**Charity Donor Tax Incentives:**

**International Overview of Incentives and Key Literature on Donor Behaviour**

**Remit**

This working document has two sections. The remit of the first is:

An international comparative overview of the various charity tax reliefs and incentives used in other countries, including, where possible, an analysis of their effectiveness at encouraging philanthropic behaviour and helping charities generate public benefit.

The study considers the types of donor tax reliefs and incentives used and their effectiveness (rather than their administration) in terms of their effects on donor behaviour. It does this through:

a) analysis of existing comparative international work which explores the effectiveness of donor tax relief systems, and

b) country case studies of donor tax reliefs and incentives (initially Australia, Canada, Ireland, Netherlands, New Zealand, US) as options for the commission to consider when it starts to develop recommendations for reform. The case studies include: i) overviews of the country’s donor tax incentive systems,[[1]](#footnote-1) ii) summaries or abstracts of research or other commentary exploring notable national incentives and their effects on donor behaviour (where available).

The remit of the second is:

A collation of existing behavioural research on charitable giving. This should […] look at the impact of taxation on donor behaviour – for example, the effectiveness of GA higher rate relief and inheritance tax relief for encouraging donations and philanthropy.

The document should include summaries of available literature, including key learning points. It should primarily relate to the UK, but international work should also be drawn upon.

**Charity Donor Tax Incentives: International Overview**

**Notes on the research landscape**

The literature in this area is dominated by two relatively recent CAF publications which between them not only provide comprehensive information on and analysis of the relationship between charity tax incentives and charitable donations/donor behaviour at a global level but which analyse their effectiveness against well-constructed criteria, develop broad theory in this area, and provide incisive commentary on the general paucity of relevant national studies and the reasons for this.

*Rules to Give By. A Global Philanthropy Legal Environment Index* (2014)[[2]](#footnote-2) is an extensive and comprehensive report of the regulation and taxation of philanthropy globally. The Executive Summary[[3]](#footnote-3) states [bold type added]:

‘Despite the importance of government support for philanthropy in ensuring the sustainability of civil society, little is known about the overall global picture of how widespread this support is and what form it takes. This report is intended to address this gap in our knowledge and includes **recommended international standards for the structures that support philanthropy**.

*Rules to Give By* is the first evaluation of the regulatory and tax conditions associated with philanthropy in each of the 193 United Nations Member States. Nexus has worked with McDermott Will & Emery LLP and Charities Aid Foundation over the last two years **to gather and analyse comparative information on the legal and fiscal framework for charitable giving around the world** that will provide an invaluable new evidence base and advance the debate in this area […] We hope that the report and the accompanying index will be of interest to anyone who wants to **better understand the legal frameworks governing the tax treatment of NPOs and charitable donations around the world, and how these frameworks can be used to stimulate greater philanthropic giving**. This will include those in governments who have the power to design and implement the necessary policies, as well as those who stand to benefit from these policies such as philanthropists, businesses, and civil society.’

Several of the key findings of *Rules to Give By* contained in the Executive Summary[[4]](#footnote-4) relate to donor behaviour, and **it is strongly recommended that these are read in full by anyone considering making recommendations to government on tax incentives**.

*Donation States. An international comparison of the tax treatment of donations* (2016) (together with its appendix: *Donation States – country notes* (2016))[[5]](#footnote-5) provides a comprehensive analysis of ‘**the way tax incentives regimes are conceived and implemented to ascertain the ideal approach to incentivising charitable giving**’,[[6]](#footnote-6) and involves detailed research into the tax incentives used in 26 sample nations (which between them account for 77 per cent of global GDP). These are: Argentina, Australia, Bangladesh, Brazil, Canada, China, Egypt, France, Germany, India, Ireland, Italy, Japan, Mexico, Nigeria, Peru, Philippines, Poland, Russia, Saudi Arabia, Singapore, South Africa, Turkey, United Kingdom, United States and Vietnam. In terms of the report’s analysis the efficacy of tax incentive regimes, it notes that:[[7]](#footnote-7)

‘In making recommendations across such a diverse sample of nations it was necessary to go beyond merely assessing the costs to government of incentives for giving and the responsiveness of donors to incentives and also consider the appropriateness of incentive regimes for differing contexts. As such, this report deals with the varying moral and political justifications for tax incentives, the extent to which price elasticity ought to effect their design, the ways in which incentives are structured and CSOs gain donor incentivised status, the real comparative value of incentives, the tools used to limit tax losses and the myriad barriers to claiming incentives faced by donors.’

Chapter 2 contains a discussion of theoretical perspectives on justifying incentives (Tax Base Rationale, Subsidy Rationale, Pluralism Rationale). Chapter 3 considers how to assess the efficacy of incentives. Chapter 4 classifies systems used to determine eligibility of beneficiary organisations (patchwork vs staircase systems, inclusive versus exclusive frameworks) and discusses political/executive discretion in eligibility by charitable purpose and cross border giving). Chapter 5 considers the value of incentives; Chapter 6 considers caps and floors on reliefs; Chapter 7 considers form of reliefs; Chapter 8 considers barriers to claiming incentives; Chapter 9 considers incentives for individuals vs incentives for companies. On the back of this comprehensive comparative analysis, the report provides **a clear set of recommendations for governments to enable the creation of effective tax incentive regimes, and these should be considered in full by anyone wishing to advise government on reforms**.

The report also makes an important point about how ‘effectiveness’ is judged [bold added]:[[8]](#footnote-8)

‘By looking at a sample of 26 nations – detailed notes on each are available in a separate annex – this report will look at the way tax incentives regimes are conceived and implemented to ascertain the ideal approach to incentivising charitable giving. In identifying an ideal approach it will of course be necessary to define the ideal outcome. As an organisation which exists to try and create a sustainable resource base on which civil society can flourish globally, CAF believes that **tax incentives should be judged to some degree on the extent that they elicit greater giving**. However, if as is the case for CAF, an ideal scenario for civil society is seen as one where everyone is encouraged to give generously to a range of causes which is as wide and vibrant as the needs, interests, concerns and aspirations of the society it reflects, **we must take a holistic approach which looks beyond the value of incentives and donor responsiveness**.

The study of tax incentives has typically been viewed through the lens of macro-economic realism whereby the cost of incentives are weighed up against donor responsiveness and the social goods that charitable contributions can buy. However, this report hopes to add the weight of a global comparative study to those who have sought to broaden the conception of the role that tax incentives for giving play in society. This report will make the case that charitable giving has benefits for society which cannot be evaluated against services which might have otherwise been provided by the state. We make the case – building on a previous report of the Future World Giving project, *Enabling an Independent Civil Society*[[9]](#footnote-9) – that **tax incentives policy should be evaluated against its efficacy in delivering a vibrant, independent and pluralistic civil society**.’

It also notes:[[10]](#footnote-10)

‘Clearly, **attempts to measure the effect of incentives offered through the tax system suffer from the lack of a controlled environment in which the response to an incentive could be measured against a counterfactual environment in which the incentive had not been offered.** For the most part, we are forced instead to rely on experimental research.

[…]

The closest that we can realistically get to the ideal test scenario (of a randomised, controlled trial of incentives) is to take advantage of changes in tax policy and review the resulting change in giving habits. By looking at the charitable contributions of people, particularly over longer time periods whereby the relative cost of giving (i.e. changes in income tax) rises and falls, researchers have attempted to establish the price elasticity of charitable giving. Such a wealth of these studies have taken place in the United States, that it was possible for John Peloza and Piers Steel to produce a meta-analysis of 138 studies comprising a combined sample size of over 1.4 million people.’

This meta-analysis (conducted in 2005) is discussed below. However, *Donation States* notes that:[[11]](#footnote-11)

‘Unfortunately, there is **a lack of comparable studies from other nations to enable a global comparison of the price elasticity of charitable contributions in relation to incentives.**’

The report’s conclusion reiterates and expands on this point:[[12]](#footnote-12)

‘… there is a paucity of comparative research on tax incentives which explores not only the differing models in existence around the world but also works through the political and philosophical justifications underpinning differing approaches. This report has contributed to those ends, but much more research is needed. For instance, given that donor responsiveness to incentives dominates the policy conversation, it is striking that **longitudinal studies have not taken place in most countries which track charitable giving over time to see the effect of policy changes on the level of giving**.’

The truth of this paucity of studies has been apparent from research conducted in the preparation of this document. The available research is considered at relevant points below, and includes primarily international comparative studies and some national studies, mostly from the US. **However, in common with the authors of much larger reviews, I can find very little in terms of rigorous analysis or empirical research on the effectiveness of specific innovative or experimental schemes within individual countries.**

On the topic of importing specific schemes, Donation States actually draws a very clear conclusion:[[13]](#footnote-13)

‘… our study has shown that most governments tend to either happen upon a model for offering incentives over time as a consequence, often without intention, of wider tax policies and legal rulings, or else copy the basic model of another nation and retrofit that model to their own context. In either case, none of the incentive regimes in our study seem to have been developed using an iterative process which allows for holistic redesign and adaption to provide maximum benefit and fairness for all concerned. Rather, tax incentive regimes have been subject to ad hoc changes motivated by political pragmatism, demand from donors and beneficiaries or reactive adaptation to changing social economic or technological contexts.’

