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Greater Giving

Tax time prompts to increase charitable donations



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A report prepared by **Impact Economics and Policy**
for **Philanthropy Australia**

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Impact Economics and Policy brings together a group of expert economists and policy specialists with experience working for government, not-for-profits and big four consulting. We were established at the start of 2022. Our mission is to partner with clients for impact through providing robust evidence, fresh analysis, and strategic communication to tackle Australia's biggest public policy challenges.

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Acknowledgement of Country

We acknowledge Aboriginal and Torres Strait Islander peoples as the Traditional Owners of Australia and their continuing connection to both their lands and seas. We also pay our respects to Elders – past and present – and generations of Aboriginal and Torres Strait Islander peoples now and into the future.

*We accept the invitation of the **Uluru Statement of the Heart** and support its full implementation.*



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Overview

The Albanese Government has set a goal of doubling charitable giving by 2030. This represents a once-in-a-generation opportunity to stimulate increased levels of giving in the community.

Against this backdrop, Impact Economics and Policy was commissioned by Philanthropy Australia to explore the economic potential of government, through the Australian Taxation Office (ATO), prompting taxpayers to consider donating to charity as part of the annual income tax return process. We look at three prompts – or interventions – that could be effective ways to encourage people to donate to charity:

1. Sending out messages before the end of the financial year to remind people that they can choose to donate to charity and can claim a tax deduction for eligible donations.
2. Sending a message to people who receive a tax refund to remind them that they could donate part of their refund to charity, and if they do, they may get a tax deduction at the end of the year.
3. Creating a new feature in the online tax return process so people can elect to have part of their tax refund transmitted automatically by the ATO to a charity of their choosing.

THESE INTERVENTIONS HAVE SIGNIFICANT POTENTIAL AS THEY:

- **Can help to overcome barriers to giving.** People may intend to donate to charity but do not end up doing so because of the administrative hassle of donating, or because they simply forget.

The interventions help to overcome these barriers.

- **Are informed by behavioural economics.** There is evidence that charitable donations increase when people are prompted, they are invited to donate part of a 'windfall' gain, and when the process is simple and easy.
- **Could substantially lift giving.** The interventions would reach up to 16 million Australians and encourage them to donate part of the \$41 billion in tax refunds received each year.
- **Would deliver considerable community benefit.** Greater giving would enable charities to deliver significant benefits to the community, especially if the Government adopts the Productivity Commission's recommendation to direct tax-deductible status to where the net community benefits are greatest.¹

Impact Economics and Policy estimates that by 2030, the interventions could yield between \$300 million and \$5.7 billion a year in additional donations for charity. These estimates are based on conservative assumptions. The range reflects uncertainty about the behavioural impact. Further donations will be generated from corporate taxpayers, although these have not been costed because corporations give for a variety of reasons that differ from individuals' motivations.

1. Productivity Commission (2023), *Future foundations for giving*, Draft Report, draft recommendation 6.1.

On a cumulative basis, introducing prompts could generate up to \$19.5 billion in additional charitable donations between 2025 and 2030 (see **Chart 1**). The cost to government in lost tax revenue would be between \$264 million and \$5.2 billion, or \$124 million to \$2.6 billion over the forward estimates (see **Table 1**).

CHART 1 Potential level of charitable donations by individuals in 2029-30

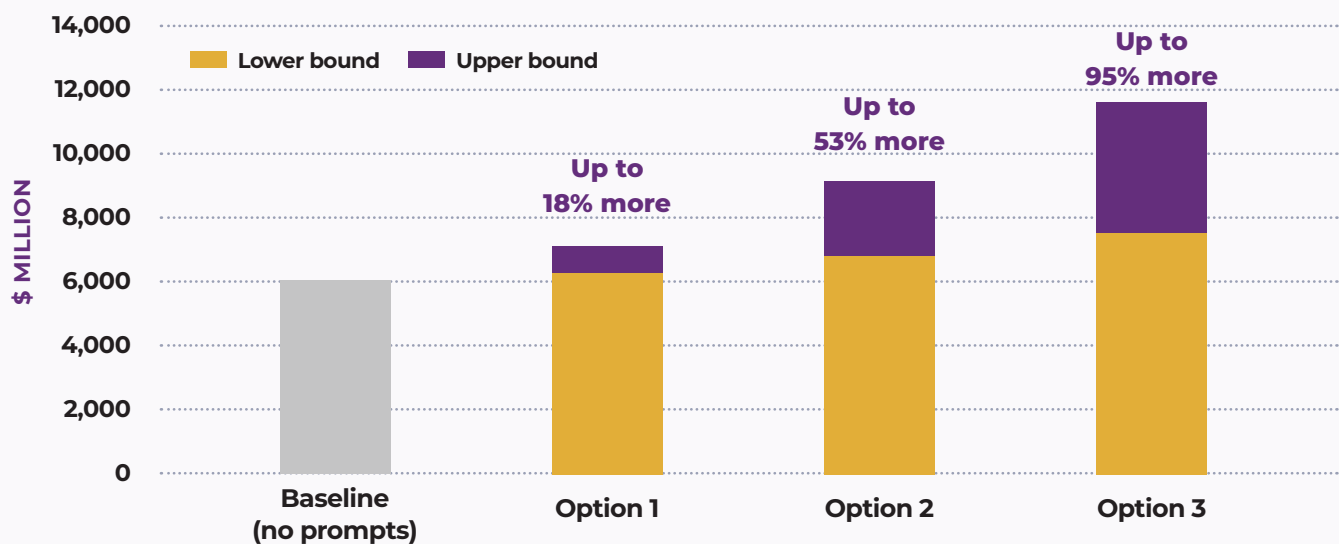


TABLE 1 Cumulative impact of prompts 2024-25 to 2029-30

	Additional charitable donations (\$m)		Cost to government revenue (\$m, 2025 to 2030)		Cost to government revenue (\$m, forward estimates)	
	Lower	Upper	Lower	Upper	Lower	Upper
Option 1	\$990	\$3,546	\$264	\$943	\$124	\$433
Option 2	\$2,888	\$12,031	\$770	\$3,225	\$376	\$1,724
Option 3	\$5,041	\$19,472	\$1,342	\$5,198	\$627	\$2,568

In this report, we consider some of the practical issues involved in designing tax time prompts. Trials are recommended to address some of the implementation challenges, and to test and learn from different approaches to find the most effective ways of increasing donations.

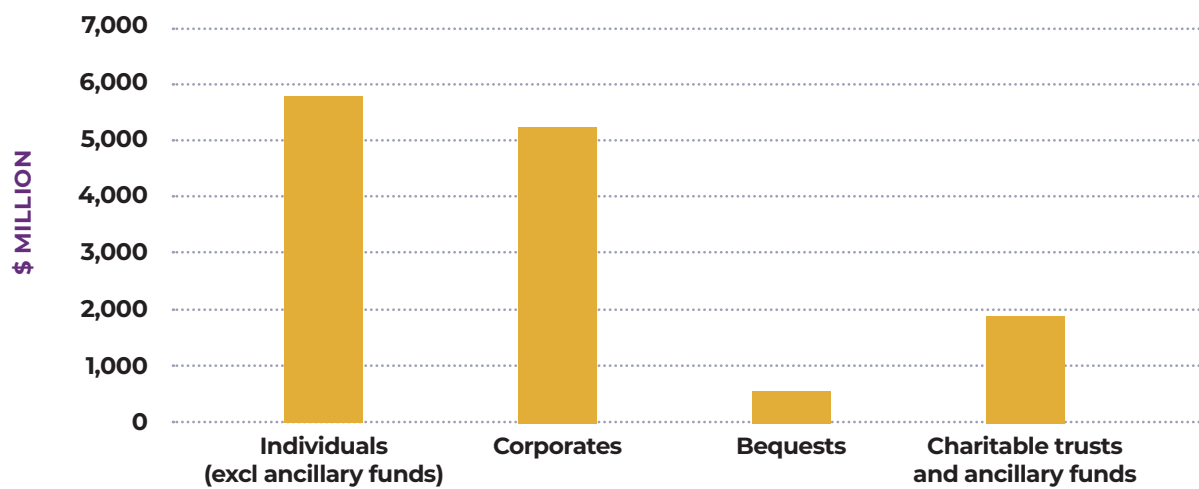
The options canvassed in this report could help to unlock significantly greater levels of charitable giving in Australia, supporting the Government's aim of doubling charitable giving by 2030.



