the Legacy 10 campaign, backed by Sir Richard Branson, aimed to establish 10% as a norm for legacy gifts. See H Lake, "Legacy10 campaign urges public to donate 10% to charity in their will", *UK Fundraising*, 2 November 2011
[95] As recommended in *The UK as a Centre of Excellence for International Philanthropists and Social Investors*, The Beacon Collaborative, 9 February 2021
[96] The first and to date only Ambassador was Dame Stephanie 'Steve' Shirley.
[97] *Spending Review and Budget Submission*, Pro Bono Economics, 14 October 2021
[98] See "Mayor announces Business Advisory Panel", *GreaterManchester-ca.gov.uk*, 14 December 2018
[99] Breeze, *The Philanthropy Paradox*
[100] Less than half of people trust donors to do what is right with their donation. See Breeze, *The Philanthropy Paradox*

their peers. Alongside this, more positive messaging from policymakers, social sector organisations and the media about the value and importance of philanthropy could also help shift perceptions.

Policy levers:

- Public campaigning around celebrating philanthropy and a giving pledge targeted at the highest paid in society: "1% by the 1%"
- Establishing coordination in government through a UK Government Philanthropy Commissioner
- Championing local philanthropy through nominated representatives

Better information: strengthening research and insight

Fundraising: creating awareness of need → Signals/Norms: deciding whether to take action → **Information: deciding how to support a cause** → Better advice: maximising impact → Better incentives: maximising the amount

Better information about the need for and impact of charities' work may encourage donors to support charities. It is likely to be particularly important for those considering large donations who want to feel confident about how their money will be used.

Targeting philanthropy

If donors are motivated to take action, they need the means to connect their philanthropy with the cause they have chosen to support. However, it has long been argued that giving money away is difficult – more so than earning it.[101] Helping donors decide who, where and how to give is essential to encourage effective giving.

This Commission and others, including NPC, have already argued that data about the social sector needs to improve.[102] This includes better data about where philanthropic support is most needed and where it can make the most significant difference. Cause Networks are one proven way for donors to use data to support giving well, including knowing how and where to donate most effectively. The Charity Commission also has a role in producing better quality data on where the need for donations is greatest.

Cause Networks allow philanthropists interested in a particular issue to share knowledge and insights and potentially collaborate to address a specific social challenge.[103] Participation in a Cause Network can help philanthropists who want to understand better where their support can have the most impact, avoid duplication, and develop a robust evidence base about what works. Encouraging the proliferation of these networks and cohesion between them can help balance the need for philanthropy with demand.

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[101] See Buchanan, *Giving Done Right* for analysis of why strategies for philanthropy require different knowledge and skills from those learned from business – resulting in philanthropy causing anxiety amongst (potential) donors.
[102] See A Kenley & K Wilding, *Better data, bigger impact: A review of social sector data*, Pro Bono Economics, October 2021, and NPC's research on Data
[103] See M Man et al., *Collaborating for a cause: How cause-related networks can lead to more and better philanthropic giving*, NPC, March 2020

Understanding the impact of philanthropy

For many would-be philanthropists, concerns about how money is being spent are a crucial barrier to giving. Eight out of 10 donors surveyed by CAF said that "*more hard evidence on the impact of charities' work would be likely to increase giving significantly*".[104] Research for Barclays Private Bank indicated that a quarter of wealthy individuals cite lack of control over how money is used and lack of faith in how charities are run as barriers to giving,[105] raising a challenge for charities and social enterprises who can't provide sufficient information to reassure potential donors.

This challenge is being taken on by a new generation of data platforms such as ChariZone in the UK and GiveWell in the US.[106] The challenge of providing better information nevertheless sits with charities and regulators. Further insight is required on whether the information collected by the Charity Commission and the data published by charities meets the needs of donors and potential donors. The Charity Commission could also potentially play a greater role here by providing guidance on impact reporting.

