



Briefing: the Government's proposals for Gift Aid

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Contact: Louisa Darian
Tel: 020 7520 2475
E-mail: louisa.darian@ncvo-vol.org.uk

1. Introduction

1.1 In June 2007 the Government carried out a consultation on the operation of Gift Aid. A summary of responses was published in December and the Government's formal response was published alongside the Budget in March 2008.

1.2 This briefing outlines:

- the Government's main proposals;
- where organisations can find more information;
- NCVO's next steps.

1.3 Annex A includes a list of the recommendations NCVO made as part of its consultation response last summer.

1.4 If you would like further information or to discuss any of the points made in this briefing please contact Louisa Darian on 020 7520 2475 or email louisa.darian@ncvo-vol.org.uk.

2. The Government's proposals

2.1 Transitional rate

Gift Aid enables charities to claim back tax on donations and is therefore directly linked to the basic rate of tax. The basic rate of tax has fallen this year from 22 to 20 per cent which will mean that the amount that charities can claim in Gift Aid is dropping from 28p to 25p to the pound. The Government has announced that they will provide transitional relief for charities, which will mean that while the amount that charities can claim back in tax will fall, the Government will ensure that they continue to receive 28p for every pound in donations until the end of the 2010/2011-tax year.

2.4 Auditing

The Government has acknowledged that the fear of receiving a penalty for an innocent error, such as a mislaid declaration form, can deter charities from claiming Gift Aid altogether. To reduce the fear of audit, the Government has announced a number of reforms to the audit process.

- Charities will have the chance to repair errors identified at audit before the error rate is extrapolated across the whole of the Gift Aid claim.
- The introduction of a de-minimis error level of 4% below which charities with claims of less than £2,500 each year will not be penalised for errors in record-keeping. The de-minimis error level will apply to the repaired level of errors referred to above.
- Where the amount or level of error is small, Her Majesty's Revenue and Customs (HMRC) will introduce a 'yellow card' scheme rather than making recoveries for earlier years. This will be accompanied by advice on remedial action. If the remedial action has not been taken the next time HMRC examine the claims of the charity HMRC will go back and recover any earlier years that are still in date.

The de minimis limit and 'yellow card' system will apply as follows:

Repaired error level	Amount at stake	Action at Audit 1
Less than 4%	Less than £100	No recovery in year of audit or earlier years. No card issued.
Less than 4%	Less than £500	Recovery in year but not earlier years. No card issued.
Less than 4%	More than £500	Recovery in year but not earlier years – 'yellow card' issued.
More than 4%	Less than £500	Recovery in year but not earlier years – 'yellow card' issued.
More than 4%	More than £500	Recovery in year and earlier years.

- The Government will carry out discussions in the summer on the option of self-certification for charities who employ an external auditor to reduce audit burdens for large charities.

2.3 Record keeping and claims process

In order to reduce the burden of the record keeping process, the Government has announced that it will work with the sector to develop a framework setting out the option for organisations to destroy ending Gift Aid declarations after six years, providing that a database record is retained.

2.4 Charities will also be able to aggregate donations of under £10 in claims up to a total of £500. Charities will still need to obtain Gift Aid declarations for these donations but there will no longer be a requirement for them to list individual donations on the claim form.

2.5 Higher rate tax payers

At present, higher rate tax payers who donate to charity are able to claim back the difference between the basic and the higher rate of tax for themselves, in addition to the amount that is reclaimable by the charity. Some organisations argue that the full value of the income tax relief (basic and higher rate) should go to the donor while others believe that all the relief should be reclaimable by the charity. The Government are concerned that it is difficult to know how the donor population would respond to any changes they make. Therefore, they have announced that they will continue to work with donors and charities to develop an understanding of donor behaviour.

2.6 Guidance and Awareness

The consultation highlighted the need for simplification of guidance on Gift Aid. In response to this, the Government has announced:

- the launch of the Gift Aid web information service via www.direct.gov.uk/giftaid offering sources of guidance and support on Gift Aid;
- that HMRC will implement a programme of updates to its Gift Aid guidance;
- the development of a Gift Aid toolkit containing all of the tools and guidance needed to run a successful Gift Aid scheme.