**Examples of international comparative studies**

***Studies that consider donor tax incentives (some within broader context of general charity taxation)***

[Global evidence on Effective Design of Tax Incentives for Charitable Giving](https://renebekkers.files.wordpress.com/2018/07/18_07_11_istr_global.pptx) (2018)[[14]](#footnote-14) is a recent conference presentation which addresses the questions:

* How do tax incentives for nonprofit organizations vary between countries?
* How do countries offering different tax incentives for nonprofit organizations vary in the level and nature of generosity?
* What is the effectiveness of different forms of support to nonprofit organizations?

It provides concise typologies of government support and notes four forms of indirect grants with country examples:

‘1. Deduction from taxable income

*US, Germany, Japan, Australia, Mexico, Austria, the Netherlands, Denmark*

2. Tax credit

*Canada, Israel, France*

3. Tax refund to charity

*UK*

4. Tax assignment

*Hungary, Lithuania, Poland, Romania, Slovakia, Italy’*

These forms mirror those explored in CAF’s *Rules to Give By*.[[15]](#footnote-15) The presentation also draws further on global data sources (including CAF’s *Rules to Give By*) to compare how encouraging different systems are, identifies the benefits and drawbacks of different methods of assessing the effectiveness of tax incentive systems, and indicates directions that future research will take.

*Taxing Not-for-Profits: A Literature Review* (2011)[[16]](#footnote-16) is an extensive international literature review which[[17]](#footnote-17) ‘gives an overview of the relevant literature on such taxation concessions for not-for-profits in Australia, New Zealand, Canada, the United Kingdom, and the United States’. As the title suggests, its focus is on literature rather than substantively describing tax concession regimes beyond broad overviews. The review’s conclusions [bold emphasis included in original] are highly relevant to the present purposes:[[18]](#footnote-18)

‘A survey of the literature on taxation concessions of NFPs reveals some surprising facts. First, outside of the US, **taxation concessions have been analysed rarely**, although they have been discussed in tax planning materials more generally. Instead, the debate has largely taken place either in the context of major tax reviews, in policy papers by revenue authorities, and more rarely in major reports dealing with the NFP sector.

Second, this policy debate **draws largely on the US academic literature**. This poses several problems. Obviously, there are issues concerning the translation of **context**. The US tax laws are complicated and the context of the NFP sector in the US is philosophically and politically different. Another bias, however, lurks in this predominance of the US literature. The literature is largely rooted in **economic analysis**, although it is widely acknowledged that the justifications for tax concessions are largely political in nature.

Third, the literature survey reveals a **strong consensus on the desirability of tax concessions** for NFPs, which has limited changes to such concessions. Recommendations from major tax reviews have been largely accepted where they extend such reliefs. Reports have been reticent to recommend reform in the absence of evidence of the effect on the sector, and governments have been very reluctant to restrict tax concessions for NFPs.

Fourth, the literature survey reveals **surprisingly few desirable models** from abroad. Features such as disbursement quotas, floors and caps, tax credits, and taxation of business income appear problematic in other jurisdictions. There is also a notable **blurring between taxation** **and regulation** of NFPs through the taxation legislation.

Fifth, the discussion of tax concessions appears to have taken place largely in isolation from the broader reforms of the NFP sector in overseas jurisdictions. Although tax concessions are widely acknowledged to drive the definitional debate, there is surprisingly little connection between the tax literature and the definitional literature. Instead, tax analysis of tax concessions is driven by economics and the overall principles of fair taxation, and is rarely situated within an articulated political philosophy concerning the role of the NFP sector. Yet, perhaps more than anything else, the debate about the justifications for tax concessions reveals the **difficulties in conceptualising the NFP sector** within a conceptual framework dominated by **for-profit paradigms**.’

Charitable giving and tax policy: a historical and comparative perspective (2012)[[19]](#footnote-19) is a collection of CEPR conference papers, the introduction to which states [emphasis added]:[[20]](#footnote-20)

‘Even though the level of private philanthropy seems to differ widely across countries, there is still little robust quantitative evidence regarding the differentials in private charitable giving across countries and more importantly very little consensus on why these differentials may exist. Moreover, in the past couple of decades, these differentials in the level of private contributions to charitable organisations have become a central matter of public policy. Because private charitable contributions finance many socially valuable activities (education, arts ...), many governments have tried to boost private philanthropy through various active policy interventions, and this temptation of relying on private contributions to finance the provision of public goods has increased substantially in recent years as fiscal constraints have become tighter. Despite this renewed interest, **there is still very little practical and relevant policy guidance that policymakers can find in the economics literature**. By providing an original comparative and historical analysis of tax policies towards private philanthropy across different countries, the essays gathered in this conference volume aim at shedding new light on the determinants of private philanthropy, and ultimately, wish to provide interesting practical insights for improving tax policies towards charitable giving.’

**Summary of key points and conclusions drawn**

Descriptive accounts and both historical and comparative analyses of donor tax incentives and wider charity tax relief systems are abundantly available.

However, aside from CAF’s recent and ongoing work, there is a distinct lack of empirical analysis of the practical effectiveness of specific systems/regimes and a lack of consideration of how effectiveness should be judged.

The literature that exists is primarily from the US and tends to frame effectiveness in purely economic terms, i.e. increases in giving. The difficulties in assessing the effectiveness of specific regimes except longitudinally (given the inherent lack of comparator groups within tax regimes studied in national contexts) has contributed towards an empirical focus on individual donor behaviour using experimental conditions.

The CAF research calls for a broader definition of ‘effectiveness’ than mere monetary increases in giving caused by specific incentives, and also warns against importing / retrofitting regimes from other national contexts. It also warns of the counter-productive effects of certain types of incentive in specific contexts. It recommends that donor incentives are built holistically through well-developed theory.

***It is my view that the best starting point for formulating specific recommendations on future tax incentives is contained in pages 68-71 of Donation States, read in the context of the rest of the report. These final pages, rather than drawing the general conclusions earlier in the report, focus on specific typologies of schemes and take a much higher-level view than consideration of specific schemes in individual countries can ever do, whilst still referring to types on schemes with enough specificity to enable translation into practical recommendations.***

**Note on potential directions for expansion of remit**

* The issue of cross-border giving is contentious and complex, and it has not been specifically addressed so far here. However, it needs to be taken into account in the formulation of any proposals in this area.
* So far, the focus has been on tax incentives aimed at *donors* ­– it could be expanded to focus on incentives directed at charities themselves.
* So far, this document has not focused on approaches that link tax systems to funding civil society and public benefit activities in a broader sense – specifically percentage tax designation systems, which have been popular in Central and Eastern Europe over the past twenty years. These systems are the subject of a detailed research project, focusing primarily on Hungary, Lithuania, Poland, Romania and Slovakia as well as countries in the region that did not implement such systems. The research is available at: <http://taxdesignation.org/>. As the authors of the study state:[[21]](#footnote-21)

‘The percentage mechanism was met with enthusiasm in the transitional phase of post-communist Central and Eastern Europe. It has offered a unique way of redistribution of state resources to public benefit activities in an environment that was resource dry with bureaucratic and un-transparent, politically biased public funding mechanisms. The percentage tax designation system works as a decentralised decision-making mechanism where state resources, namely certain percentages of the income tax, are channelled, mostly to not-for-profit organizations (as well as other public and private entities with (mostly) public benefit purposes), based on the decision of the taxpayers and therefore reflecting the societal needs as perceived by taxpayers.’

The systems have not been explored in more detail here to date because:[[22]](#footnote-22)

‘While this system is often referred to as “percentage philanthropy”, it is wrong to call it “philanthropy” as the resources used are not private resources, but resources that must be paid anyway as income tax.’ But the research suggests ‘there is a modest but distinctive contribution of the mechanism towards the sustainability of the public benefit organizations, especially the NGOs’.

*See next page for notes on specific countries so far.*

**Australia**

**Overview of donor tax incentives**

‘**… *are there tax incentives in place to encourage philanthropy?***

Yes. Australia provides charitable deductions for federal income tax purposes. Classes of organizations and specifically named organizations described in Division 30 of the ITAA can be the recipients of tax deductible gifts, some subject to further conditions [ITAA, Div 2]. Generally every person, whether an individual, the trustee of a trust estate or superannuation fund, a partnership or a company, and whether a resident or non-resident of Australia, is entitled to a deduction from assessable income for individual gifts of AUD 2 or more made during the financial year to nominated funds, authorities, institutions, or bodies or classes of them, or specified persons. Gifts of property are required to have a value over AUD 5,000 as valued by the Commissioner of Taxation. Gifts of shares traded on a public stock exchange are now deductible even if under AUD 5,000 in value.

There is generally no cap for the gift deduction, with the exception that the deduction must not cause an overall tax loss. As a further incentive to encourage philanthropy, beginning on July 1, 2002, donors have been permitted to spread all deductions over a five-year period.