Better data about philanthropy

Better data about philanthropy itself, including more information about the places and causes that receive support, is also needed to accurately assess the impact of any policy changes aimed at encouraging philanthropy. Changes to tax incentives, or efforts to evaluate the effects of public campaigns to increase giving, are likely to need better data about philanthropy. The independent Charity Tax Commission supported by NCVO recommended that government should publish better data about which charities receive tax relief, such as Gift Aid, and that large charities should publish how much they receive in Gift Aid. Consistent and reliable time-series data on the amounts given to charity, particularly by the wealthy, has long been argued to be absent.

Policy levers:

- Encouraging the development of Cause Networks or Giving Circles[107]
- Developing better information and data on the social sector, including the development of common indicators and metrics
- Improving data about philanthropic giving

Better advice: support and infrastructure for philanthropy

Fundraising: creating awareness of need → Signals/Norms: deciding whether to take action → Information: deciding how to support a cause → **Better advice: maximising impact** → Better incentives: maximising the amount

Good information about existing tax incentives to donate is currently lacking, particularly for wealthy donors. Only one in five wealth advisors raise the subject of philanthropic

[104] Why We Give, Charities Aid Foundation, January 2014
[105] Barriers to Giving, Barclays
[106] See charizone.co.uk and givewell.org
[107] See K Walker & D F Williams, Giving Circles, Learning to Give

giving with their private clients, while - as noted above - only half of higher and additional rate taxpayers are aware of Gift Aid.[108]

From private banks to boutique advisors and a new generation of digital-first platforms, specialist philanthropy advice services do exist and provide support in navigating those challenges.[109] Yet this is often treated as a niche source of advice. Studies in both the UK and the US have found that wealthy individuals are disappointed by the philanthropy advice offered by advisors, despite wanting to have conversations about the subject.[110][111]

There is a strong consensus that encouraging the mainstreaming of philanthropy advice, including better training for financial and wealth advisors to provide better advice, has significant potential. Supporting financial advisors to discuss philanthropy as part of financial planning discussions, including explaining the Gift Aid rebate, could stimulate new or more effective giving.

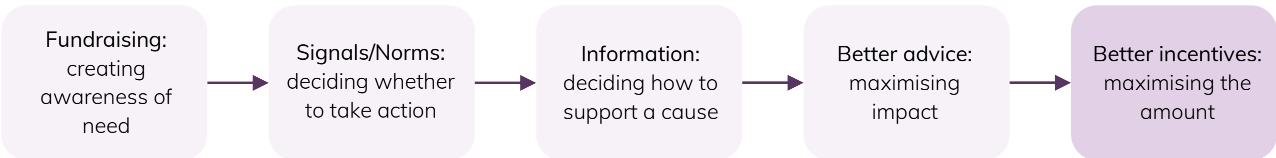
One route is through financial advisers' education, qualification, and certification, which is required as part of the relatively highly regulated nature of financial services. Philanthropy could be better integrated into the training courses undertaken by wealth advisers, as part of the necessary qualification for FCA certification and for certification offered by the Personal Finance Society, which operates as the chartered institute for wealth management professionals.

Efforts to encourage the industry to target current wealth managers rather than those in training could also be made. In partnership with the charity sector, umbrella bodies and professional organisations could play a significant coordinating role in a campaign to educate their members in tax-efficient giving.

Policy levers:

- Integrating more systematic philanthropy education for wealth advisors during training and certification
- Establishing a partnership between the charity sector and wealth manager umbrella bodies

Better incentives: maximising the amount received by charities/good causes



[108] C Tillotson, "Learning to give: lessons for advisers and would-be philanthropists", *Philanthropy Impact*, 6 June 2016
[109] These include I.G. Advisors, Giving is Great, ChariZone
[110] Philanthropy Impact found that wealthy individuals were disappointed with their advisors' philanthropy services, on average rating the services 5.9 out of 10. See Tillotson, "Learning to give"
[111] N Roumani, *Helping Wealth Advisors Increase Philanthropic Impact For High Net Worth Clients* , Stanford PACS, 2018

"Tax relief on donations reflects a long-held principle, consistently accepted by Parliament, that charitable income should be exempt from taxation where that income is used for charitable purposes", National Audit Office[112]

Increasing the impact of Gift Aid

Tax incentives are widely used to incentivise philanthropy. Arguments for their use include fairness to donors (who should only be taxed on income related to their private consumption) and the role of subsidy to stimulate the production of additional public goods.[113] Yet as the current incentives on offer are not used by all donors – or charities - it may be possible to increase the use, efficiency and contribution of Gift Aid to increase income from charitable donations.