Introduction

About 80 per cent of Australians donate to charities, as do a significant number of companies.² A total of \$13.4 billion was donated in 2021 (**Chart 2**).

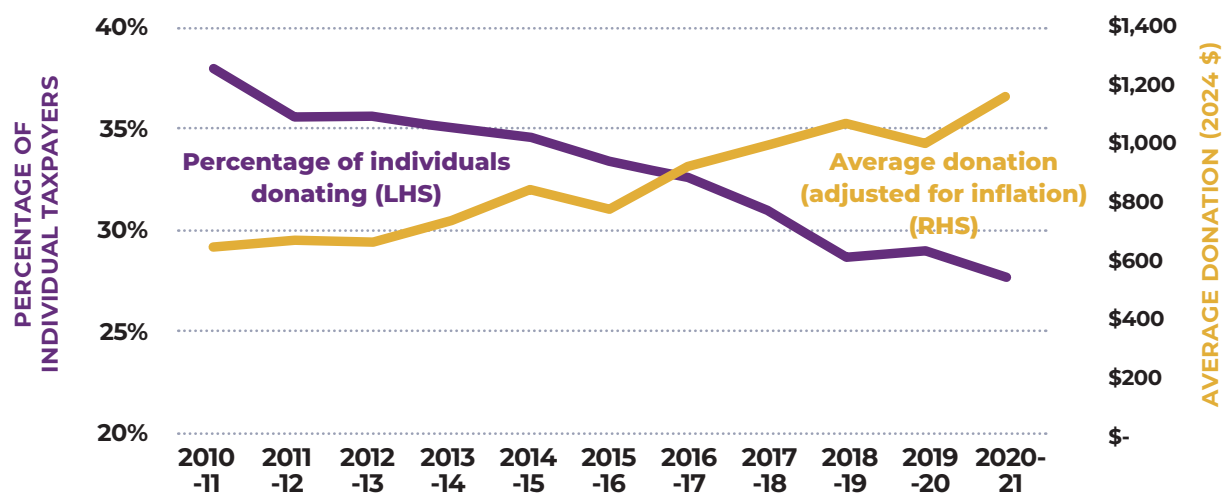
CHART 2 Estimated charitable donations in 2021



Source: Productivity Commission (2023), *Future foundations for giving*, Draft Report, p.93.

Most individual donations — around 76 per cent — are claimed as a tax deduction. The proportion of taxpayers who make tax-deductible donations has been declining, from 38 per cent in 2010-11 to 28 per cent in 2020-21 (**Chart 3**). However, average donations have been increasing, driven mainly by high levels of donation by people in the highest income brackets.

CHART 3 Tax-deductible donations by individuals, 2020-11 to 2020-21



Source: ATO (2023), Taxation statistics 2020-21, Individuals, Table 1.

2. Productivity Commission (2023), *Future foundations for giving*, Draft Report, p.134.

Using ATO data, Impact Economics and Policy estimates that in the 2023-24 financial year, 4.4 million people will claim a tax deduction for a charitable donation, with individual donations totalling \$5.1 billion. If donation rates stay the same, at projected levels of population and wage growth, this will increase to almost \$6.0 billion donated by 4.8 million individuals by 2029-30.³

Various barriers exist to greater levels of charitable giving. The cost of living may mean many people cannot afford to donate. There can also be barriers to giving, such as the administrative hassle of making a donation, or perceptions about the work of charities. Sometimes, people may intend to donate but simply forget.

Charities themselves can reduce some of these barriers, such as by promoting the benefits of donating, or using digital technologies to make the process of donating easier. But there is only so much that the sector can do on its own.

Government interventions to prompt people to donate could become, as Philanthropy Australia has suggested, “an accepted part of Australia’s national culture – a valued annual national ritual where we consider extra giving at tax time”.⁴ With the significant potential uplift to giving we estimate in this report, they are interventions worth exploring.

We have drawn on the latest evidence from behavioural economics to identify elements that could be built into the interventions to have the greatest potential to lift charitable giving (**Box 1**).



3. See Appendix 2 for data sources and assumptions.

4. Philanthropy Australia (2024), *PA response to the PC draft report*, p. 6.

BOX 1 INSIGHTS FROM BEHAVIOURAL ECONOMICS

Economists and psychologists have long recognised that people do not make perfectly rational and self-interested choices all the time. Nor do most people have the ability or willingness to process large volumes of information to optimise every decision they need to make.

Even if we tried to, our limited time and cognitive resources would mean we would likely end up paralysed by indecision. People often use mental shortcuts or ‘heuristics’ to simplify things when decisions are being made quickly.⁵

Behavioural economists have applied these insights to investigate how people make decisions in practice, and what sorts of factors are most likely to influence them.

This has led to an appreciation for how the way choices are presented — known as the ‘choice architecture’ — can influence which choices we make. For example, in a well-known experiment, researchers found that asking workers to commit to having part of future pay rises automatically diverted to a retirement savings account led to significantly greater savings rates than asking people to contribute immediately.⁶

The design of a choice architecture can be a powerful tool for shaping behaviour. A significant body of literature has explored the potential to use choice architecture to nudge people towards making better choices. A ‘nudge’ is a low-cost way of presenting choices to influence people to choose options that make them better off, without compelling or forbidding any

of the options.⁷ Examples include making certain information more salient for people and setting defaults that apply unless someone makes a different choice.

EVIDENCE FROM BEHAVIOURAL ECONOMICS SUGGESTS THAT PROMPTS TO DONATE TO CHARITY ARE LIKELY TO BE MORE EFFECTIVE WHEN THEY:

- Make donating as easy as possible
- Avoid overloading people with options and choices
- Include personalised messages and social cues about other people’s donating behaviour
- Use existing systems and communications
- Are rigorously tested with consumers to ensure techniques are effective in the real-world and do not ‘backfire’ by having undesired consequences, such as reducing donations

Appendix 1 contains more detail on the evidence from behavioural economics about what works in encouraging charitable giving.

5. Kahneman, D. (2011), *Thinking, Fast and Slow*, Allen Lane, New York.

6. Thaler, R. H. and Benartzi, S. (2004), *Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving*, *Journal of Political Economy*, vol. 112(1), pp. S164-S187.

7. Thaler, R. H. and Sunstein, C. R. (2009), *Nudge: Improving Decisions About Health, Wealth and Happiness*, Penguin, London.

Three options to stimulate greater giving

In this section we explore three options for government to stimulate greater levels of charitable giving, focusing on individual taxpayers. These range from a 'light touch' prompt by government to taxpayers to consider making a charitable donation, through to government facilitation of charitable donations.

Each option is linked to the annual income tax return process. Government already encourages charitable giving by offering tax deductions. But not everyone understands how donating can affect their tax or has donating front of mind at tax time.

Sending communications to people around tax time would help to reach almost **16 million individuals** and remind them to consider whether they want to donate to charity.



