

Tax and charities - a bigger ethical issue than how the...

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The subject of charities and ethics is being openly debated following the [revelation that millions of pounds of Comic Relief funds](#) have been invested in arms, tobacco and alcohol companies. Important as this is (and I do not dismiss it) I think there are bigger issues relating to ethics and charities. The first is charities and tax relief. The second is charities relationship with wealth.

I was asked to write on these [issues for Alliance magazine](#) - which is aimed at philanthropists - earlier this year. My article on the first issue, which was not in the end published, read as follows:

It has long been an accepted part of UK tax policy that when a person donates all or part of her income to charity she is not taxable on the income in question and the recipient charities can reclaim the value of the basic rate income tax paid on that income.

In the 2012 budget Chancellor of the Exchequer George Osborne proposed a cap be placed on the amount that a person may donate to a charity in a year, stirring a furore across the charity sector. Was this furore justified? It strikes me that at a time when public finances face extraordinary pressures, serious questions need to be asked about whether the granting of tax relief on charitable donations is a justifiable public expenditure.

First of all, what do the numbers tell us? In 2010/11, the most recent year for which data is available, the amount of income tax reclaimed by charities was £1.1 billion^[1]. In addition, the cost of tax reliefs given to individuals amounted to £980 million, of which £450 million was inheritance tax relief on which the charity could claim no tax relief, £430 million was higher rate income tax relief paid to taxpayers but from which the charity got no benefit and £70 million was relief on gifts of shares and properties to charity where the charity and individual can claim income tax relief in addition to capital gains tax exemptions. The total tax expenditure was therefore in the region of £2 billion whilst charities, by inference, in total received donations of maybe £5.5 billion where income tax relief was claimed, £1.125 billion of gifts that had been subject to

inheritance tax relief and maybe £250 million of gifts subject to other reliefs, or about £6.9 billion in all. It should be noted that company giving is immaterial to this discussion^[iii].

This raises four questions. Firstly, is this a good use of taxpayer money? Second, does this tax relief influence donor's decisions on whether or not to give to charity? Third, is this tax relief justifiable in principle? Finally, does the provision of tax relief on donations influence the behavior of charities in ways that might undermine their effectiveness or inhibit their willingness to engage in campaigning for long-term reforms aimed at, for example, poverty alleviation? Each of these issues will be considered in turn.

The questions of whether or not this is a good use of public money and whether tax relief significantly influences charitable giving are related. If there is substantial giving without tax relief then clearly tax relief is only of marginal significance. In practice this is indeed the case: the total income of charities in the year to 31 March 2013 was £59.7 billion^[iii], of which donations make up less than a half. The NCVO, which covered about £36.7 billion of income (most of it charitable) in 2011 indicated that about £10.7 billion of its member's income came from legacies, donations and fundraising, or about 29 percent of total income^[iv]. While the proportion of donations to total income is likely to be higher for smaller charities, total donations to all charities are probably in the region of £17.3 billion annually with tax relieved donations accounting for somewhere in the region of 40 percent of all donations^[v]. Tax relief is clearly not essential to encouraging people to make charitable donations.

This finding is supported by research conducted in 2004 for HM Revenue & Customs by the Policy Studies Institute^[vi]. At that time the PSI found that nine out of ten people gave to charity in a year (single young men being the least likely to do so). Importantly, the vast majority of donations were made spontaneously into collection tins and suchlike, with no associated tax implications. The impact of tax on giving for many was clearly indicated by the fact that few survey respondents could spontaneously describe the kinds of donation that attract tax relief, a mere seven per cent mentioned Payroll Giving and 22 percent mentioned Gift Aid. Of those who gave to charity in ways that might attract tax relief, less than half (43 per cent) said they believed that they had used the tax relief attached to their giving.

The PSI's research findings underlined our view that tax relief is not a material consideration for the majority of people who choose to donate to charity. Of those who did donate using tax reliefs few could say much about the details of how tax relief worked or what qualified and what did not. There was little evidence from an ONS Omnibus survey that amounts donated were related directly to the rules of tax relief: people did not change what they paid when they knew tax relief would be available to them, even at higher rate. In summary, the available evidence (admittedly dating back almost ten years) suggests that most donors would donate the same amount of money with or without tax incentives. Put another way, there is no evidence to support the

claim that tax reliefs significantly influence decisions on whether or not to donate to charity.