2.7 Small charities

The Government has acknowledged that small charities have specific needs and concerns such as limited technical and administrative resources. They have announced the following packages of support to address this:

- the extension of the Tax-effective Giving Initiative delivered through the Institute of Fundraising to give charities access to training, resources and advice on operating Gift Aid;
- a Small Charities Training Programme, targeting charities with a turnover of less than £1 million per annum;
- promoting the use of local 'umbrella charities' to help charitable community and voluntary groups access the benefits of Gift Aid;
- the development of a new online Gift Aid mentoring forum for charities.

3. **More information**

3.1 The Government's response to the consultation can be found at http://www.hm-treasury.gov.uk/budget/budget_08/documents/bud_bud08_giftaid.cfm

3.2 HMRC's guidance for those administering changes to Gift Aid can be found at <http://www.hmrc.gov.uk/charities/budget08-announcements.htm>

3.3 The Institute of Fundraising has also produced guidance on administering the changes to Gift Aid <http://www.tax-effective-giving.org.uk/giftaid.html>

4. **Next steps**

4.1 NCVO welcomes the measures that have been announced. Our media response can be found at <http://www.ncvo-vol.org.uk/press/releases/?id=8408>

4.2 We will continue to work with the Government over the coming months on the finer details of the scheme, including:

- changes to Government policy on the extrapolation of error rates;
- the implementation of the de minimis approach to errors found at audit;
- whether the £10 maximum single donation for the purposes of aggregated claims meets the needs of the sector;
- record keeping systems;
- the opportunities and risks of allowing charities who employ an auditor to self-audit their gift aid claims;
- improvements to guidance to make it more accessible and relevant to all charities.

4.3 There are particular recommendations that we made in our consultation response that we will continue to push for. These include moving to an accounts based system of Gift Aid, greater consideration to the application of Gift Aid to spontaneous giving, rules around higher rate tax payers, and how to raise awareness about Gift Aid amongst the general public.

4.3 If you would like to you would like to feed in your views, or discuss NCVO's Gift Aid work further please contact Louisa Darian on 020 7520 2475 or email louisa.darian@ncvo-vol.org.uk

Annex A – NCVO’s recommendations

- While some smaller charities may encounter particular difficulties with using the Gift Aid scheme, it is important to consider the diversity of the whole charitable sector and the barriers that may be experienced by a range of organisations.
- Government could explore public attitudes and behaviours to giving between different causes and organisations including through the proposed charitable giving research centre
- HMRC should consider working with sector support agencies, such as councils for voluntary services, to both build awareness of how the scheme operates and to provide support to correctly administer claims.
- HMRC should consider establishing mechanisms for regular dialogue about the operation of the scheme with charities.
- Awareness of the scheme amongst both charities and the general public could be improved by establishing a common branding for all the tax-effective measures offered on charitable donations e.g. self-assessment return forms.
- Consideration should be given to how Gift Aid could be more broadly applied, including to spontaneous giving. This could be enabled through simplification of the way the scheme is administered, but also perhaps greater flexibility in the way that spontaneous donations are recorded for Gift Aid purposes.
- Government should explore mechanisms to enable higher rate tax payers to make Gift Aid donations at the higher tax rate at the time of making a donation as well as at the end of the tax year.
- Consideration should also be given to the anomalies in the current system, which provides an individual incentive for charitable giving to higher rate taxpayers but not to other taxpayers.
- Consideration should be given to how the administrative burden can be reduced, while retaining accountability for Gift Aided donations. In particular, it may be more appropriate to take an incremental approach to reporting, dependent on the size of the donation.
- While it is important to ensure that Gift Aid records are accurate and that an audit trail can be followed, faulty paperwork relating to one claim should not necessarily have implications for all the claims that a charity has made.
- Consideration should also be given to the most efficient use of HMRC resources in processing Gift Aid errors through a cost-benefit analysis of the costs of administering the scheme in relation to the risks of non-compliance.
- Consideration should be given to whether it is possible to create a passporting system whereby donors can confirm that they wish all their donations to be treated for Gift Aid in a given tax year, and this information is then made available to charities using the scheme.
- Currently, the Gift Aid auditing process operates on the basis of looking at each individual claim. In order to reduce the burden on both charities and HMRC, consideration should be given to the potential for charities who wish to do so to opt to use an accounts based system. This would enable the Government and the sector to determine a fixed rate of Gift Aid a charity can claim, based on the charity’s level of voluntary income, taking into account the percentage of donors who are taxpayers