1

OPTION 1

Generic prompt to all taxpayers

The Australian Government sends a generic message to all taxpayers before the end of the financial year to remind them that they can choose to donate to charity, and doing so can reduce their taxable income.

The message could include social cues, such as information on how many taxpayers donated last year and the total amount donated. This can be effective at encouraging people to donate (see **Appendix 1**).

The message could be disseminated in various ways. For example, the government could send an email or letter to everyone on the electoral roll. Alternatively, the ATO could send out MyGov messages and emails, similar to how it currently sends information to taxpayers about certain changes in tax rules and processes.



OPTION 2

Personalised prompt when tax refunds are processed

The ATO sends a personalised message to all taxpayers who received a tax refund to prompt them to consider donating some of their refund to charity.

This could be included when annual Notifications of Assessment are sent to taxpayers, and refunds are processed. The message could include information about how a donation could reduce a person's taxable income the next time they do their tax return.

There is evidence that people treat and value money differently, depending on its source. They are much more likely to donate to charity out of a windfall gain than from ordinary income (see **Appendix 1**). To the extent that some people consider a tax refund as a windfall again, they may be more receptive to making a charitable donation. The prompt from the ATO would help to put this front of mind when taxpayers are thinking about how they will use their tax refund.

The message could be personalised to include the taxpayer's name, as well social cues about how much people with similar incomes donate. For example, it might say "You are in the top 20% of taxpayers. Last year, 45% of individuals in your tax bracket claimed a deduction for a charitable donation". Both personalisation and social cues have been shown to be effective ways to encourage more people to make charitable donations (see **Appendix 1**).

3

OPTION 3

ATO-facilitated donations as part of the tax return process

The ATO allows taxpayers to choose to commit to donating part of their tax refund to a charity the individual chooses, and then automatically transfers the money when the refund is processed.

This could be a page shown at the end of the existing tax return process to taxpayers (or their tax agent) after they are shown their estimated tax refund. It would advise them that donating to an eligible charity could reduce their tax the next time they do their tax return, and ask them if they would like to donate part of their estimated refund to a charity. The webpage would give the taxpayer (or their agent) the ability to select the amount to donate, and the charity.

The ATO would then pay the donation directly to the charity on the taxpayer's behalf once the tax refund is processed. However, if the taxpayer's refund ends up different to the estimated amount, the ATO would seek re-confirmation of the donation before paying it to the charity.

This option is designed to remove many of the frictions involved in making donations. By embedding the process within the tax return form, taxpayers do not need to separately transact with a charity. Removing 'effort costs' has been shown to be effective at lifting donation rates (see **Appendix 1**).

While the taxpayer would not be able to claim a tax deduction until the following year, the ATO could pre-fill information about the donation on their next tax return (similar to the way that other information is pre-filled by the ATO). This means the list of charities should be limited to those with Deductible Gift Recipient (DGR) status. While about 76 per cent of individual donations were claimed as a tax deduction in 2021, this is likely to increase if the Productivity Commission's recommendation to extend DGR status to a wider range of charities is implemented.⁸

8. Productivity Commission (2023), op cit.

Potential gains to charitable giving

Prompting people to donate to charity, and making it easier to donate, could deliver substantial additional funds for the charity sector.

Impact Economics and Policy has modelled the potential gains to charitable giving from implementing Options 1, 2 or 3. We have also modelled the cost to government revenue as a result of more tax-deductible donations being made. We have deliberately picked conservative assumptions, based on the behavioural economics literature, to illustrate the impacts. Because of uncertainty about the impacts, we have modelled lower and upper bound impacts to give a range of the potential increase in giving.

We assume that the benefits manifest gradually until 2029-30, as taxpayers get used to the prompts and giving behaviour changes.

Appendix 2 describes our methodology and assumptions in detail.



OPTION 1

Generic prompt to all taxpayers

Sending prompts ahead of tax time is expected to increase aggregate donations to charity (see **Table 2**). For the lower bound estimates, we have assumed that the prompt leads to an increase in the number of people making tax-deductible donations of 10 per cent. This is based on behavioural evidence for how prompts can increase donation rates, with estimates in the literature ranging from 10 per cent to 51 per cent (see **Appendix 1**). For the upper bound estimates, we assume that the share of

taxpayers making tax deductible donations returns to the level it was at in 2010-11 (37.9 per cent of taxpayers, which is 37 per cent higher than the 27.7 per cent rate in 2020-21).

For donation amounts, we assume that the average donation by new donors is half that of existing donors (i.e. \$579 a year). We assume that the prompt has no effect on people who already donate to charity (who continue to donate an average of \$1,159 a year).

TABLE 2 Potential gains from option 1

	2025	2026	2027	2028	2029	2030	Cumulative increase
Share of taxpayers donating							
Baseline (no prompt)	28%	28%	28%	28%	28%	28%	
Lower bound	28%	29%	29%	30%	30%	30%	
Upper bound	29%	31%	32%	34%	36%	38%	
Increase in total donations (\$m)							
Lower bound	\$42	\$87	\$135	\$186	\$241	\$299	\$990
Upper bound	\$141	\$298	\$471	\$662	\$872	\$1,102	\$3,546
Reduction in government tax revenue (\$m)							
Lower bound	\$12	\$25	\$37	\$50	\$63	\$76	\$264
Upper bound	\$41	\$84	\$130	\$178	\$228	\$282	\$943

OPTION 2

Personalised prompt when tax refunds are processed

Prompting the 77 per cent of taxpayers who receive a tax refund to donate part of their refund is expected to increase donations even more than in Option 1 (see **Table 3**). We assume that the number of these people increases by the same proportion as in Option 1, plus an additional 20 per cent, which is a conservative estimate based on behavioural evidence that people are more likely to donate out of a windfall gain than from other funds.⁹

The average tax refund was \$3,350 in 2023-24. We assume that some taxpayers see this as a windfall gain that increases their income in the year in which they receive it. For the lower bound estimates, we assume that on average 0.82 per cent of the average tax refund is donated, based

on Productivity Commission estimates of how much donations increase given an increase in income.¹⁰ For the upper bound, we assume on average 10 per cent of the average refund is donated, based on behavioural evidence that people donate more when money comes out of a windfall gain.¹¹ This is in addition to the amounts we assume under Option 1.

The prompt may lead some existing donors to reduce donations they make at other times of the year — that is, the additional donations are offset by a reduction elsewhere. To account for this, we discount the aggregate increase in donations by 38 per cent for existing donors, based on the upper end of estimates in the literature.¹²

TABLE 3 Potential gains from option 2

	2025	2026	2027	2028	2029	2030	Cumulative increase
Share of taxpayers donating							
Baseline (no prompt)	28%	28%	28%	28%	28%	28%	
Lower bound	29%	30%	31%	32%	33%	35%	
Upper bound	30%	32%	34%	36%	39%	42%	
Increase in total donations (\$m)							
Lower bound	\$160	\$273	\$397	\$533	\$681	\$843	\$2,888
Upper bound	\$1,006	\$1,343	\$1,723	\$2,151	\$2,633	\$3,175	\$12,031
Reduction in government tax revenue (\$m)							
Lower bound	\$47	\$77	\$109	\$143	\$178	\$215	\$770
Upper bound	\$292	\$380	\$475	\$578	\$690	\$811	\$3,225

OPTION 3

ATO-facilitated donations as part of the tax return process

We have modelled Option 3 using the same assumptions as Option 2, plus an additional assumption that the number of people making donations increases by a further 20 per cent.¹³ This reflects behavioural evidence that people are more likely to donate when the process of donating and transferring money is made easy and seamless, with estimates ranging from 20 per cent to 26 per cent (see **Appendix 1**). The results are in **Table 4**.