Significantly, in Australia gifts to a charity are deductible by the donor for income tax purposes only if they are to an endorsed charity, approved and listed by the ATO.

***… do individuals and corporations have different incentives?***

No. The ITAA does not make a distinction between individuals and corporations. However, it appears that most companies claim “gifts” or “sponsorships” as a cost of doing business which is tax deductible, rather than claiming a deduction as a gift. Literature provides that under the Australian system, it is significantly easier to claim these “gifts” as business expenses (a business can provide funds to a much wider range of organizations) than to prove that they are gifts (which must flow to a restricted class of organizations).

***… does there exist an “estate tax” or some equivalent mechanism that encourages the creation of******donor institutions?***

Yes. Australia has no estate or inheritance tax. However, assets acquired from an estate may be subject to capital gains tax. An income tax deduction against the income of an estate is allowable for donations to qualified NPOs.’

*Rules to Give By* (2014), p.65

***Australia: Research/commentary exploring notable national incentives and their effectiveness***

As yet, whilst I have found several historical overviews of charity taxation and donor tax incentives in Australia, and a detailed quantitative analysis of tax-deductible donations by individuals published in 2017,[[23]](#footnote-23) I have found no studies assessing the efficacy of notable national incentives.

**Canada**

**Overview of donor tax incentives**

*‘****… are there tax incentives in place to encourage philanthropy?***

Yes. Canada provides a tax credit for income tax purposes for gifts to registered charities. The first CAD 200 of donations produces a 15 percent rate credit. Gifts in excess of CAD 200 produce a 29 percent rate credit. However, an annual limit on creditable donations applies based on the donor’s income of generally 75 percent of net income (without regard to the charitable gift). Such credits are allowable for contributions of cash and property to registered charities. Because Canada treats the disposition of property by gift as subject to capital gains taxes, the 75 percent rule is modified to allow a deduction for up to 25 percent of the gains or recapture resulting from the taxation of the gift.

Generally donations to foreign charities are not deductible for Canadian purposes; however, a number of exceptions apply: those foreign charities to which the Canadian government has donated, those designated by her Majesty, to the United Nations and those allowed by treaty, for example, the US-Canada Treaty in limited circumstances.

***… do individuals and corporations have different incentives?***

Yes. Corporations may claim deductions for charitable contributions, in cash or other property to (or for the use of) registered charities as well as certain other charitable organizations.

Corporations and individuals share the same income limits on the deductibility of gifts, but corporations are allowed a deduction, while individuals are allowed a tax credit.

… ***does there exist an “estate tax” or some equivalent mechanism that encourages the creation of donor institutions?***

Yes. Canada imposes capital gains taxes on the transfer of property by gift during life or at death, rather than an inheritance or estate tax. Charitable gifts designated by Will generally are fully deductible in the final life return of the decedent (with a one year carry-back) up to 100 percent of income. Where the identity of the charity is unspecified or the gift amount depends on facts determinable after death, the charitable deduction is allowed in the return for the follow-on estate or trust, rather than the decedent’s final life return.’

*Rules to Give By* (2014), p.102-3

***Canada: Research/commentary exploring notable national incentives and their effectiveness***

Temporary enhanced credit for first time donors. This was an additional 25% on top of the existing tax incentive for first time donors and those who had not donated for a number of years. It had a ceiling of $1,000 in order to target the measure at non-high income earners. For academic commentary on the measure, see the Canadian Tax Journals Policy Forum papers:[[24]](#footnote-24)

* Tim Edgar and Kevin Milligan, ‘Policy Forum: Editors’ Introduction —The First-Time Donor Tax Credit’ *Canadian Tax Journal* (2013) Volume 61, Issue Number 4, 1087
* A. Abigail Payne, ‘Policy Forum:  The First-Time Donor Credit — Sound Policy or Short-Term Fix?  *Canadian Tax Journal* (2013) Volume 61, Issue Number 4, 1091
* Rachel Laforest, ‘Policy Forum: Assessing the First-Time Donor Credit — Can it Increase the Charitable Donation Levels of First-Time Donors?’ *Canadian Tax Journal* (2013) Volume 61, Issue Number 4, 1103
* Adam Parachin, ‘Policy Forum: Reflections on the First-Time Donor Credit — The Link Between Donation Incentives and the Regulation of Legal Charity’  *Canadian Tax Journal* (2013) Volume 61, Issue Number 4, 1109

In keeping with the general trend, there does not appear to be any available empirical research on effectiveness.

Enhanced incentive for donations of medicine (2007 to 22 March 2017) (repealed). The commentary cited in the footnote is also relevant to the first time donor credit discussed above, and states [bold added]:[[25]](#footnote-25)

‘The Budget states that the measure is being repealed due primarily to low take-up.  **As with the expiry of the first-time donor super credit, it is questionable whether low take-up alone justifies the repeal of a measure that incentivizes, even for a small group of donors**, gifts that provide life-saving aid to the poor in the developing world.  However, we have seen little use of this provision in practice and **its repeal is unlikely to hinder relief and development charities carrying on work overseas**.’

Also noteworthy is the report: Tax incentives for charitable giving in Canada: Report of the Standing Committee on Finance. Chair: James Rajotte, MP. (February 2013) 41st PARLIAMENT, 1st SESSION[[26]](#footnote-26)

The content of this report was summarised as follows: ‘… a study of the current tax incentives for charitable donations with a view to encouraging increased giving, including but not limited to (i) reviewing changes to the charitable tax credit amount, (ii) reviewing the possible extension of the capital gains exemption to private company shares and real estate when donated to a charitable organization, (iii) considering the feasibility of implementing these measures; and that the Committee report its findings to the House To that end, over the course of 8 meetings during which the Committee heard from 36 organizations and 5 individuals, comments were made about the amount of charitable donations and the number of donors in Canada, the regulation of charities, and existing tax incentives for charitable giving and their estimated federal fiscal cost. These topics are discussed in Chapter One.

Chapter Two describes proposals made by the Committee’s witnesses for changes to existing tax measures in order to encourage charitable giving. It also indicates the witnesses’ thoughts about transparency and accountability in respect of charities, and about their fundraising activities. Finally, the chapter summarizes the witnesses’ views on such other issues as the establishment of a culture of giving, the use of existing data to understand better the various aspects of charitable giving, housing and poverty reduction, a number of human rights issues in the context of charities and the use of technology to make charitable donations.

The Committee’s recommendations in relation to charitable giving are provided in Chapter Three.’

**Ireland**

**Overview of donor tax incentives**

*‘****… are there tax incentives in place to encourage philanthropy?***

Yes. Ireland provides relief for charitable contributions for income tax, capital gains tax and corporation taxpurposes, provided certain conditions are met. The minimum value for the donation must be EUR 250 made toa single charity during a single year. Installment payments will be totaled for the year and the donation can be amixture of money and certain securities.

Relief is generally available on any charitable donation of money or certain securities made by an individual whohas paid, or will pay income and/or capital gains tax. How the relief operates depends on how the individual’stax is assessed. If the individual pays tax through self-assessment, then the individual can simply claim relief forcharitable giving against any tax that would have been payable on the assets transferred. If, however, the individualpays tax through the pay-as-you-earn system, then the amount given to the charity will be “grossed up” to includethe amount of tax paid by the individual and the individual will not receive relief. If the donation includes securities,the individual must pay any capital gains tax due to enable the charity to obtain tax relief.

Relief is also given to companies who donate money or certain securities. In this case, the company is able to claima deduction for the donation as if it were a trading expense.

The amount of relief is limited where insufficient tax has been paid to cover the donation made. Additionally,the amount of relief is also limited where the charity and the donor are associated (for example if the donor is an employee or member of the charity). In this case, the relief is limited to 10 percent of the donor’s total income forthe relevant tax year.

Gifts to charities during life and on death are exempt from capital acquisitions tax. The transfer of real property toa charity is free from stamp duty.

***… do individuals and corporations have different incentives?***

Yes. See response […] above. There is an additional inheritance tax incentive for individuals described in the response [below].

… ***does there exist an “estate tax” or some equivalent mechanism that encourages the creation of donor institutions?***

Yes. Capital acquisitions tax is payable on estates of deceased persons and on certain lifetime gifts. The value of any charitable gifts made from an individual’s estate (whether during their lifetime or on death) is exempt from capital acquisitions tax.’

*Rules to Give By* (2014), p.127-8

***Ireland: Recent changes to tax policy***

In 2013, amendments were made to the government’s tax policy following consultation in 2012. The amendments, which applied to all donations made by individuals on or after 1 January 2013, were:[[27]](#footnote-27)

‘i. Donations from all individual donors under the scheme would be treated in the same manner, with the tax relief in all cases being repaid to the charity. This would mean that self-assessed taxpayers would no longer be able to claim a deduction on their tax returns for donations made under the scheme.

ii. Introduce a blended rate of relief that would apply to all taxpayers regardless of their marginal tax rate. This would involve a rate of refund of around 30%. All donations would be grossed up as is currently done for donations from individuals within the PAYE collection system.

iii. The charitable donations scheme would be removed from the scope of the high earners’ restriction.

iv. An annual donation limit of €1 million per individual, which could be tax relieved under the scheme would be introduced.’