NCVO's Charity Tax Commission proposed a public education campaign delivered jointly by the sector and government to address this, building on initiatives such as Charity Finance Group's Gift Aid Awareness Day.[114] This could sit alongside more straightforward guidance from HMRC and better information from charities at the point of donation.

Simplifying Gift Aid

Simplifying the complex Gift Aid system has been argued by many to be a necessary prerequisite to encourage higher and additional rate taxpayers particularly to use it more. The Hughes-Hallett Philanthropy review argued that giving would be increased by a simplification and harmonisation of tax incentives - goals that remain relevant.[115] The Charity Tax Group's Future of Gift Aid proposes several ideas for simplification, including more automation in the Gift Aid system.[116] The group is currently exploring how this could be delivered.

Redirecting higher and additional rate Gift Aid relief to charities

Some proposals have been made to eliminate the rebate element of Gift Aid and increase the matching element, redirecting the tax relief from higher rate donors to charities.

Initial research suggests that the increased "cost" of donating would reduce donations. The net benefit to charities, who would receive bigger Gift Aid match payments, may outweigh this, albeit at a net cost to the Exchequer.[117] However considerable further research and consultation would be needed before such a significant change.

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[112] *Gift Aid and reliefs on donations*, National Audit Office, 21 November 2013

[113] R Reich, "Just giving: why philanthropy is failing democracy and how it can do better", *Stanford PACS*, September 2018

[114] See Reforming charity taxation: towards a stronger civil society, Charity Tax Commission, July 2019, and "Charities encourage donors to #TickTheBox", *Charity Finance Group*, 6 October 2021

[115] *Recommendations from the Philanthropy Review*, Esmée Fairbairn Foundation. The Review argued that current incentives distort how people give: *"it is currently more tax-effective to give shares rather than cash, and more tax-effective to give in death than in life."* As other studies have found, the Review found that Gift Aid is widely misunderstood: *"We found that 26 per cent of those with over £100,000 of investable assets are not even aware that they can claim a tax rebate on charitable donations."* See T Hughes-Hallet & R Lewis, "Philanthropy Review's call to action for UK giving", *CharityChoice*, 30 July 2011

[116] See "The Future of Gift Aid project", *Charity Tax Group*

[117] One study found that higher rate taxpayers donate to different causes than basic rate taxpayers. Redirection of the rebate would change which charities most benefit from Gift Aid. See K Scharf & S Smith, "Gift Aid donor research: Exploring options for reforming higher-rate relief", *HMRC*, December 2009

Additional tax relief

Finally, it may be possible to incentivise greater giving levels by increasing the generosity of Gift Aid. PBE has elsewhere argued that a temporary 'Recovery Gift Aid' incentive that increased the matching element of Gift Aid from 25p to 30p for every £1 donated could potentially generate an additional £600 million donations per year.[118]

Match funding schemes

Match-funding schemes are effective at encouraging public generosity. Studies suggest that matched donations are, on average, 2.5 times higher than unmatched donations.[119] The offer of match funding increases the probability that those solicited then go on to donate.[120]

Matching may be most effective at encouraging existing supporters to donate.[121] [122] Although match funding schemes risk displacing giving from other issues, evidence suggests well-designed incentives can address this.[123] For example, the Big Give survey reported that over one-third of respondents said they *only* gave to a matched funded appeal because of the matching contribution, and that match funding is the most likely factor to encourage people to give more.

As the government is striving to drive up resources available in levelling up areas and social infrastructure is rising up its agenda, a time-limited government match-fund scheme in levelling up areas has the potential to deliver greater value for government investment, send a clear message about how much the government values philanthropy, and encourage more generous giving habits for donors in or from areas of the country which have the weakest civil society structures available. To make the investment as effective as possible, local institutions such as Community Foundations could steward funds. These organisations hold expertise in both local needs and donor engagement.

