

Charities and tax - my suggested way forward

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I spoke at an event [organised by the Oasis Centre](#) in South London tonight, talking about the proposed cap on donations to charity and offering a contrasting view to that of John Low of the Charities Aid Foundation.

I reproduce what I said, pretty much, below. For those who don't want to read it all my main points were:

- * It is completely illogical that some gifts - including many legacies to charity - get no tax relief at all
- * It makes no sense at all - and reveals a belief by many that the wealthy count for more - that their hypothecation of government funding to charity carries more pro rata worth than the giving of basic rate taxpayers and those who do not pay tax at all
- * Large donations to charity are not necessarily benign because of the influence they carry and the work they can prevent, especially when it comes to questioning the reasons for poverty
- * It is as a result obvious that all higher rate gift relief to charity should be abolished - and (I should have added) all inheritance tax relief too
- * In place of these reliefs all gifts to charity of less than £5,000 should be subject to automatic gift aid relief at 20% - meaning a charity could apply for 25p in the pound back on all these gifts with much, much less admin than now, and gift aid at the same rate should apply to all gifts whatever the source over that sum if shown to originate in the UK.
- * The result would be more money for charity, massive savings in charity admin, vast savings in HMRC admin, a simplified tax system by far and more resources to weed out rogue charities.

The sponsors of the event and the Charities Aid Foundation tried to counter argue - but could not defend my claim that this would be fairer, more effective and raise more

money - and they hated it. I'll discuss why in another blog.

Anyway, this is what I said (near enough - and apologies for any typos - these were working notes):

I am well aware that I am not speaking on the side likely to win tonight's debate, but that does not change my sense of what is right and wrong on this issue.

What we're debating tonight should be made very clear. What the government proposed in the recent budget was that no one in this country should be allowed to claim tax relief on gifts that they make to a charity which exceed £50,000 or one quarter of their total income in a year, whichever is the bigger. That, I stress, is it.

The government has not in any way said that a person may not give their whole income to charity, as some have claimed. It is still completely up to anyone to do that. All that we have is a restriction on the tax relief that the person making a gift may claim.

Secondly, nothing in this proposal changes any of the rules with regard to the biggest gifts that most charities ever receive, which are those given as legacies when a person dies. Indeed, and apparently completely unnoticed in all the fuss that is being made, this budget introduced a provision to reduce the rate of inheritance tax paid by anyone who is liable to that tax if they give more than 10% of their estate to charity. If they do that then not only are those gifts exempt from inheritance tax in their entirety, but the estate itself will then enjoy a reduced rate of inheritance tax.

I make this point for good reason. It is my belief, and it is most certainly my experience from many year's observation of gifts to charity, that people are more likely to give a substantial sum to a charity when they die than they are during the course of their life. The government is helping them do so in this budget, without any credit being given. I would almost say that the response they have got has been a little uncharitable.

But let me also be clear, based upon my long experience as a tax practitioner, which I was before I became a tax campaigner, and during which earlier career I was responsible for the preparation of thousands of tax returns, I can genuinely say that I can't recall seeing anyone give 10% of their income to charity. I can also only think of one instance of seeing a person give more than £10,000 to charity in a year.

In that case the first point that I want to make in this debate is that I do think, very politely, that we are discussing what I might call a storm in a teacup. The number of people who will really be impacted by this change in the law is tiny. I am not saying that we are talking about the fingers of one hand, or even two. But I expect we're not talking about more than a few hundred people, at most, a year that will be impacted by this change.

And, in that case, let me also be clear, the vast majority of the 160,000 charities that

exist in this country at this time will also be completely and utterly unaffected by what is proposed.

I therefore ask that we keep this matter in perspective. The vast majority of charity giving this country will continue as it has, or will even be encouraged by this budget, and no one should ignore this point.

Let me however move to discuss the specific proposal. I could spend some time exploring the technical basis of the tax relief that the taxpayer gets when they give money to charity, but let's reduce it to its simplest form possible. That simple form is that so long as tax relief is claimed on a gift then for every £1 a person gives to a charity that charity can claim back 25p from the government. Nothing in the proposal made changes that.

What is different is the amount that it might cost the donor to make that gift. Suppose that a person wants a charity to benefit from a gift worth £1 to the charity. Given the tax relief that the charity can reclaim, and given the tax relief that the individual can reclaim the cost of making a gift varies depending upon the tax rate of the donor.

It costs £1 for a nontaxpayer to give £1 to charity.

It costs 80p for a basic rate taxpayer to give £1 to charity.

It costs 60p for a higher rate taxpayer to give £1 to charity.

And it costs 50p for a 50% tax rate payer to give £1 to charity.

To put it another way, the government gives no subsidy at all to the poorest when they give charity.

The government does however think it worth backing the charitable choices of a standard rate taxpayer. For every £1 the standard rate taxpayer gives to charity the government lobs in an extra 25p.

And when someone becomes a 40% taxpayer for reasons that are very hard to explain the government thinks that their choice of charity has suddenly become much more important. As a result they get a bigger subsidy. For every £1 that they give to charity the government gives an extra 66p.

Finally, when a 50% tax rate payer gives money to charity the government really takes notice. For every £1 they donate the government gives a matching £1.

Now, as a democrat, and as somebody who believes all people have equal standing in society, I can see no reason whatsoever why the government should act in such an extraordinary fashion.

In particular, I see no reason at all why the government should give a subsidy to the wealthiest taxpayer that is so many times bigger than the subsidy that they are willing to give to the 90% of taxpayers who only pay the basic rate of tax.