TABLE 4 Potential gains from option 3

	2025	2026	2027	2028	2029	2030	Cumulative increase
Share of taxpayers donating							
Baseline (no prompt)	28%	28%	28%	28%	28%	28%	
Lower bound	29%	31%	33%	35%	38%	40%	
Upper bound	30%	33%	36%	40%	44%	49%	
Increase in total donations (\$m)							
Lower bound	\$237	\$440	\$670	\$929	\$1,219	\$1,546	\$5,041
Upper bound	\$1,255	\$1,893	\$2,638	\$3,504	\$4,509	\$5,672	\$19,472
Reduction in government tax revenue (\$m)							
Lower bound	\$69	\$124	\$185	\$249	\$319	\$395	\$1,342
Upper bound	\$364	\$535	\$727	\$941	\$1,181	\$1,450	\$5,198

9 Studies have found people are 23 per cent to more than 100 per cent more likely to donate from a windfall gain – see Appendix 1.

10 Based on the Productivity Commission's estimate of the income elasticity of giving (0.56) multiplied by the average value of donations as a percentage of taxable income in 2020–21. Source: Productivity Commission (2023), *Future foundations for giving*, Draft Report, p. 365.

11 Kellner, C. Reinstein D and Riener G (2019), 'Ex-Ante Commitments to 'Give If You Win' Exceed Donations after a Win', *Journal of Public Economics*, vol. 169, pp 109–27.

12 Adena, M. and Huck, S. (2019), 'Giving once, giving twice: A two-period field experiment on intertemporal crowding in charitable giving', *Journal of Public Economics*, vol. 172, pp. 127–134.

13 Chuan, A. and Anya S. (2014), 'Feel the Warmth' Glow: A Field Experiment on Manipulating the Act of Giving', *Journal of Economic Behavior & Organization*, vol. 108, pp 198–211.



Summary

Impact Economics and Policy estimates that by 2030, prompts could yield between \$300 million and \$5.7 billion a year in additional donations for charity (**Chart 4**). The proportion of individual taxpayers donating could increase to between 30 and 49 per cent by 2029-30 (**Chart 5**). This compares to about 28 per cent today, and 38 per cent in 2010-11.

This is a large range because of the uncertainty about behavioural responses to the prompts and some of the implementation considerations discussed in the following section. However, the estimates demonstrate that the benefits to the charity sector are likely to be substantial.

Our estimates are also conservative because they do not include increased giving that could be generated by introducing prompts for corporate taxpayers. These taxpayers give for a variety of reasons that differ from individuals, beyond the scope of this report.

CHART 4

Charitable donations by individual taxpayers in 2029-30

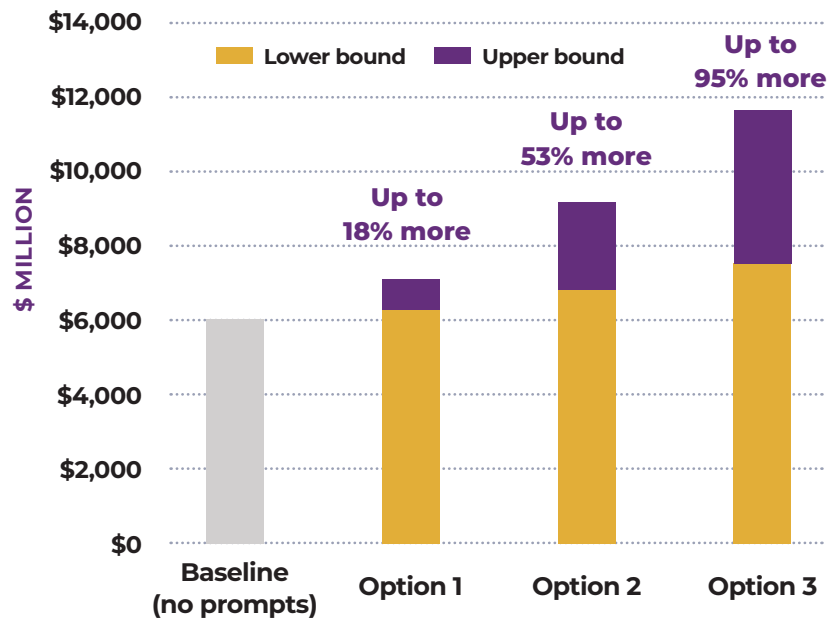
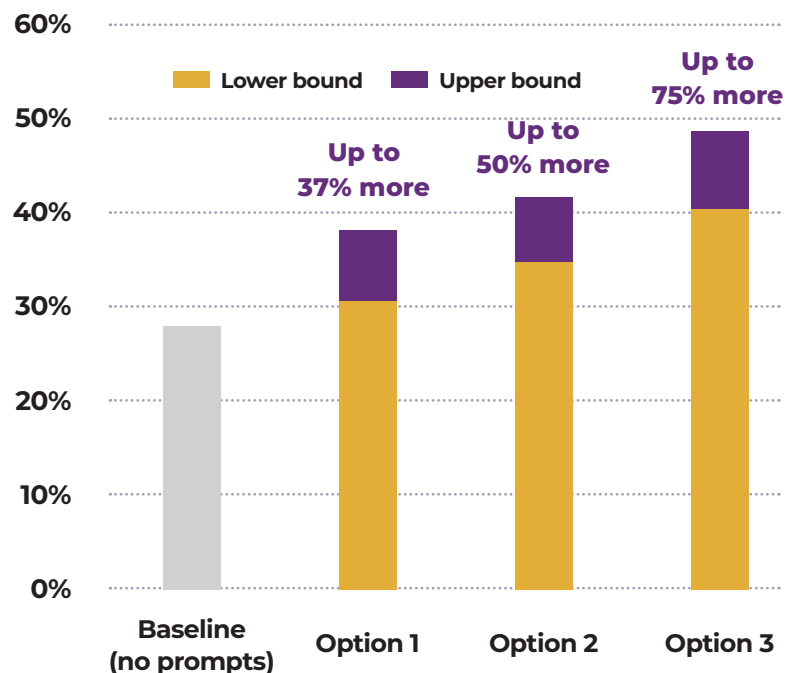


CHART 5

Percentage of individual taxpayers donating by 2029-30



Reviewing the options

In this section, we consider the effectiveness of each of the three interventions, including implementation issues and potential risks and challenges. Our assessment is guided by the framework in **Table 5**.

TABLE 5 Criteria for assessing options to facilitate charitable giving

Criterion	Description
Reach	Does the measure reach the largest possible number of potential donors?
Effectiveness	Is the measure likely to increase either: ☐ the number of taxpayers who donate, or ☐ the average amount donated?
Individual costs	Does the measure impose material costs on taxpayers, including those who do not donate?
Unintended consequences	Is the measure likely to deter giving by some taxpayers, e.g. by replacing donations they would have otherwise made, or by raising ethical objections?
Administrative simplicity	Is the measure implementable by government at low cost with a short implementation timeframe?
Legality	Is the measure implementable under current legislative arrangements?

OPTION 1

Generic prompt to all taxpayers

Option 1 has the greatest reach because it would go to all individual taxpayers (about 15.9 million), as well as corporate taxpayers. The message could also be delivered to taxpayers directly, meaning that everyone gets the same prompt, regardless of whether they prepare their own tax return or use a tax agent.

As a generic message, it is unlikely to be as effective at increasing donations as the other options, which involve personalisation. People may be more likely to ignore a generic message sent outside of the actual tax return process.

Its effectiveness may also be diminished by effort costs, as people who intend to donate would still need to identify a charity they want to donate to, and make the transaction. There is a risk that even if the prompt is successful at reminding people to donate, they do not follow through with the donation.