The administration by charities of tax reliefs was also simplified in order to reduce the administrative burden.

***Ireland: Research/commentary exploring notable national incentives and their effectiveness***

As yet, I have found no research which assesses the efficacy of specific donor tax incentives in Ireland. Even research relating to charitable donations generally is almost nonexistent; an article titled: ‘An Econometric Analysis of Charitable Donations in the Republic of Ireland’, published in 2005,[[28]](#footnote-28) noted that there had ‘been no prior econometric analysis of charitable donations in the Republic of Ireland’. I have found no more recent relevant research.

**Netherlands**

**Overview of donor tax incentives**

‘**… *are there tax incentives in place to encourage philanthropy?***

Yes. Donations to religious, charitable and cultural institutions by individuals and corporations may be deductible for income tax purposes, although the institutions must be registered with the Tax and Customs Administration in order to qualify for the deduction. In addition, certain investments in “green” funds (i.e., to benefit the environment) and in funds that invest in “social-ethical projects” may be deducted from the tax base used in computing deemed investment income.

… ***do individuals and corporations have different incentives?***

Yes. The minimum threshold and maximum deduction for individuals and corporations are different; individuals may take larger deductions relative to their total taxable income than corporations. Furthermore, an individual’s pledge to make donations with a minimum of five annual installments, if set down in a notarial deed, is deductible with no limitations.

… ***does there exist an “estate tax” or some equivalent mechanism that encourages the creation of*** ***donor institutions?***

Yes. The Netherlands imposes gift and inheritance taxes, paid by the recipient, on lifetime and testamentary transfers, and reduced rates are available to certain kinds of charitable organizations.’

*Rules to Give By* (2014), p.190-1

***Netherlands: Research/commentary exploring notable national incentives and their effectiveness***

Saskia Franssen and René Bekkers, *Cultural nonprofit organizations in the Netherlands. Changes in giving behavior, fundraising and income between 2011 and 2014* Center for Philanthropic Studies, Vrije Universiteit Amsterdam (June 9, 2016)[[29]](#footnote-29)

‘English Summary:

* ‘In 2012 the *Law on Giving* was introduced which increased the level at which donations to cultural nonprofit organizations can be deducted by households and corporations. In addition, the Giving Law gave cultural nonprofit organizations more freedom to earn commercial income.
* We measured changes in contributions by households, corporations and high net worth households between 2011 and 2014. In addition, we collected and analyzed data on the activities and income sources of cultural nonprofit organizations between 2012 and 2014.
* Households in the Netherlands have not donated more to cultural nonprofit organizations after the reform of the charitable deduction in 2012. The level of sponsoring by corporations has increased.
* Cultural nonprofit organizations have become more active in raising private contributions and commercial income. Around 40% of the institutions have been successful. However, the increase in fundraising income in 2013 has not compensated the decline in subsidies to non-profit organizations. In 2014 total income was at the 2012 level again.

*Context and research questions*

* The introduction of the Law on Giving coincided with large cuts in government subsidies to nonprofit organizations and a call for more entrepreneurship. As a result, many institutions were forced to find alternative sources of income and have started to raise funds from donors and corporations.
* How have households and corporations in the Netherlands reacted to the enhanced level of deduction? Have they increased their contributions? And how have cultural nonprofit organizations changed their behavior in response to the cuts and the Law on Giving? Which organizations have been able to shift gears to cultural entrepreneurship? These questions have been answered in the current research.

*Study on giving by households, corporations and high net worth households*

* The donation behavior of households in the Netherlands has not increased, despite the introduction of a multiplier of 1.25, which allows households to deduct 125% of donations made to cultural nonprofit organizations.
* Among high net worth households giving to cultural nonprofit organizations became more popular, but the amount donated has not increased.
* Corporations have increased their contributions considerably after the introduction of a multiplier of 1.50, which allows them to deduct 150% of contributions to cultural nonprofit organizations.
* Knowledge of consequences of the Law on Giving is lacking among large parts of the populations studied. Almost half of high net worth households does not know that contributions to cultural nonprofit organizations can be deducted at a higher rate. Among corporations two thirds does not know this. Among all households in the Netherlands three quarters does not know about the higher rate of deduction for donations to cultural nonprofit organizations.

*Study on cultural nonprofit organizations*

* The multiplier in the Law on Giving in itself does not increase private contributions to non-profit organizations to a level that compensates the decline in government subsidies. Cultural non-profit organizations also need to increase their efforts approaching potential donors and informing them about the consequences of the legal reform.
* Cultural nonprofit organizations of all sizes, from very small to very large, are changing. Institutions that had no experience with fundraising or generating commercial income have started to experiment and became more active in these areas.
* Cultural nonprofit organizations of almost all sizes see their income grow when they actively inform donors about the tax reform. These findings suggest that the Law on Giving may work in the long run.
* Investments in marketing, fundraising and communication about the Law on Giving have proven to be crucial conditions to increase income from donations and sponsoring.
* We find a *Matthew Effect* among cultural nonprofit organizations. Those institutions that have actively informed potential donors about the tax reform have been able to increase their fundraising income most strongly when they had prior experience and success with fundraising.
* Investments in fundraising pay off in the long run, but for many cultural nonprofit organizations it is a new activity. They need more time to become more professional in fundraising.

[…]’

Wiepking, P. & Bekkers, R.H.F.P, *Giving in the Netherlands: A strong welfare state with a vibrant nonprofit sector* (2015)[[30]](#footnote-30)

Abstract [bold type added]: ‘The Netherlands has a rich philanthropic history. However, since the introduction of the welfare state during the first half of the twentieth century, the Dutch government took over responsibility for the provision of most public goods and services. In 2007, the Dutch government spent 20 per cent of GDP on public social expenditures. Despite the strong state involvement in the production of public goods and services, philanthropy still thrives in the Netherlands: at least 55,000 nonprofits exist within a Dutch population of 16.6 million. This large and vibrant nonprofit sector, along with the presence of a small but very generous Protestant (Reformed) population, stimulates philanthropic giving in the Netherlands. Nonprofit organizations in the Netherlands serve a mainly complementary role to the state, which is reflected in the donation behavior of the Dutch. People in the Netherlands typically donate to nonprofit organizations active in fields that are not considered core state responsibilities, such as education, public health, and public and social benefits. Over the course of 2005, 94 per cent of the Dutch donated to one or more charitable organizations, donating on average 338 US dollars. Higher educated, female, and religiously affiliated Dutch people are all more likely to make a donation. Higher donations in the Netherlands are made by those who are older, have a higher education, have a higher income, own their home, are religiously affiliated (especially Protestants), attend religious services more often, have more trust in people, and are women. There are two main factors which potentially inhibit Dutch philanthropic giving in comparison to giving in other countries. First, the high level of public spending on the nonprofit sector has created a strong ‘subsidy-dependence’ among nonprofit organizations in the Netherlands. Since the economic crisis of 2008, the need for nonprofits to acquire income from fees and donations has increased, and it remains to be seen whether all organizations are equipped to deal with this rather sudden shift in funding sources. **Second, philanthropic giving is inhibited in the Netherlands due to its charitable deduction system. The existing threshold for charitable tax deductions limits the number of households who use this stimulating measure, which in 2005 was only five per cent of the Dutch population**.’

**New Zealand**

**Overview of donor tax incentives**

‘**… *are there tax incentives in place to encourage philanthropy?***

Yes. New Zealand provides a refundable income tax credit of 33 1/3 percent of charitable gifts of 5 NZD or moremade by individuals to certain donee organizations, up to the individual’s taxable income. Donee organizationsare defined in Section LD 3(2) of the Income Tax Act of 2007 and a list of approved organizations is providedon the Inland Revenue Department website. A donee organization must be a New Zealand society, institution,association, organization, trust or fund. This includes approved donee organizations, religious organizations, medical research schools and universities, approved overseas aid funds, kindergarten associations, state and state integratedschools, or their board of trustees, schools who have been approved as donee organizations, and parent-teacherassociations.

… ***do individuals and corporations have different incentives?***

Yes. Corporations may claim deductions for charitable contributions to donee organizations as defined in theIncome Tax Act 2007 Section LD 3(2), and a list of approved organizations is provided on the Inland RevenueDepartment website. Although the incentives are similar to those for individuals, deductions by corporations arelimited to the company’s net income for that year before taking into account the donation deduction.

… ***does there exist an “estate tax” or some equivalent mechanism that encourages the creation of*** ***donor institutions?*** No. The gift duty was abolished effective October 1, 2011. Prior to the repeal of the gift duty, donors of gifts to charities were exempt from the gift duty.’