And I am especially baffled that the person who is living on such a low income that they pay no income tax at all should be considered to make a contribution that is not worth subsidy at all.

The parable of the widow's mite comes to mind. Remember what Jesus had to say in that case. He was unambiguous about the fact that that the small sacrifices of the poor mean more to God than the extravagant donations of the rich. Our tax system currently says the exact opposite, and with the greatest will in the world, I can see no justification for that at all.

I can, however, see some considerable harm in it. I am only too well aware as someone who spent quite a lot of the last decade working with and close to development agencies, and whose work is also primarily funded by charities, of the dangers that large donors can (but don't always, I agree) represent to those charities whose primary aim is the relief of poverty.

It is in that case my concern that those who can make the biggest donations to charity and who as a result have the biggest influence on charity policy by having easiest access to the ear of the Chief Executive are those who make the biggest donations. And they are, of course and inevitably, the people who have benefitted the most from the way in which society is currently structured. Now I'm unambiguous: those charities who look to relieve poverty can do it in two ways. To use the aid agencies as an example, they can send a food parcel. Alternatively, they can ask why the poor are poor and demand we do something about it.

The reality is, however, that it will always be the case that changing the reasons why the poor are poor will impact upon the well-being of those who are currently best off, who do also and coincidentally also give the largest donations to charity.

I know, for example, that large companies don't want to pay tax in developing countries. But they also like to be seen to be corporately socially responsible. Let me tell you, those goals are incompatible.

I also fear that far too many wealthy donors want the prestige that comes from being seen to be a philanthropist. As Lord Fink, a former Conservative party treasurer said recently in the presence of Polly Toynbee, which she reported in the Guardian, after someone has all the houses, horses, yachts, cars and other trappings of wealth then they turn to philanthropy for the power and access it provides. I think he was being candidly honest, and spoke for many.

Now I am also sure that there are those who give substantial sums that do not think

like that. They are the anonymous donor. I applaud their actions. But, right now it's quite fair to say that many of those making the type of gift we're discussing tonight, whether the gift comes from a large company or from those who benefit from large companies, and the two classes largely overlap, are not keen to give up their control and power in society. And yet some challenge to their power is an essential component of the work of any charity that seeks to address poverty. I am, however, convinced that many charities are constrained from saying what needs to be said on this because their donors prevent them doing so. In that case big donations are not unambiguously good.

That is why I wish to broaden this debate make a few final observations. The first observation is to say that in my opinion the principle of equality must surely pervade the entire charity sector. In that case it is straightforwardly obvious that the rate of tax relief to be given on any donation to a charity should be the same whoever makes it. I would therefore suggest that all higher rate tax relief on donations to charity should be abolished, without exception. In that case it is my contention that far from the government being controversial in making its current proposal it has simply not gone far enough. Tax relief at anything other than the basic rate of tax should, I say, now go.

But equally I'm aware that will have a cost charities and I have another very straightforward proposal to make to deal with this issue and it is this. The number of people who are actually make donations to charity out of untaxed income — the widow's mite donation — is, I'm sure we'd agree, small, if not in number then in absolute value. In fact it is simply inconceivable that the vast majority of gifts given to charities in this country have not come out of taxed income, whether taxed here in the UK or abroad, as we are now required to take EU considerations into account in this matter. As a result the whole basis for giving tax relief on gifts needs to be reviewed.

I know it is being reformed slightly in the case of gifts of less than £20 next year but my proposal is that in future in the case of any gift of less than £5,000, and we will as a result be talking about well over 99% of all gifts to charity in number and I suspect over 90% of all gifts by value, should be assumed to have been made out of income that has been taxed unless the charity must know otherwise. As a consequence in the case of all gifts received by charity of less than £5,000 I suggest that a simple application should be made to the government quarterly by each charity for a tax rebate on the total sum received, with the rebate being £1 for every £4 given. Charities would only then have to keep detailed records for donations above £5,000, almost all of which would, of course, also receive a tax rebate as well.

This would have four consequences. The first is that the amount of time spent in getting gift aid forms completed and in completing gift aid claims to HMRC and the undertaking of all the necessary accounting would be dramatically reduced. Suddenly all that effort could be directed towards the necessary job of relieving poverty, promoting the arts or whatever.

Secondly, the embarrassment of asking the donor about their tax status could be

avoided.

Thirdly, there will be a serious simplification in the tax system, which those wealthy donors who are claiming gift aid relief now say they also want.

And finally HM Revenue & Customs could put their effort into regulating those rogue charities they have spoken about and which we would all wish to see eliminated instead of having to spend far too much of their time checking gift aid claims.

And what would the outcome be? This would need some research but I believe charities would end up with more tax relief from the government than they do now.

So don't get me wrong. I am not arguing for an end to tax relief for charities but I am saying we should walk our talk. I am saying we should treat everyone equally. I am saying we should value every donation for what it costs the donor. I am saying that we should ask for charity administration to be reduced. I am saying we should get rid of the rogues in this sector. I am saying we should reduce the power of rich donors to influence charities' policies. I am saying we should be free as a charity sector to speak as we think appropriate without fear of losing donations. And I am saying I want a simpler, more straightforward, tax system in this country that does at the same time give more to charity than we do at present.

That's why I'm asking you to step back from this storm in a teacup and to instead use this opportunity to ask the real question of what form of tax relief would make our charity sector more effective if only we took this opportunity to do ask for it and I hope I've suggested a direction of travel for research on that issue.