Some of these risks to effectiveness could be offset by the relative immediacy of receiving the tax deduction. As the message is sent before the end of the financial year, taxpayers who take up the option to donate would be able to

claim the deduction (and if applicable, a tax refund) when they do their tax return for the year. As the message is short, generic, and sent out annually, it is unlikely to impose 'nuisance' costs on taxpayers who do not wish to donate, such as the perception of being hassled by government to donate.

Administration would be relatively straightforward because the message is generic — not tailored to individuals — and could be sent using existing government infrastructure and systems. This should be feasible under current legislative arrangements. Implementation costs would also be relatively low, especially if it is sent via MyGov message and/or email rather than by postal mail. Using fewer channels does, however, risk reducing the number of taxpayers reached.



OPTION 2

Personalised prompt when tax refunds are processed

Option 2 has a more limited reach than Option 1. The prompt would be sent to taxpayers who receive a tax refund — an estimated 12.3 million individuals out of 15.9 million individual taxpayers, or 77 per cent.

However, Option 2 is likely to be more effective than Option 1 at encouraging people to donate, and to donate larger amounts than they currently do. This is because taxpayers are prompted to consider donating at a time when they receive a lump sum (their tax refund), meaning their donation does not need to come out of their ordinary cashflow. As noted above, people are more likely to donate from a windfall gain than from

ordinary income, and this can be reinforced by using social cues as part of the message. This may counter any perceptions about government intrusiveness in personally asking an individual to donate.

The donations made could potentially be substantial.

Impact Economics and Policy estimates that the average tax refund this financial year will be around \$3,350. This is almost three times the size of the average tax-deductible donation of \$1,159.

However, as with Option 1, the effectiveness of the prompt in Option 2 may be diminished by the frictions and effort costs involved in making donations. Some people who decide to donate after reading the prompt may not follow through with an actual donation.

Administration should be relatively straightforward for Option 2, especially since the prompt would be included in existing ATO communications to taxpayers. Implementation costs are likely to be relatively low given many communications are sent by MyGov message, although somewhat higher than Option 1 as some taxpayers will receive their notice of assessment via postal mail, and because of the cost of personalising the messages.

We discuss the ethical considerations of the ATO asking taxpayers to donate to charity under Option 3 below.

ISSUE / THE PROMPT COULD CROWD OUT OTHER DONATIONS

The effectiveness of the prompt may be reduced by the crowding out effect, where people who act on the prompt by donating when they receive their tax refund reduce the amount they donate at other times of year. We have explicitly taken this into account when quantifying the impacts by discounting the increase in donations for existing donors by 38 per cent.

ISSUE / THE TAX DEDUCTION IS NOT IMMEDIATE

This could potentially reduce the effectiveness of the prompt for some taxpayers who do not want to wait until next year's tax return to be able to claim a deduction. However, the delay could also be attractive to some taxpayers who could be encouraged to donate to give themselves 'insurance' against receiving tax bill the next year. There will also be many taxpayers who are motivated to give for non-financial reasons in response to the prompt.

It is also possible that some taxpayers will mistakenly expect the deduction to apply in the same tax year as their current refund. This risk can be managed through clear messaging and consumer testing.

ISSUE / TAXPAYERS WHO USE A TAX AGENT

There is a question of how the prompt would be delivered to taxpayers who use a tax agent (64 per cent of individual taxpayers in 2020-21). From an administrative perspective, the prompt could be delivered to tax agents with an expectation that they will convey the message to their client. The interaction with tax agents is discussed further below under Option 3.

OPTION 3

ATO-facilitated donations as part of the tax return process

Option 3 has a similar reach to Option 2, because the prompt is only sent to taxpayers who are estimated to be eligible for a tax refund. It also harnesses the potential of the ‘windfall gain’ mentality, which will enhance its effectiveness at increasing donations. Further, it allows people to commit to donating in the future (when their tax return is processed), which the behavioural economics literature suggests can make people up to 32 per cent more likely to donate.¹⁴

However, Option 3 is likely to be much more effective than Option 2 at increasing donations because it directly addresses many of the frictions and effort costs involved in donating. This is achieved by allowing taxpayers to select the donation amount and charity in the process of completing their tax return, meaning they do not need to separately interact with a charity or other intermediary. Several studies have found that people can be up to 26 per cent more likely to donate when frictions are reduced that make the transaction simpler and easier.¹⁵

As discussed with Option 2, prompting people to donate part of their tax refund could crowd out some existing donations, and there is a delay between making the donation and receiving the tax deduction. Additional issues also arise.

ISSUE / SOME TAXPAYERS’ REFUND AMOUNTS MAY DIFFER FROM THE ESTIMATE

Taxpayers with a final refund that is less than they expected may feel less inclined to donate to charity.

This could be addressed by allowing taxpayers to re-confirm their donation and the amount when their refund has been processed. While some may decide to no longer donate, or may not respond to the re-confirmation request, it is likely that many would proceed with a donation.

ISSUE / TIME AND HASSLE COSTS FOR TAXPAYERS

Option 3 would lengthen the time it takes for people to fill in their tax return, which could impose costs on people who do not wish to donate and people who prepare their own tax return. However, these costs are small.

People who do not wish to donate can simply select ‘no’ and move on. The communications to taxpayers can also make clear that donating through the tax return form is voluntary.

¹⁴ Breman, Anna. (2011), *Give More Tomorrow: Two Field Experiments on Altruism and Intertemporal Choice*, Journal of Public Economics, vol. 95(11), pp 1349-1357.

¹⁵ Rasul, I. and Huck S. (2010), Transaction costs in charitable giving: Evidence from two field experiments, The B. E. Journal of Economic Analysis & Policy, vol. 10(1), pp. 1-32.

ISSUE / ADMINISTRATIVE COSTS TO GOVERNMENT

Option 3 would have administrative costs for the ATO in setting-up and running the system.

THESE COSTS INCLUDE:

- Designing and running the prompts, including maintaining a list of charities and ongoing information technology costs. These costs are not expected to be large, as the functionality could be kept simple (e.g. only allowing a taxpayer to nominate a single charity), and the ATO already has an up-to-date list of eligible charities given its role in administering the DGR system.
- Setting up processes to send follow-up confirmations to taxpayers whose tax refund differs from their estimate, and process their responses. These costs should be modest as only a small proportion of taxpayers are likely to be in this situation.
- Keeping track of donations made by each taxpayer through the system and pre-filling this on their tax return for the following year. As the ATO already pre-fills significant amounts of other

information in tax returns, the marginal cost of adding another data point should be small.

Other jurisdictions, including Brisbane City Council and the UK Government, have successfully implemented systems to automatically process the transfer of donations and/or tax refunds to individual charities.¹⁶ These examples show that logistical hurdles can be overcome.

ISSUE / MAKING PAYMENTS TO CHARITIES

The ATO would need a mechanism to transfer donated amounts to charities.

This could be done electronically at low cost, either in batches as tax returns are processed, or as a lump sum transfer each year.

The ATO would also need each charity's bank account or payment details. These could be obtained as part of the DGR registration process. Charities would have a strong incentive to provide up-to-date information to the ATO. Any that do not could be excluded from being selected in the tax return process.

¹⁶ The Lord Mayor's Charitable Trust donation scheme in Brisbane (where ratepayers can elect to have part of their rates discount paid to the charity if they pay on time), and Gift Aid in the UK. There are unique features of each scheme relevant to the policy environment and settings in those jurisdictions that need to be considered, compared to the federal Australian jurisdiction.

ISSUE / TAXPAYERS WHO USE A TAX AGENT

Option 3 would likely require some modification for taxpayers who use a tax agent to prepare their tax return (as with Option 2).