*Rules to Give By* (2014), p.192-3

***New Zealand: Research/commentary exploring notable national incentives and their effectiveness***

A 2006 New Zealand government discussion document, Tax incentives for giving to charities and other non-profit organisations, was issued with the aim to:[[31]](#footnote-31) ‘… develop a new tax rebate regime for charities […]. It considered: ‘the current mechanisms by which the government provides assistance, through the tax system, to charities and other non-profit organisations in respect of donations they receive from individuals, companies and Māori authorities’, and examined ‘alternative mechanisms that may help to reinforce and encourage charitable giving’. The document notably proposed a new tax rebate that recognises the time given by volunteers to charities, and empirical research supported the proposals.[[32]](#footnote-32) To date, this has proceeded no further, but further very recent support has been shown for these measures to be implemented in the form of submissions[[33]](#footnote-33) to the new New Zealand tax working group.[[34]](#footnote-34)

**United States**

**Overview of donor tax incentives**

‘**… *are there tax incentives in place to encourage philanthropy?***

Yes. The U.S. provides charitable contribution deductions for federal income tax purposes. Such deductions are allowable for contributions of cash, property or, in limited cases, services to (or for the use of) qualified tax-exempt organizations, subject to deduction rules set forth by the IRS. Generally, contributions to qualified tax-exempt organizations are deductible to the donor up to 50 percent of the donor’s adjusted gross income, unless the donee organization uses earnings to benefit a private shareholder or if it attempts to influence political campaigns or legislation. In most states, charitable deductions are available for state income tax purposes.

Gifts may be of capital and still get an income tax deduction, although the annual limitation for individuals is lower (30 percent of the donor’s adjusted gross income rather than 50 percent) for non-cash gifts, and there are further limits on deductions for gifts of art or other collectibles, or inventory property. Estate and gift tax deductions are also available for gifts to charity. Gifts to foreign charities are generally not deductible for income tax purposes, however, many foreign charities have associated U.S. tax-exempt organizations to receive gifts from U.S. donors.

**… *do individuals and corporations have different incentives?***

Yes. Corporations may claim deductions for charitable contributions, in cash or other property to (or for the use of) qualified tax-exempt organizations. Although the incentives are similar to those for individuals, there is a limitation on such deductions by corporations. Generally, a corporation cannot deduct charitable contributions that exceed 10 percent of the corporation’s taxable income for the tax year. Any contributions in excess of the 10 percent limit may be carried over to each of the subsequent 5 years; a corporation loses any excess not used within the 5 year period. In most states, charitable deductions are available for state income tax purposes, subject to similar limits as imposed at the federal level.

**… *does there exist an “estate tax” or some equivalent mechanism that encourages the creation of* *donor institutions?***

Yes. Federal estate tax is imposed on the transfer of the taxable estate of every decedent who is a U.S. resident or citizen. The taxable estate of a decedent does not include charitable contributions (i.e., any portion of an estate going to charity is not subject to the federal estate tax). For states that impose an estate tax, charitable deductions are generally available for state estate tax purposes.’

*Rules to Give By* (2014), p.280-1

***US: Research/commentary exploring notable national incentives and their effectiveness***

Peloza and Steel, 'The Price Elasticities of Charitable Contributions: A Meta-Analysis' (2005) 24 *Journal of Public Policy and Marketing* 267–268[[35]](#footnote-35)

This is the most wide-ranging analysis of the expansive US literature in this area (a meta-analysis), and as such provides the best illustration for the present purposes of the main focus of most US literature in this area, with the US being the primary source of relevant literature generally.

Abstract:[[36]](#footnote-36) ‘Tax deductibility has been recognized as a motive for charitable donations. The current paper considers charitable donations as purchases made by consumers and examines the effects of changes in the tax deductibility (i.e., the price of donating) on charitable donations. The meta-analysis includes almost four decades of estimates of the price elasticity of charitable giving. Implications for policymakers and the marketers of charities are discussed.’

Conclusion:[[37]](#footnote-37) ‘The effect of changes in tax deductibility has been one of the most widely studied areas in personal philanthropy. However, although the field has progressed significantly from Taussig’s original estimates in 1967, there remains little consensus on the proper means of estimating elasticities, and there remains serious debate about the effectiveness of changes in tax deductibility to provide a stimulus for increased charitable giving. The present analysis included almost 40 years of research to conclude that changes in tax deductibility do indeed appear to have a marked effect on charitable giving. In fact, the results reported here suggest that tax deductions are treasury efficient, with a decrease of the cost of giving by one dollar resulting in more than one dollar being donated to charity through private philanthropy. This presents an opportunity for policymakers to support the transition of the provision of public services from governments to charities and non-profit organizations. In addition, charities must ensure that the egoistic benefit of tax deductibility is present in their charitable appeals, and ensure that their donor bases are aware of decreases in the tax cost of giving.’

[This US research section may be developed further if required, with relevance boundaries established. It may be more appropriately placed in the behavioural research section below, rather than in this country overview.]

**Charity Donor Tax Incentives and Donor Behaviour: Overview of Relevant Literature**

**Remit**

A collation of existing behavioural research on charitable giving. This should […] look at the impact of taxation on donor behaviour – for example, the effectiveness of GA higher rate relief and inheritance tax relief for encouraging donations and philanthropy.

The document should include summaries of available literature, including key learning points. It should primarily relate to the UK, but international work should also be drawn upon.

**Structure**

The literature outlined below is divided into the following categories:

* historical and comparative overviews and analyses of charitable donation tax incentives (This section is not the main focus of the document, but it is included to draw attention to a small number of useful overviews.);
* behavioural research which directly considers charity donor tax incentive policy (in particular price elasticities) or which explores the efficacy of relevant mechanisms (notably matches v rebates);
* operational-level behavioural research on the functioning UK Gift Aid scheme (included for completeness).

**Historical and comparative overviews and analyses**

Public Good by Private Means: How philanthropy shapes Britain(2016)[[38]](#footnote-38)

Chapter 3 of this book gives a detailed discussion of theoretical justifications for taxing philanthropy and a history of tax relief on donations, as well as discussing challenges to its implementation.

*Charitable giving and tax policy: a historical and comparative perspective* (2012)[[39]](#footnote-39) is a collection of CEPR conference papers (also discussed in the accompanying international research document). The volume’s introduction (in addition to providing a detailed analysis of tax incentives in the UK, the US, Canada, France and (briefly) Denmark), echoes conclusions noted elsewhere, that [bold type added here and throughout document]:[[40]](#footnote-40)

‘Because private charitable contributions finance many socially valuable activities (education, arts,...), many governments have tried to boost private philanthropy through various active policy interventions, and this temptation of relying on private contributions to finance the provision of public goods has increased substantially in recent years as fiscal constraints have become tighter. **Despite this renewed interest, there is still very little practical and relevant policy guidance that policymakers can find in the economics literature.’**

It goes on to state the purpose of the volume:[[41]](#footnote-41)

‘By providing an original comparative and historical analysis of tax policies towards private philanthropy across different countries, the essays gathered in this conference volume aim at shedding new light on the determinants of private philanthropy, and ultimately, **wish to provide interesting practical insights for improving tax policies towards charitable giving**.’

The volume’s editors go on to note that:[[42]](#footnote-42)

‘In most countries, tighter fiscal constraints have put into question the functioning of tax policies towards private charitable giving, but **there seems to be little consensus as to how to improve these policies**. In fact, the route that goes from positive to normative analysis is far from obvious when it comes to private philanthropy, but the essays gathered in this volume all aim at making this route a little easier.’

Specific papers within this volume are discussed further below.

**Research on charity donor tax incentives and donor behaviour**

The literature in this area which analyses tax incentives at a systems level shows a clear focus on two key (interrelated) areas: first, the effect of tax incentives on *price elasticity of giving*; and second, the effects on donor behaviour of *matching systems compared to rebate systems*.

There appears to be very little research relevant to tax incentives and donor behaviour in the context of specific forms of giving (such as payroll giving), with the exception of legacy giving. Relevant research in relation to legacies area is considered below.

There is also a small body of relevant research focusing specifically on the *UK Gift Aid scheme*, although this tends to be focused more on analysis of the scheme’s operation than on questioning its efficacy as a system generally. This is considered below.

***Price elasticity of giving***

The editors of the CEPR volume discussed above provide a concise analysis of the focus of existing literature concerning charity donors’ behavioural responses to taxation and tax incentives (and of the volume’s further contribution to this literature). They note:[[43]](#footnote-43)

‘The positive analysis of the effect of tax incentives focuses on the behavioral responses to taxation. **The most discussed parameter in this literature is the price elasticity of giving, which measures how taxpayers' reported charitable contributions change as the “price of giving” changes due to changes [in] tax incentives**: for example, an elasticity of −1 means that a 1% decline in the tax price leads to a 1% increase in contributions. The responsiveness of taxpayers conditions the optimality of such tax incentives and most authors have focused on the “unit elasticity rule”, which states that tax incentives are efficient if the price elasticity of giving is equal or larger than one in absolute value. Indeed, in a simple model where the government’s objective is to maximize charitable contributions, with an elasticity larger than one in absolute value, the loss of tax revenue generated by an increase in tax deductions is more than compensated by an increase in charitable contributions. **So far, as discussed in Chapters 3 and 4, the empirical literature trying to estimate this elasticity has produced mixed results.**

**Chapters 4 and 5 however show that despite the importance of the estimation of the price elasticity of charitable giving in the literature, this single parameter appears to be insufficient to design optimal tax incentives.’**

As an important additional point to note, the editors also draw attention to the issue (and effects) of tax cheating on price elasticity:[[44]](#footnote-44)

‘Chapter 4 also points out the limitations of the unit elasticity rule in the presence of tax cheating. As we already highlighted in our comparison of the existing incentives among countries, tax enforcement varies a lot across countries. We show in chapter 4 that, **in the presence of tax cheating, the price elasticity of reported contributions is no longer a sufficient statistic to assess the optimality of tax incentives**. In this chapter, we also unveil the existence of substantial tax evasion carried out through charitable deductions using a natural experiment on tax enforcement in the US. We finally discuss **how optimal tax policies for charitable contributions can be reassessed in the presence of tax cheating**.’