In the case of higher rate taxpayers there is greater awareness of the nature of tax reliefs, though their impact on decisions on whether or not to donate should not be overestimated. The available data, while out of date, is consistent and suggests that around 15 percent of higher rate taxpayers donate about 0.48 percent of their income to charity on average[\[vii\]](#). These figures highlight the weak philanthropic tradition among high income earners in the UK. In 2010-11 there were 3.02 million higher rate tax payers[\[viii\]](#) (reduced by income shifting that year for tax purposes, admittedly) and 27.1 million basic rate taxpayers. By extrapolating the higher rate tax reliefs given that year it is likely that about 40 percent of all gifts came from this group, or about £2.2billion in all, gross of tax relief. The total income of this group was about £263 billion in the year[\[ix\]](#) (excluding gains): on this basis gifts were maybe 0.8 percent of total income.

These figures tell an important story: tax relief persuades few to give and has little bearing in all likelihood on the amount given. In other words, the available evidence provides scant justification for allocating £2 billion of public expenditure in this way.

This then leaves just two alternative justifications for encouraging philanthropy with tax relief. The first is that it is simply right to do so. The justification for this is that the income in question has ceased to be that of the donor and has become that of someone else. But why is that relevant in this case? There are many instances where a person might give their income to another person without expectation of any return without securing tax relief. Philanthropy as such is not dependent upon tax relief; it is dependent upon the motive of the donor to effect change that they believe the recipient can effect. The risk is that tax relief might seriously distort what is changed by philanthropy to the detriment of society.

Secondly, the fact that not all are equal in charitable giving is obviously troubling. Higher rate taxpayers carry unequal votes in directing what causes benefit from charitable tax relief even though there is no evidence that as a proportion of disposable income they give more to charitable causes than others[\[x\]](#), and some evidence to the contrary[\[xi\]](#). This leads to the possibility that the interests and concerns of those who are better off are over-represented in charitable activity.

More importantly, tax relief has been used to constrain charitable activity, particularly when a charity wishes to not just relieve poverty but to ask why the poor suffer the injustices society heaps upon them both here and around the world. That moves a charity into that dangerous arena of 'politics' that is denied to those who wish to receive tax relief. But is that simply a mechanism for enforcing control on a part of society that should be asking the important questions about the changes needed that would eliminate so many of the problems that charities exist to tackle? And as such is tax relief in practice acting as a powerful tool for maintaining the status quo that the

biggest absolute givers (by amount, if not by proportion of either income or wealth) would rather not challenge?

I am not persuaded that tax incentives play a useful role in philanthropy. I suggest that £2 billion dedicated to relieving poverty annually — by, for example, funding a micro finance bank in the UK — might do more to relieve poverty than giving it in tax relief to those not in need of it. And I think that philanthropists should be free to fund what really concerns them — and not what the state constrains them to devote their attention to. And I wish all to be equal when it comes to giving.

Might then this current period of crisis be a time to change what we understand philanthropy to be, and with it the tax relief it enjoys? The debate is open.

[i] <http://www.hmrc.gov.uk/statistics/charity/table10-2.pdf>

[iii] <http://www.hmrc.gov.uk/statistics/charity/table10-3.pdf>

[iii] <http://www.charitycommission.gov.uk/about-charities/sector-facts-and-figures/>

[iv] <http://data.ncvo-vol.org.uk/a/almanac12/finance-the-big-picture/what-is-the-voluntary-sectors-total-income-and-expenditure/>

*[v] 42% according to the NCVO that year using differing methodology
http://www.ncvo-vol.org.uk/sites/default/files/clickable_UK_Giving_2011.pdf*

[vi] <http://www.hmrc.gov.uk/research/rep9-main.pdf>

[vii] <http://webarchive.nationalarchives.gov.uk/20120609145856/http://hmrc.gov.uk/stats/charities/105jun06.pdf>

[viii] <http://www.hmrc.gov.uk/statistics/tax-statistics/table2-1.pdf>

[ix] <http://www.hmrc.gov.uk/statistics/tax-statistics/table2-5.pdf>

[x] http://www.ncvo-vol.org.uk/sites/default/files/clickable_UK_Giving_2011.pdf

[xi] <http://philanthropy.com/article/America-s-Generosity-Divide/133775/>