This could be done by embedding the prompt in the process that tax agents use to file tax returns with the ATO – for example, asking the tax agent whether their client wishes to donate part of any estimated tax refund to charity and, if so, what amount and charity. This would encourage tax agents to then prompt their clients to consider whether they wish to donate. It could be backed by the ATO providing clear communications to tax agents about the prompts and changes to the tax return process. It is also possible that, over time, clients who are aware of the ability to automatically donate part of their tax refund proactively ask their tax agent how to do it.

ISSUE / RISK OF NEGATIVE COMMUNITY REACTIONS LEADING TO LOWER DONATIONS

The Productivity Commission raised concerns with the idea of the ATO prompting people to donate because “it is possible that taxpayers may resent being asked to donate by a government body, particularly in the context of a compulsory interaction related to taxation, and a poor public reaction to this type of campaign could undermine other efforts to increase giving.”¹⁷

While this is a potential risk, we are not aware of evidence that it would be a

concern for most taxpayers. Evidence from the behavioural economics literature suggests that prompts at tax time would materially increase levels of charitable giving. Any negative reaction is likely to be short-term and abate over time.

THE RISK COULD ALSO BE MINIMISED BY:

- clearly communicating that the choice to support charities is voluntary
- designing the prompt in a minimally intrusive way that does not impose material time or effort costs on people who do not wish to donate
- using consumer testing to refine the design and implementation.

It is also possible that some taxpayers may prefer an ATO-facilitated pathway to donate than interacting with charities directly, to the extent that the ATO pathway is easier and quicker for them. Some may also prefer not to share their name or contact information with charities, which is often required or expected when donating directly.

ISSUE / THE ROLE OF THE ATO

Finally, there is a risk with any prompt delivered by the ATO, as asking people to donate to charity – and the extent to which the associated tax deduction reduces government tax revenue – may conflict with its core role of collecting revenue and protecting the integrity of the tax system. For this reason, it is important that prompts be government policy, and designed by government, with the ATO’s role limited to implementing and administering the prompts.

17 Productivity Commission (2023), *op cit*, p. 327.

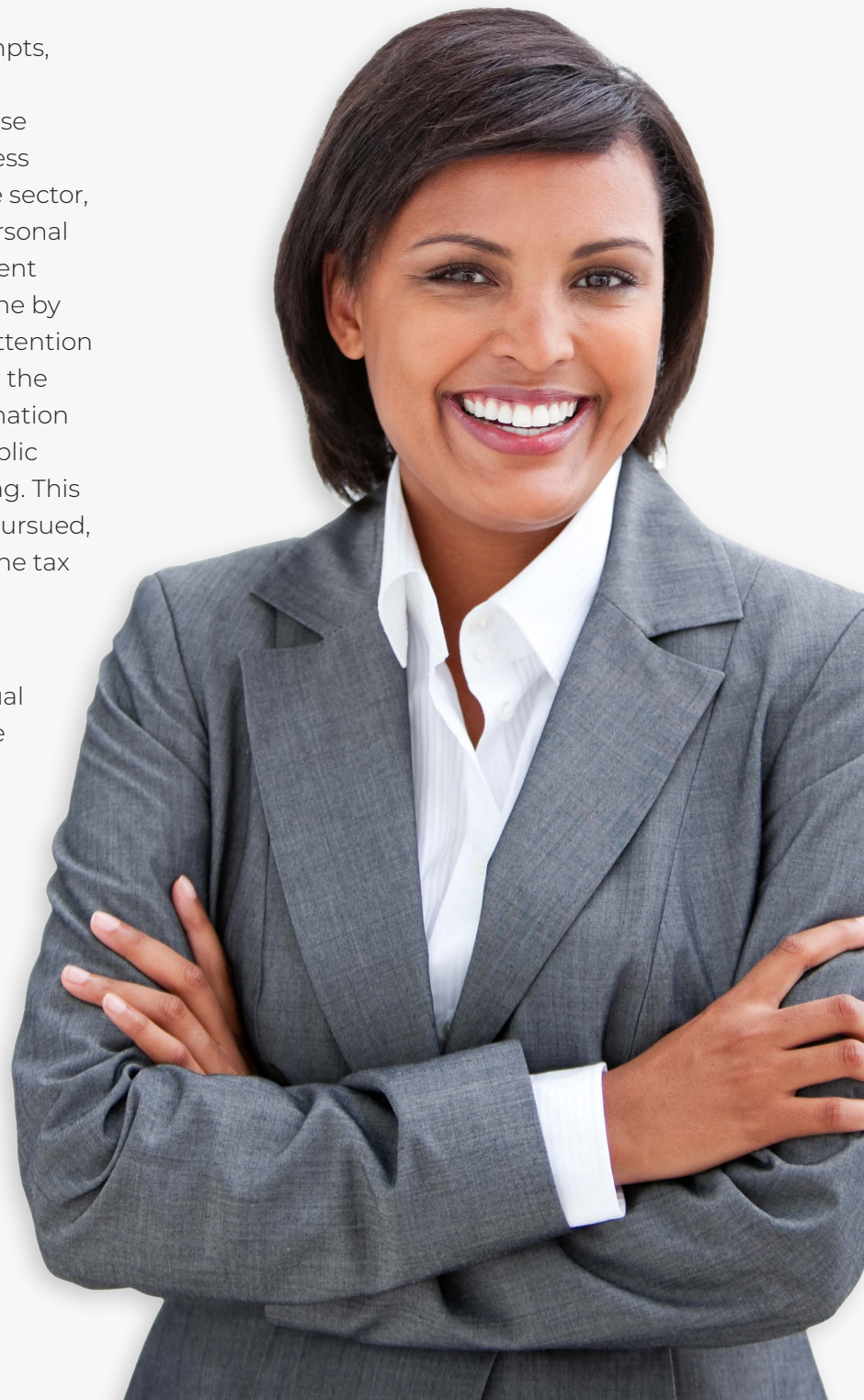
Implementation

Trials with real people will be essential to address some of the implementation challenges, and to test and learn different approaches to find the most effective solutions. In designing prompts for these trials, the government could draw on existing best practices for government communications.¹⁸

To boost the effectiveness of the prompts, they should be supplemented by communications by government. These communications would raise awareness about the prompts and the charitable sector, confirm that donating is entirely a personal choice, and explain why the government is introducing them. This could be done by bringing the reforms to the media's attention and providing information about how the prompts will work, or including information about the prompts in any broader public campaigns relating to charitable giving. This will be most important if Option 3 is pursued, given it requires making changes to the tax return process.

Over time, once prompts have been successfully implemented for individual taxpayers, their extension to corporate taxpayers could be explored. The prompts and delivery mechanism may need to be adapted to reflect

the corporate context, for example, where the message recipient (e.g. an accountant or financial officer) may not be the primary decision maker about charitable giving in the organisation. Trials can help to identify what works for different types of corporate taxpayer, having regard to their varied motivations for donating to charity.



¹⁸ For example, see Behavioural Economics Team of the Australian Government (2020), *Improving Government Forms: Best Practice Guide*, Department of the Prime Minister and Cabinet.

Conclusion

This report has examined the significant benefits to greater giving that could be unlocked by government tax time interventions.

We have drawn on the latest evidence from behavioural economics to inform the elements of each option and assessed them against policy design principles. We have borne in mind that the prompts should not be intrusive, and that no one should be compelled to donate if they do not want to.

There is no one neat solution to stimulating greater giving. All policy interventions have administrative and policy consequences. But each of the three options are worthy of further exploration and real-world testing.

There is a role for government to reduce some of barriers and frictions to people making charitable donations, especially where government can do this more efficiently than individual charities. Government action would be complementary to existing initiatives, such as the support government provides to the sector through the DGR system.