Another recent study on the tax-price elasticity of giving is *More Giving or More Givers? The Effects of Tax Incentives on Charitable Donations in the UK* (2017)[[45]](#footnote-45)

The study’s introduction states:[[46]](#footnote-46)

‘Most tax systems provide preferential treatment to donations to private charity through deductions or tax credits. Typically, this tax relief is expensive for the government, especially when deductions are fully deductible from tax as in the UK and the US. For example, in the UK, the cost of this tax expenditure was £1.8 billion in 2015-16.

Of course, these subsidies can be desirable if they induce a large enough increase in donations. Hence, in order to evaluate the welfare implications of these tax reliefs, one of the key parameters is the elasticity of charitable donations with respect to their tax price relative to consumption. Although there is a large empirical literature focused on this tax price elasticity (Fack and Landais, 2016), previous estimates have focused on intensive margin donation responses, largely because of data limitations.

In this paper, we use administrative tax return data from the UK for the period 2005-13 and exploit a large tax reform in 2010 to study how charitable donations respond to tax incentives at the extensive margin, as well as the intensive margin. To our knowledge, this is the first paper to measure extensive-margin donation responses to tax-induced changes in the price of giving, alongside the intensive-margin donation responses.

We find that, consistent with results from the US (e.g., Bakija and Heim, 2011**), the intensive-margin price elasticity tends to increase as incomes rise. In contrast, we also find that extensive margin price and income elasticity falls as incomes rise** […] These results make clear that **focusing on the intensive margin only when estimating responses by income group may be misleading**.

**Our study speaks to the ongoing debate about whether government support to private charity disproportionately promotes the philanthropic aims of the rich**, a debate that is increasingly taking center stage in the policy debate in many countries.[[47]](#footnote-47) Our results show that **taking into account the extensive margin, lower-income groups appear to be more responsive to tax subsidies than the rich**, suggesting that this effect may not be large. However, note that **high-income taxpayers still benefit disproportionately from the tax subsidies**.’

Some of the policy implications of these findings are outlined in the study’s conclusion:[[48]](#footnote-48)

‘For our welfare analysis, we extended the theoretical framework of Saez (2004) to allow for extensive-margin giving responses and for the government to value donations and a direct subsidy from the government differently. Then, we showed that the relevant policy elasticity is the sum of the intensive and extensive-margin elasticities. Moreover, we showed that **our elasticity estimates can only be rationalized as compatible with tax incentives being set optimally if the policymaker values the public goods provided by private donations less than government provision**. **Alternatively, the elasticity estimates we obtain can be taken as an indication that the incentives for charitable giving in the UK should, if anything, be extended rather than reduced.**’

***Matching vs rebate systems***

An overwhelming theme in current literature is the effectiveness of matches at inducing donations as compared to rebates, as noted by commentator David Reinstein.[[49]](#footnote-49) Some of the most relevant and recent literature on this topic is outlined below.

*Charitable donations and tax relief in the UK* (2016),[[50]](#footnote-50) which comprises Chapter 5 of the volume discussed above,[[51]](#footnote-51) is noted by the volume’s editors to:[[52]](#footnote-52)

‘… give an interesting analysis of the UK system of tax incentives for charitable giving. They pay particular attention to how the framing of the tax incentive affects individual giving behaviors. **The UK tax incentive system has both a matching and a rebate component**. S. Smith and K. Scharf **use this ideal setting to investigate more precisely whether individuals respond differently to similar changes in tax incentives when they are framed differently**. They show that **individuals are indeed more responsive to price variations in a matching system than in a rebate system**. This empirical evidence demonstrates that price elasticities are fundamentally contextual statistics, that depend a lot on the institutional details of the tax system. The authors then **discuss the consequences of their empirical findings for the optimal design of tax incentives**.’

The chapter itself concludes that:[[53]](#footnote-53)

‘The survey evidence presented here complements the existing experimental studies in **confirming the differential effect of match and rebate subsidies - in particular by showing that this difference holds when the incentives are offered through the tax system**. This has **clear policy implications. The asymmetry of responses strongly suggests that match-style tax incentives are likely to be more effective than rebate-style incentives if the objective is to increase total contributions**.

However, **replacing the current match and rebate elements of Gift Aid with a higher match rate could come at a higher cost for the government** not only because a higher match would more generous than the current system for non reclaimers but also because reclaimers do not reduce their checkbook donations. **A key question for policy-makers is whether it is possible to introduce a revenue-neutral policy change that will lead to an increase [in] the amount of money going to charities**.

[…]

**The results [of the study] give an indication that it would be possible to increase gross donations, without increasing the cost of tax relief compared to the current system** - by withdrawing the rebate and replacing it with a match in the range £0.42 to £0.47, depending on the proportion of higher-rate reclaimers. Alternatively, there is a possible policy change that maintains the current level of gross donations but with a cost saving (a match of £0.35).

**The form of tax incentive – and the differential responses to match and rebate – therefore should be taken into account in the design of public policy**.’

It goes on to note that:[[54]](#footnote-54)

‘“Rational inattention” – the idea that small processing and adjustment costs may stop donors from adjusting their checkbook donations – also has a number of other implications for policy. **The evidence shows that contributions from larger donors are more sensitive to changes in tax incentives than contributions from smaller donors hence targeting incentives on this group is likely to be more cost-effective.** Bigger changes in tax rates are also likely to have relatively more impact. Relevant to this, the UK government announced a £50,000 cap on tax relief for donations in the most recent UK Budget in March 2012.

This would withdraw tax relief for donations in excess of £200,000 a year, which would be precisely the group that would be likely to be more responsive to tax incentives (in our survey the rebate elasticity among donors giving more than £100,000 a year was more than one in absolute value). Two months later, after a fierce debate, the proposal was dropped.’

Aside from the research outlined above which explores match funding (and the comparative effectiveness of rebates) specifically in the context of government policy on charitable donation tax incentive schemes, there exists a much more an extensive body of literature which explores match funding from a wider (including a fundraising) perspective, usually through experimental and field research. The titles/abstracts of the studies most frequently cited in the bibliographies of relevant literature (and which consider, at least to some extent, the relevance of their own findings to government tax incentive policies) are provided below.

[*Comparing rebate and matching subsidies controlling for donors’ awareness: Evidence from the field*](https://www-sciencedirect-com.liverpool.idm.oclc.org/science/article/pii/S2214804316300301) (February 2017)[[55]](#footnote-55)

Abstract: ‘This paper compares the effectiveness of rebate and matching subsidies in the field and, to our knowledge, is the first to control for potential bias introduced by the failure to account for donors’ awareness of the offered subsidies. Where previous field experiments have typically been limited to either rebate subsidies or matching subsidies, we study both types and determine whether donors are aware of any offered subsidy. We provide evidence that this methodological shortcoming (i.e., the loss of control) is not trivial. Our findings suggest the assumption in earlier field studies, that the offered price is equal to the perceived or actual price, is likely incorrect and may result in underestimation of the price elasticities of giving. This set of results has strong implications for the design of effective subsidies in a variety of decision settings. In addition, our results serve to validate the lab studies’ finding that matching subsidies are more powerful than rebate subsidies of equivalent cost at increasing total giving to charities.’

Conclusions of this paper that are relevant to government policy:[[56]](#footnote-56)

‘Assuming our results are confirmed, the findings have important implications for fundraisers, and for government policies toward subsidization of nonprofit and charitable organizations. […]

In the policy realm, the results also suggest that replacing the current system of tax rebates with an equivalent-cost matching subsidy system could increase overall contributions to charitable organizations. The UK has a system (Gift Aid) introduced in 1990 that combines both a rebate for the donor and a match for the charity ([Chennells, Dinot, and Roback, 2000](https://www-sciencedirect-com.liverpool.idm.oclc.org/science/article/pii/S2214804316300301" \l "bib0008)). Under the Gift Aid scheme, donors effectively rebated the taxes owed on the “grossed-up” amount of the donation and the charity receives a match at the basic-rate tax.[…]

If LSS contributors are typical, and matching subsidies increase giving nearly as much as rebate subsidies, then substituting matches could increase total giving. This implication relies on the inference from these results that the presence of a subsidy is the critical factor in stimulating contributions. Considerably more work would be necessary to confirm this possibility before changes in the tax system were considered.’