Policy levers:

- Widening the campaign for Gift Aid simplification
- Broadening campaigns and education aimed at donors and charities to increase Gift Aid usage
- Developing proposals for match funding schemes, prioritising place-based match funding in levelling up priority areas stewarded by local institutions such as Community Foundations

[118] J Franklin & A Kenley, Setting Lockdown Savings Free, Pro Bono Economics, June 2021
[119] C Walker, A Great Match: How match-funding incentivises charitable giving in the UK and unites funders and donors in tackling social issues, The Big Give, Charities Trust, and RBS, May 2016
[120] D Karlan & J A List, "Does price matter in charitable giving? Evidence from a large-scale natural field experiment", *American Economic Review 97* (December 2007)
[121] D Karlan, J A List & E Shafir, "Small matches and charitable giving: Evidence from a natural field experiment", *Journal of Public Economics* 95 (June 2011)
[122] Z Fang et al., "More Than Double Your Impact: An Empirical Study of Match Offers on Charitable Crowdfunding Platforms", *Kelley School of Business* Research, 9 April 2021
[123] M Adena & S Huck, "Personalized fundraising: a field experiment on threshold matching of donations", *Social Science Research Network*, 13 November 2019

Conclusion

Philanthropy is about more than money. Donating – whether that's money, time or talent - means connecting with a cause or a community, participating in and supporting associational life. To understand the future of civil society, we need to reflect on the future of philanthropy.

Philanthropy is also a critical element of civil society finance. Public giving is the cornerstone of charity funding and represents more than a third of the sector's annual income. The nature of philanthropic capital also means that it is often more flexible, responsive and innovative than other funding sources.

The UK is already a generous nation, but analysis in this paper suggests that for many people, there's more that could be done. We have identified three 'giving gaps':

- **The participation gap: *the donor base is narrowing.*** A quarter of households give regularly, but that proportion is in decline. If the regular donor base remained at 2000 levels, we estimate that charities would receive up to £1.4 billion additional income each year.
- **The Gift Aid gap: *the Gift Aid match goes unclaimed on a quarter of eligible donations*.** Lack of understanding and complexity in the Gift Aid system means charities miss out on an estimated £380 million of income each year.
- **The generosity gap: *most high earners are not giving close to the levels of their generous peers.*** The top 1% of earners give at least £950 million to charity each year, but most of that funding comes from a small 'civic core' of donors. A typical top earner gives less than 0.2% of their income to charity each year, but if all top earners gave at least 1%, charities would receive up to £1.4 billion additional income each year.

Closing these gaps offers a significant prize – we estimate nearly £3 billion additional investment for the public good each year and a growing base of engaged donors participating in civil society. But to reverse the UK's three 'giving gaps', we need to change the conversation about philanthropy.

The good news is, there are plenty of potential solutions and lots of existing best-practice to draw on. Many of the policy levers we have discussed are already well-evidenced, tested and successful, albeit often on a relatively small scale. The challenge is ensuring the best of these are developed, sustained and scaled as part of a long-term, funded programme of activity to grow UK philanthropy.

One area where philanthropy could play a particularly important role is addressing geographical inequality in civil society strength and funding. A targeted match scheme in levelling up areas could boost philanthropic activity in places that need it most, particularly if local and diaspora fundraising was led by a locally appointed Philanthropy Champion and stewarded by expert local institutions like Community Foundations.

Ideas like these will require a coordinated and sustained effort across philanthropists, charities and the wider sector, government at multiple levels, and the business community. To drive forward this agenda, the Law Family Commission on Civil Society will be holding a series of cross-sector roundtables to develop the policy proposals that are most likely to grow UK philanthropy.

We believe we are pushing at an open door - evidence for this Commission found that the public are willing to support good causes, with three in five Britons believing charities and community groups will play an "important role in the country's recovery from Covid".[124] Supporting civil society is not about providing a 'hand out' – it is an investment in the vital third pillar of our society and economy. The prize on offer from closing the UK's giving gaps is too big to ignore.

[124] A Martin, *In the Public Eye: Snapshot of public attitudes towards civil society*, Pro Bono Economics, 18 January 2021

The Law Family

Commission on Civil Society

@ProBonoEcon

www.commissiononcivilsociety.org

020 3632 2668

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