If designed well, the interventions in this report could be implemented with minimal administrative cost to government, and could deliver a net increase in community-wide welfare. Their potential to substantially lift Australia's level of charitable giving means they should be explored further.

Appendix 1

Evidence from behavioural economics

Barriers to donating

People donate for a range of reasons, including making a difference to society, recognition, social and cultural norms, and the availability of tax deductions. Whether we can donate is shaped by a range of factors, including incomes and the cost of living.

THERE CAN ALSO BE BARRIERS TO DONATING TO CHARITIES, EVEN WHERE PEOPLE WOULD LIKE TO DO SO:

- ❑ search costs of finding a charity that aligns with values
- ❑ the cost of assessing the trustworthiness of that charity (e.g. whether it uses funds the way it says it will)
- ❑ administrative hassles of filling out forms, making payments and (if applicable) claiming a tax deduction
- ❑ not finding the time to make a donation
- ❑ wanting to donate but forgetting.¹⁹

Work works in overcoming barriers?

Phenomenon	Description
Prompting and salience	People have limited attention spans and cognitive resources, and as a result may ignore information seen as too minor or that is not sufficiently prominent.²⁰ Techniques to bring charitable giving to people's attention include: ❑ Reminders—sending reminders can increase the number of people who donate, with the effect ranging from 10%²¹ to 51%²² across studies. However, one study found that frequent reminders can substantially increase requests to unsubscribe from charity mailing lists.²³ ❑ Framing—presenting a donation decision as 'how much to give' rather than 'whether to give' can increase donation rates. For example, researchers found that asking people to choose a donation amount were 22% more likely to donate than people who were asked to choose a charity first.²⁴ ❑ Personalising messages—in one experiment, including a person's name in the invitation made them more than twice as likely to participate in a workplace giving scheme.²⁵ ❑ Piquing interest—some studies have found that asking people to donate a specific, unusual amount (e.g. 17 cents) makes them more likely to donate and to donate higher amounts.²⁶

19 Knowles, S. and Servátka, M. (2015), *Transaction costs, the opportunity cost of time and procrastination in charitable giving*, *Journal of Public Economics*, vol. 125, pp. 54-63. For example, in one experiment where people had the option to donate to charity, almost one in five participants (17%) said they did not donate because they forgot: Sonntag, A. and Zizzo, D. J. (2015), *On reminder effects, drop-outs and dominance: Evidence from an online experiment on charitable giving*, *PLoS One*, vol. 10(8), pp. 1-17

20 Gabaix, X. (2007), *Behavioural Inattention*, NBER Working Paper 24096.

21 Sonntag and Zizzo (2015), *op cit*.

22 Damgaard and Gravert (2018) *The hidden costs of nudging: Experimental evidence from reminders in fundraising*, *Journal of Public Economics*, vol 157, pp. 15-26; Rasul, I. and Huck S. (2010), *op cit*.

23 Damgaard and Gravert (2018), *op cit*.

24 Moon, A. and VanEpps, E. M. (2023), *Giving suggestions: Using quantity requests to increase donations*, *Journal of Consumer Research*, vol. 50(1), pp. 190-210.

25 UK Behavioural Insights Team (2016), *Applying behavioural insights to charitable giving*.

26 Lee, S. and Feeley, T. H. (2017), *A meta-analysis of the pique technique of compliance*, *Social Influence*, vol 12, pp 15-28.

Work works in overcoming barriers?

Phenomenon	Description
Mental accounting and windfall gains	People can treat and value money differently depending on the source of the money and its intended use, e.g. creating separate mental accounts for different buckets of money. In one experiment, people were more than twice as likely to donate, and donated 29 per cent more, when asked to donate money they received as a windfall gain compared to money they earned through completing tasks.²⁷ Another study found that people would be 23 per cent more likely to donate, and to give 25 per cent more, when asked to commit to donating a potential windfall gain (lottery winnings) before the outcome is known.²⁸
Effort	People may be less likely to donate where even small amounts of effort are required. For example, one study found that people were 20% less likely to donate to a fundraising campaign when given the option to write a message (for recipients of charitable support) to accompany their donation.²⁹ Another study found that sending follow-up letters to remind people about a campaign they intended to donate to increased response rates by 46%, and people who were also given simpler payment options (e.g. pre-filled bank transfer forms) were 26% more likely to respond than those who were not given these options.³⁰
Timing	People may be more willing to donate when they are preparing their tax return, when potential tax deductions are front of mind. They may also be more willing to commit to making a donation in the future than they are to commit to making a donation today. For example, one study found that asking people to increase donation amounts with a two-month delay resulted in people donating 32% more on average compared to being asked to give more immediately.³¹
Social norms	Human behaviour is strongly influenced by a desire to conform to social norms, and presenting information about how other people behave can provide cues about what acceptable behaviour looks like.³² Many studies have found that providing prompts about other people's behaviour can make people more likely to donate or to donate larger amounts.³³ For example, one study found that providing information on how much money others donated can lead to people contributing 12% more to charitable causes, compared to not providing this information.³⁴ Another study found that people were more than 50% more likely to leave a charitable bequest in their will when told that leaving money in their will is a social norm and encouraged to think about a cause they feel passionate about.³⁵ Studies have also found that people can be more likely to donate when told about a needy recipient or calamitous event (e.g. natural disaster),³⁶ or when people feel like their donation behaviour is being observed by others.³⁷ However, social norms will not universally increase donations. Information about donations by others can reduce the size of donations when the typical donation appears low.³⁸ Such information could also make people less likely to donate because they feel enough money has already been donated by others or their own contribution will have limited impact.³⁹

27 Li, H. et al (2018), *Does windfall money encourage charitable giving? An experimental study*, *Voluntas*, vol. 30, pp. 841-848.

28 Kellner, C. Reinstein D and Riener G (2019), *Ex-Ante Commitments to 'Give If You Win'. Exceed Donations after a Win*, *Journal of Public Economics*, vol. 169, pp 109-27.

29 Chuan, A. and Anya S. (2014), *'Feel the Warmth' Glow: A Field Experiment on Manipulating the Act of Giving*, *Journal of Economic Behavior & Organization*, vol. 108, pp 198-211.

30 Rasul and Huck (2010), op cit.

31 Breman, A. (2011), *Give More Tomorrow: Two Field Experiments on Altruism and Intertemporal Choice*, *Journal of Public Economics*, vol. 95(11), pp 1349-1357.

32 Van Teunenbroek, C. Bekkers, and R. Beersma, B. (2020), *Look to Others Before You Leap: A Systematic Literature Review of Social Information Effects on Donation Amounts*, *Nonprofit and Voluntary Sector Quarterly*, vol. 49(1), pp 53-73.

33 Van Teunenbroek et al (2020), op cit; UK Behavioural Insights Team (2016), op cit; Partika, A. C. (2017), *Donate, Everybody's Doing It: Social Influences on Charitable Giving*, *Psi Chi Journal of Psychological Research*, vol. 22(1), pp. 39-45; Jung, H. et al (2020), *Prosocial modeling: A meta-analytic review and synthesis*, *Psychological Bulletin*, vol. 146(8), pp. 635-663.

34 Shang, J. Croson, R. (2009), *A Field Experiment in Charitable Contribution: The Impact of Social Information on the Voluntary Provision of Public Goods*, *The Economic Journal*, vol. 119(540), pp1422-39.

35 Sanders, M. and Smith, S. (2016), *Can simple prompts increase bequest giving? Field evidence from a legal call centre*, *Journal of Economic Behavior & Organization*, vol. 125, pp. 179-191.