*When and Why Matches are More Effective Subsidies Than Rebates* (2015)[[57]](#footnote-57)

Abstract: ‘Donations to nonprofit organizations may be subsidized in various ways. Eckel and Grossman (2003, 2004) showed that subsidies of a rebate type are less effective than matching subsidies. Meier (2005) found that subsidies decrease subsequent giving when subsidies are no longer provided. This paper provides additional insights in the effects of rebates and matching subsidies for charitable donations from a survey based field experiment with health charities. I show that the greater effectiveness of matching subsidies found in laboratory experiments with university students also occurs in a natural context among a large, nationally representative sample of the Dutch population. I also provide some evidence on why matches are more effective than rebates. Matches attract a larger pool of donors, in part because donors expect more people to make donations and ‘join in’. Matches also increase the amount contributed among specific subgroups (higher educated, higher income households and large donors). Subsidies of either type do not decrease subsequent giving in a campaign for tsunami relief.’

Conclusions of this paper that are relevant to government policy:[[58]](#footnote-58)

‘In sum, matches are more effective than rebates among three groups in the population that are very important for philanthropy: large donors, the higher educated, and higher incomes. Households with higher levels of education and household income give more than household with lower levels of education and income. Controlling for the amount donated in 2001, matches are still more effective than rebates among these groups. This is an important result: it suggests that matches can be used to increase giving among these groups even further. Finally, there could be alternative reasons why matches are more effective than rebates that have little to do with the expectations about the behaviour of others. One reason could be that matches benefit a non-profit organization directly, while rebates do so indirectly by transferring money to the donor making a contribution. Thus, the match makes it more evident that the third party is also sponsoring the cause. This may have the psychological effect of focusing the donor’s attention on the benefits of a donation to the cause. A rebate, in contrast, focuses the donor’s attention on the costs of the gift to herself. As the present experiment did not allow for a test of this hypothesis, it should be tested in future experiments.

***Legacy giving***

Following the general trend, the most relevant research (i.e. that which links tax incentives to donor behaviour rather than studying donor behaviour in relation to legacies more generally) originates in the US. One of the more recent relevant examples is:

*Estate Taxes and Charitable Bequests by the Wealthy*[[59]](#footnote-59)

Abstract: ‘Charitable bequests are an important source of philanthropic support. Unlike bequests to children which can be taxed at a maximum statutory rate of 0.55, such transfers are exempt from estate taxation. **Thus, by lowering the price of charitable giving, the estate tax may influence the disposition of terminal wealth.** In this paper, I examine the effects of estate taxation on charitable bequests using data from estate tax returns of decedents in 1992. **The results suggest that the estate tax deduction is “budget” efficient. The overall effects of the estate tax, however, are likely to be modest as charitable bequests are wealth elastic.**’

In terms of UK-based research, the most relevant and recent example is:

*Charitable Bequests and Wealth at Death*[[60]](#footnote-60)

Abstract: ‘Charitable bequests are a major source of income for charities but surprisingly little is known about them. We propose a multi‐stage framework for analysing the bequest decision and examine the evidence for Britain provided by new data on estates. The novelty of the framework is that it distinguishes between five different steps that lead to a charitable bequest. Our new data for Britain have the advantages of covering the whole population of non‐trivial estates, in contrast to much of the US literature based on the small fraction of the population covered by estate tax returns, and of containing fuller information on charitable intent. We use this unique data set to explore the relationship with wealth at death of testacy, of leaving a charitable bequest, and of the form of the bequests.’

The most relevant conclusion of this study for the present purposes is:[[61]](#footnote-61)

‘16% of wills included a charitable bequest; the figure rises substantially with estate size – from 10% for the smallest estates in our data to 50% for the largest of over £3 million; **there seems a sharper increase around the Inheritance Tax threshold, consistent with a theoretical model of the tax’s impact, of about 2 percentage points**.’

***Legacies and behavioural nudges***

Behavioural nudges are a common feature of fundraising research, and an example of their application in a context relevant to taxation, whilst somewhat tangential, is included here for completeness of coverage.

BIT *Legacy Giving and Behavioural Insights* (2016)[[62]](#footnote-62) details the initial (2012) RCT into legacy giving, conducted as one of five studies that made up the ‘behavioural insights’ report (*Applying Behavioural Insights to Charitable Giving* (2013)) which reviewed ‘what the behavioural science literature suggests ‘works’ in relation to increasing charitable giving’, and then goes about ‘testing and trialling these insights in practice through the use of randomised controlled trials’. The study performed eight RCTs in the legacy study, one of which tested for the effect of the UK government’s policy of exempting legacy donations. Test No. 5[[63]](#footnote-63) tested four behavioural prompts:

‘Prompt 1 included mention of posthumous benefit. Prompt 2 included emotional framing but involved a reciprocity ask’ designed to draw the individual’s attention towards charities they may have benefitted from personally throughout their life thus suggesting ideas of reciprocity and social obligation. Prompt 3 was similar to prompt 1 but included an **additional reminder that charitable gifts are free from inheritance tax**. Prompt 4 repeated prompt 2 but **mentioned the tax benefits of giving**.’

The study’s findings were that:[[64]](#footnote-64)

‘… The emotional framing with reciprocity message increased the donation rate from 5.1% to 13.7%, suggesting that participants are indeed motivated by reciprocity. **However, mentioning the tax benefits of legacy bequests alongside the reciprocity message lowered the donation rate compared to the reciprocity only condition (10.2% vs. 13.7%). Although this difference was not statistically significant, it does accord with research showing that the social motivation derived from reciprocity can be ‘crowded out’ by financial motivations, such as tax benefits** (Ariely, Bacha and Meier, 2009). Lastly, adding the tax message to the legacy message *increased* the proportion of people donating from 5.1% to 14.5%. Overall, the tax messages combined performed better than the posthumous benefit in Prompt 1, suggesting that participants may be motivated by tax concerns.’

***The UK Gift Aid scheme: operational-level research***

The research outlined here focuses more on the functioning of the Gift Aid system that its core validity, but is included here for completeness.

A Directory of Social Change research report, *21 years of Gift Aid Charity Fundraising Comes of Age* (2012)[[65]](#footnote-65) noted ‘the **paucity of evidence in the area of tax efficient giving and the role of tax incentives in the UK**’. Based on the data the research had collected, the report concluded that:

‘The fact that higher rate tax payers’ donations make up only one third of all donations is not necessarily a negative finding, as it may mean that more charities are benefitting from smaller donations; and since we know that higher rate tax payers/bigger donors tend to give to a relatively small subset of causes, **for a vibrant and diverse voluntary sector, the proliferation of smaller donations is more democratic**.

It does however, indicate a potential growth area, especially if some HRTPs would give more if they realised that they could claim back the higher rate amount.

Growth in the overall number of charities claiming Gift Aid on donations is stagnant and even in decline, standing at around 20% of all Gift Aid-eligible voluntary organisations. This is also heavily concentrated on larger organisations suggesting that Gift Aid income is not making it to the smallest ‘grass roots’ community groups.

It is our belief that Gift Aid is a good and successful system. Yet **it is in need of reform to make it easier for donors and charities to apply it to donations more broadly and to engrain it even more fully in the UK giving culture**.’

It should be noted that soon after this report was published (in 2013), the Gift Aid Small Donations Scheme was introduced. The report acknowledges its likely impact and criticisms levelled at the measure before it was enacted:[[66]](#footnote-66)

*‘Gift Aid Small Donations Scheme – As announced at Budget 2011, the Government will introduce a new Gift Aid small donations scheme from April 2013 to enable charities to claim a Gift Aid style top-up payment on up to £5,000 of small donations, without the need to collect Gift Aid declarations. Charities will be able to claim the new payment on donations of £20 or less.*

This […] is a radical departure for HMRC as it severs the sacred link between Gift Aid payments and tax paid – it presumes enough tax will have been paid by enough of the donors to cover the relief. The small donations would be worth up to £1,250 extra to charities every year, and the Government estimates that overall the scheme could be worth an extra £100 million to charities by 2015/16.

However, matching restrictions in the proposed scheme mean that in order to qualify for the maximum amount, charities must have claimed at least £625 in Gift Aid in the same year, and must have claimed Gift Aid for 3 out of the last 7 years, amongst other restrictions. These, claim several charities, will make it very difficult for many small charities to benefit from it.’

More recently, HMRC has conducted empirical research focusing on charitable giving in the UK generally and on Gift Aid specifically, entitled *Charitable Giving and Gift Aid. Research Report for HM Revenue & Customs* (September 2016).[[67]](#footnote-67) However, the research focuses primarily on the operation of the scheme, specifically in relation to incorrect/erroneous Gift Aid behaviours, rather than on the general effect of tax incentive schemes such as Gift Aid on donor behaviour.

