

Gift Aid

Charitable giving by the public is a major source of income for the voluntary sector, this article will outline what Gift Aid and the main rules and compliance issues.

Gift Aid is a scheme where charities or community amateur sports club (CASC) can potentially reclaim from the Inland Revenue tax on individual donations received; at current rates this could as much as 25% of the value of the donation. For example, if an individual makes a donation of (say) £100 that donation could be worth £125 to the charity. References made to charities also include community amateur sports club (CASC)

The tax benefit for the donor that if they are a higher rate taxpayer they can reduce their own tax liability at a minimum of 20 pence in the pound if a higher rate payer, 25 pence in the pound if an additional rate payer.

Overview

A charity can claim back 25p every time an individual donates £1 to your charity, if your charity claims this online payments normally are made within 5 weeks.

The donor must:

- have paid at least as much in Income Tax or Capital Gains Tax in that tax year that your charity wants to claim in Gift Aid
- make a Gift Aid declaration that gives you permission to claim it

If the donor hasn't made a declaration your charity may still be able to claim on cash donations of £20 or less.

The Inland Revenue (HMRC) is increasing the number of audit reviews and is channelling more resources on making sure that charities comply with the new regime. It is essential that charities understand the rules; failure to correctly operate Gift Aid will usually result in the charity repaying the tax, plus interest and penalties.

Three of the main areas that charities need to be aware are:

- The Gift Aid declarations
- The audit trail
- Donor-benefit rules

The donor must have given the charity an appropriate declaration, it is a prime record that must be obtained and kept by the charity. Declarations can be given in written form (including e-mail) or orally (usually by telephone). All declarations must include the following information:

- Name of the charity
- Name and address of the donor
- A description of the donations to which the declaration relates
- A declaration that the donations are to be treated as Gift Aid donations.

There is a requirement that the donor must have paid an amount of UK tax equivalent to what is being claimed by the charity, if this is not the case the charity will still be paid, the Revenue will seek to recover the money from the taxpayer.

The audit trail has to make sure that the charity's records can show:

1. An audit trail linking the donor with each of their donations;
2. All the other rules and conditions have been satisfied

It is imperative that charities have adequate and effective recording systems for cash donations; this will need to tie in with the cash and bank records and will be an area that Revenue will examine carefully.

If the donor (or connected person) receives any benefit as a consequence of making the gift, and it is not within stated limits, subject to an overall limit of £250 in a single tax year, then the donation is excluded from the Gift Aid regime. A benefit can be for goods or services provided directly by the charity or a third party, for example discounts on services or membership benefits, in some cases charities need to annualise any benefits provided.

You can claim Gift Aid on the donation if the value of the benefit doesn't exceed certain limits, for example:

Donation	Maximum value of benefit
Up to £100	25% of the donation
£101 - £1000	£25
£1001 and over	5% of the donation (up to £2500)

These rules still apply when the benefit is given to a family member or a company run by the donor.

The new Gift Aid scheme can benefit both the charity and the donor. The charity can claim tax back from any donations received, whether large or small, regular or one-off and the donor can claim tax relief on the donation(s) made. The donor will have to complete simpler Gift Aid declarations, which can be done in advance of any donation, in writing, or orally.