Phenomenon	Description
Anchoring and defaults	Showing a suggested amount can anchor donations. However, imposing a minimum donation amount can reduce donations by excluding people who would otherwise have donated a lower amount.⁴⁰ A study found that setting an opt-out default increased donations by about 25% compared to an opt-in arrangement.⁴¹
Choice overload	When people are presented with too many options, they can be overwhelmed—meaning they are more likely to make a poor choice, or no choice at all.⁴² People can also be overwhelmed when they are given too much information about options and their attributes, which can be confusing or off-putting.⁴³ These effects can be reduced by restricting the number of options presented and the information shown. Another technique is to make one of the options the default.
Crowding out	When people respond to a prompt by donating to one charity, they may reduce the amount they donate to other charities.⁴⁴ One study estimated that a one dollar increase (or decrease) in donations to one charity leads to a reduction in donations to other charities by 37 cents, on average.⁴⁵ The timing of donations also matters, with an experiment finding that when people are asked two separate times to donate, the second donation is 50 per cent lower when they are asked on the same day but only 18 per cent lower when asked a week later.⁴⁶ A separate field experiment found that people donate about 38 per cent less to a given cause when they expect they will be asked to donate to the same cause again in future.⁴⁷

36 Butts, M. M. et al (2019), *Helping one or helping many? A theoretical integration and meta-analytic review of the compassion fade literature*, *Organizational Behavior and Human Decision Processes*, vol. 151, pp. 16-33.

37 Bradley, A., Lawrence, C. and Ferguson, E. (2018), *Does observability affect prosociality?*, *Proceedings of the Royal Society B*, vol. 285, pp. 1-8.

38 Alpizar, F., Carlsson, F. and Johansson-Stenman, O. (2008), *Anonymity, reciprocity, and conformity: Evidence from voluntary contributions to a national park in Costa Rica*, *Journal of Public Economics*, vol. 92(5-6), pp. 1047-1060; Martin, R. and Randal, J. (2008), *How is donation behaviour affected by the donations of others?*, *Journal of Economic Behavior & Organization*, vol. 67(1), pp. 228-238.

39 Van Teunenbroek et al (2020), op cit.

40 Cartwright, E. J. and Mirza, Z. (2021), *Charitable giving when donors are constrained to give a minimum amount*, *Oxford Economic Papers*, vol. 73(1), pp. 295-316.

41 Zarghamee, H. S. et al (2017), *Nudging charitable giving: Three field experiments*, *Journal of Behavioral and Experimental Economics*, vol. 66, pp. 137-149.

42 Iyengar, S. S., Huberman, G. and Jiang, W. (2004), *How much choice is too much? Contributions to 401(k) retirement plans*, *Pension Design and Structure: New Lessons from Behavioral Finance*, Oxford University Press, Oxford, pp. 83-95; Abaluck, J. and Gruber, J. (2011), *Choice inconsistencies among the elderly: Evidence from plan choice in the Medicare Part D program*, *American Economic Review*, vol. 101(4), pp. 1180-1210.

43 Johnson, E. J. et al (2012), *Beyond nudges: Tools of a choice architecture*, *Marketing Letters*, vol. 23, pp. 487-504.

44 Ek, C. (2017), *Some causes are more equal than others? The effect of similarity on substitution on charitable giving*, *Journal of Economic Behavior & Organization*, vol. 136, pp. 45-62.

45 Reinstein, D. (2007), *Substitution between (and motivations for) charitable contributions: An experimental study*, University of Essex Discussion Paper No. 648, Available: <https://repository.essex.ac.uk/2935/1/dp648.pdf>

46 The overall average reduction was 33 per cent. Schmitz, J. (2019), "Temporal dynamics of pro-social behavior: An experimental analysis", *Experimental Economics*, vol. 22, pp. 1-23.

47 Adena, M. and Huck, S. (2019), "Giving once, giving twice: A two-period field experiment on intertemporal crowding in charitable giving", *Journal of Public Economics*, vol. 172, pp. 127-134.

Appendix 2

Data and modelling

We have modelled the impact of prompts on individuals' donation behaviour using Australian Taxation Office data on individual taxpayers for 2020-21 (the latest available year). We assume the prompts are implemented in 2024-25, and we model the impact each year until 2029-30. We assume the impacts are spread proportionally across the income scale. The results are in **Table 6**.

Drawing on the behavioural economics literature (see **Appendix 1**), we have made a number of assumptions. These are outlined in the main report and summarised in **Table 6**. They are based on findings from the literature (including from hypothetical experiments) which may not be directly transferable to a new context. There have been several high-profile examples of empirical findings from the behavioural science literature that other researchers have not been able to replicate.⁴⁸ Accordingly, we have deliberately picked conservative assumptions so as not to overstate the potential impact on charitable donations.

⁴⁸ Sanders, M. et al (2018), *Behavioural science and policy: Where are we now and where are we going*, Behavioural Public Policy, vol. 2(2), pp. 144-167.

TABLE 6 Assumptions underpinning the scenarios

	Lower bound	Upper bound
Existing donations (baseline)	4.4 million individuals donate in 2023-24, with an average donation of \$1,159 each. This grows to 4.8 million individuals donating an average of \$1,245 each in 2029-30, which reflects population growth and real wage growth.	
Increase in number of donors		
OPTION 1	Prompts increase the number of donors by 10 per cent	Prompts increase the number of donors by 37 per cent
OPTION 2	Prompts increase the number of donors by a further 20 per cent (in addition to option 1), reflecting the ‘windfall gain’ effect	
OPTION 3	Prompts increase the number of donors by a further 20 per cent (in addition to option 2), reflecting an easier process for donating	
Average donation amounts		
OPTION 1	Existing donors do not donate any additional funds. New donors donate half the average amount (\$579)	
OPTIONS 2 AND 3	Average donations increase by a further 0.82 per cent of the average tax refund, reflecting the ‘windfall gain’ effect . Amounts are reduced by 38 per cent for existing donors, reflecting substitution effects.	Average donations increase by a further 10 per cent of the average tax refund, reflecting the ‘windfall gain’ effect . Amounts are reduced by 38 per cent for existing donors, reflecting substitution effects.

TO ACCOUNT FOR INFLATION, REAL WAGE GROWTH AND POPULATION GROWTH, WE HAVE ASSUMED THAT:

- In the baseline, incomes and donations grow at the rate of economy-wide wage growth. We have inflated 2020-21 figures to current dollars (i.e. 2023-24 dollars) using ABS estimates for the wage price index up to June 2023⁴⁹ and estimated nominal wage growth of 4.0% for 2023-24 from the Commonwealth Budget.⁵⁰ For future years, we assume real wages grow at 1.2 per cent a year (i.e. in current dollars), consistent with the assumptions in the Intergenerational Report.⁵¹
- The number of taxpayers, and number of taxpayers making charitable donations, grows at the rate of population growth for people aged 15-64 years, based on ABS estimates and projections.

We assume the proportion of people who currently donate is the same across individuals who did and did not receive a tax refund in 2020-21.

To estimate tax revenue forgone, we assumed that the percentage change in donations is the same for individual taxpayers in each income tax bracket, and applied the marginal tax rates for 2023-24 (plus the Medicare Levy, for all tax brackets except the \$0 to less than \$18,200 bracket) to the resulting amounts. For simplicity and due to data constraints, we assume there is no movement between tax brackets over time. In other words, we assume that people do not move between tax brackets because of wage growth (which can push people into higher tax brackets) or because of increased deductions due to charitable donations (which can push people into lower tax brackets). We also assume marginal tax rates do not change.

49 Total hourly rates of pay excluding bonuses, private and public sectors. Table 1 of ABS: Wage Price Index, Australia, December 2023, Available: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latest-release>

50 Australian Government (2023), *Budget 2023-24*, Budget Paper No. 1, p. 6.

51 Treasury (2023), 2023 Intergenerational Report, p. 230.