Another HMRC study, *Qualitative research to understand charitable giving and Gift Aid behaviour amongst better-off individuals*(May 2015),[[68]](#footnote-68) aimed (through ‘32 interviews with higher and additional rate taxpayers, with an income of at least £100k pa who had claimed marginal rate tax relief on a donation of at least £100 through Gift Aid’) to: ‘form a better understanding of the reasons better-off individuals[[69]](#footnote-69) donate to charity as well as the impact of Gift Aid and tax reliefs for charitable giving on their donor behaviour’, with specific objectives to:[[70]](#footnote-70) ‘1. Understand the motivations for charitable donations and use of tax reliefs; 2. Understand existing tax relief behaviour; 3. Explore tax relief preferences.’ The report’s conclusion states that:[[71]](#footnote-71)

‘Tax reliefs were not felt to be a reason to make a donation to charity. Participants’ charitable behaviour was motivated by more personal factors such as who they were, who they knew and what they wanted to feel or to achieve by making a donation. These motivations directly influenced the types of charities which participants supported as well as how much they gave.

**The role and importance of tax reliefs in participants’ charitable giving behaviour was complex. Although participants did not identify tax reliefs as a motivation to donate to charity and were also often reluctant to place importance on the role of reliefs in individual donation decisions, they clearly were important to charitable behaviour.** The importance of claiming relief was not so much about the actual amount which the donor received, but more about the principles of encouraging charitable giving.

Gift Aid was seen as scheme which had successfully created an expectation within society that people and better-off individuals specifically, should donate to charity. By gaining registered charity status and by participating in Gift Aid, charities were seen to be government approved, which made them credible and trustworthy, which provided reassurance about making donations.

Tax reliefs within Gift Aid were seen not only to provide an important source of income for charities themselves but also encourage better-off individuals to donate. Participants saw these reliefs as a signal from the Government that charitable giving was desirable and to be encouraged and they were positive about this idea.

At an individual level, marginal rate reliefs were seen as an effective way to encourage donors to donate more to charity. The extent of this impact varied between participants but generally it seemed that the knowledge of the tax relief which the donor could later claim was considered at the point of donations and that this prompted participants to be more generous in the amount they gave.

[…]

**As the current structure of Gift Aid was felt to be simple and effective, there was little support for making changes to it.** Participants felt that allowing both the charity and the donor to benefit from tax reliefs was fair and most would not support changes which would remove tax reliefs for either party.

**Essentially, the main concern held by participants held was about maintaining current levels of revenue for charities.** Although directing all tax reliefs to charities may be intended to increase the amounts which charities received many participants were sceptical about this. **They were worried that if donors no longer received tax relief on donations then they may cut back on the number of donations they made, reduce the level of their donations disproportionately or stop donating altogether, meaning that charities could be worse off.**’

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2. Ibid. Available at: <https://www.cafonline.org/about-us/publications/2014-publications/rules-to-give-by> [↑](#footnote-ref-2)
3. Ibid p10. [↑](#footnote-ref-3)
4. Ibid p10. [↑](#footnote-ref-4)
5. Charities Aid Foundation, *Donation States. An international comparison of the tax treatment of donations*. CAF (2016). Available at: [https://www.cafonline.org/docs/default-source/about-us-publications/fwg4-donation- states.pdf?sfvrsn=55aed140\_8](https://www.cafonline.org/docs/default-source/about-us-publications/fwg4-donation-%20%20%20%20%20states.pdf?sfvrsn=55aed140_8); Charities Aid Foundation, *Donation States – country notes*. CAF (2016) Available at: <https://www.cafonline.org/docs/default-source/about-us-publications/country-notes-for-donation-states> [↑](#footnote-ref-5)
6. Ibid p9. [↑](#footnote-ref-6)
7. Ibid p10. [↑](#footnote-ref-7)
8. Ibid p9. [↑](#footnote-ref-8)
9. [Original footnote: Pickering, A. (2014) *Future World Giving: Enabling an Independent Not-for-profit Sector.* Charities Aid Foundation.] [↑](#footnote-ref-9)
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17. Ibid p3. [↑](#footnote-ref-17)
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19. Gabrielle Fack and Camille Landais (Eds) *Charitable giving and tax policy: a historical and comparative perspective*. Conference Volume, CEPR conference, May 2012. Paris School of Economics. Organized by CEPR / CEPREMAP. Available at: <http://econ.lse.ac.uk/staff/clandais/cgi-bin/Articles/full_volume.pdf> [↑](#footnote-ref-19)
20. Ibid p1. [↑](#footnote-ref-20)
21. http://taxdesignation.org/regional-synthesis-report/ [↑](#footnote-ref-21)
22. Ibid. [↑](#footnote-ref-22)
23. Emeritus Professor Myles McGregor-Lowndes and Marie Crittall, *An Examination of Tax-Deductible Donations Made By Individual Australian Taxpayers in 2014–15*, Working Paper No. ACPNS 70. Available at: <https://eprints.qut.edu.au/107788/1/Tax%20stats%20Working%20Paper%202014-15%20V8%2022.08.2017.pdf> [↑](#footnote-ref-23)
24. All available at: <http://www.ctf.ca/ctfweb/EN/Publications/CTJ_Contents/2013CTJ4.aspx> [↑](#footnote-ref-24)
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26. Available from: <https://www.ourcommons.ca/DocumentViewer/en/41-1/FINA/report-15/> [↑](#footnote-ref-26)
27. See: <https://taxpolicy.gov.ie/wp-content/uploads/2012/12/Budget-2013-Annex-E-Charitable-Donations.pdf> [↑](#footnote-ref-27)
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30. Available at: <http://dare.ubvu.vu.nl/bitstream/handle/1871/53075/Wiepking%20Bekkers%202015%20Preprint.pdf?sequence=1&isAllowed=y> [↑](#footnote-ref-30)
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36. Ibid p2. [↑](#footnote-ref-36)
37. Ibid p28. [↑](#footnote-ref-37)
38. Rhodri Davies, Public Good by Private Means: How philanthropy shapes Britain (2016)

    <https://www.cafonline.org/my-personal-giving/long-term-giving/resource-centre/public-good-by-private-means> [↑](#footnote-ref-38)
39. Gabrielle Fack and Camille Landais (Eds) (2016) *Charitable giving and tax policy: a historical and comparative perspective*. Oxford University Press. An earlier version (Conference Volume, CEPR conference, May 2012. Paris School of Economics. Organized by CEPR / CEPREMAP) is available at: <http://econ.lse.ac.uk/staff/clandais/cgi-bin/Articles/full_volume.pdf> [↑](#footnote-ref-39)
40. P.1. [↑](#footnote-ref-40)
41. Ibid. [↑](#footnote-ref-41)
42. P.2. [↑](#footnote-ref-42)
43. P.13. [↑](#footnote-ref-43)
44. P.14. [↑](#footnote-ref-44)
45. Miguel Almunia, Benjamin Lockwood and Kimberley Scharf.

    Available at: <https://warwick.ac.uk/fac/soc/economics/staff/blockwood/giving-givers-130717.pdf> [↑](#footnote-ref-45)
46. P.2-4. [↑](#footnote-ref-46)
47. [Original footnote [4]: Moreover, it is well-known that the rich contribute to different kinds of goods than do the poor, and so tax incentives may result in rich donors driving charitable sector priorities in a way that is disproportionate to their actual financial contribution […]]. [↑](#footnote-ref-47)
48. P.28-9. [↑](#footnote-ref-48)
49. As Reinstein has made a direct submission to the Tax Commission, his arguments will not be replicated here. His research and blog posts can be located at: <https://davidreinstein.wordpress.com/2018/07/> Further, a paper for general readership included on the Innovations in Fundraising site, of which he is director, contains an especially comprehensive bibliography in this area. See: <http://www.ideas42.org/wp-content/uploads/2016/06/Behavior-and-Charitable-Giving_ideas42.pdf> [↑](#footnote-ref-49)
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59. David Joulfaian, NBER Working Paper No. 7663 April 2000 JEL No. D19, H24, H31. Available at: <http://www.nber.org/papers/w7663.pdf> [↑](#footnote-ref-59)
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62. P.6. [↑](#footnote-ref-62)
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64. P.18. [↑](#footnote-ref-64)
65. Available at: <https://www.dsc.org.uk/21-years-of-gift-aid/> [↑](#footnote-ref-65)
66. ‘Tinkering around the edges of Gift Aid’, p.14. [↑](#footnote-ref-66)
67. Quadrangle (2016). HM Revenue and Customs Research Report 482. Available at: <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/690609/HMRC_Report_482__GiftAid_Research_Report.pdf> [↑](#footnote-ref-67)
68. Caroline Booth, Katrina Leary, Fiona Vallance (2015). HM Revenue & Customs Research Report 366. Available at: <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/442559/Charitable_giving_and_Gift_Aid_behaviour_amongst_better-off_individuals.pdf> [↑](#footnote-ref-68)
69. [Original footnote [2]: Better-off individuals were defined as UK taxpayers with an income of at least £100k pa.] [↑](#footnote-ref-69)
70. P.6. [↑](#footnote-ref-70)
71. P.34. [↑](#footnote-ref-71)