

# VAN Briefing

The voice of the Voluntary Arts

## Gift Aid and tax-effective giving – making the most of your charitable income

**Gift Aid is an easy way for voluntary arts groups that are registered UK charities to increase the value of their donations (including membership subscriptions\*), by reclaiming from HM Revenue & Customs (HMRC) the basic rate of tax (income or capital gains) the donor has already paid on it. This means that for every £1 given, they can currently claim an extra 28 pence.**

The Gift Aid scheme is particularly useful for those charities that make the majority of their income through donations as opposed to grant funding. And yet it's surprising how many voluntary arts charities don't already reclaim Gift Aid, perhaps because they believe the process is too complicated or because they don't realise that tax can be reclaimed not just on donations, but on membership subscriptions too (\*subject to the rules – see Section B).

This briefing will dispel some of the myths and show how easy it is to make the most of the scheme. Since we published VAN Briefing 54 in April 2001, a number of changes have been made to Gift Aid, details of which are also included here.

In the Republic of Ireland, tax relief is available only on donations over €250 per year – details of which are also included in this briefing (Section D).

**If you're not a registered charity** – then this briefing will not apply to you directly, but reading about the benefits of tax-effective giving may affect your decision to apply for charitable status in future – in which case, please read some of our other guidance on the pros and cons of different organisation types at [www.voluntaryarts.org/runningyourgroup](http://www.voluntaryarts.org/runningyourgroup).

### A. The changes (UK)

#### The changes so far...

The following changes have been made to the Gift Aid scheme since the last VAN Briefing was published on the topic in 2001.

- **Transitional relief... an extra three pence** – in 2007 the basic rate of tax fell from 22 per cent to 20 per cent,

meaning that the value of Gift Aid to charities was reduced. To make up for this shortfall, the Government implemented transitional relief of an extra three pence for every £1 charities received under the Gift Aid scheme, available between 6 April 2008 and 5 April 2011. This means that, in total, for every pound given under the Gift Aid scheme the charity will continue to receive 28p. Charities don't have to do anything extra to benefit from this transitional relief – it will be paid automatically in response to any valid Gift Aid claim.

- **Claim period** – from 1 April 2010, the period within which charities can recover Gift Aid on gifts decreased from six to four years from the end of the accounting period to which the claim applies. The claim period for transitional relief remains two years from the end of the accounting period.
- **Higher-rate taxpayers** – if a donor is a higher rate taxpayer (40 per cent rather than 20 per cent), they too can benefit from Gift Aid by claiming back the extra 20 per cent of the total value of the gift. So, if £1 was given, the gross gift (minus transitional relief) would be £1.25, and the donor could claim 25 pence back (20 per cent of £1.25). The donor must pay at least as much UK tax as the amount they are reclaiming and you must advise them of this tax requirement when they make the Gift Aid declaration. When they claim back the higher rate of tax, they can specify whether they want to keep it or donate it to a charity of their choice (including yours), and, if they wish, this can be increased further through Gift Aid.

#### Future changes...

The previous Government was considering reforming Gift Aid, but the new Government has not, at the time of writing (June 2010), issued any guidance on the future of Gift Aid.

We will keep you updated on any further developments, including information on the end of the period of transitional relief scheduled for 5 April 2011, via the Voluntary Arts e-news:

- [www.voluntaryarts.org/news](http://www.voluntaryarts.org/news)
- [www.vaireland.org/news](http://www.vaireland.org/news)
- [www.vaengland.org.uk/news](http://www.vaengland.org.uk/news)
- [www.vascotland.org.uk/news](http://www.vascotland.org.uk/news)
- [www.vaw.org.uk/news](http://www.vaw.org.uk/news)



## B. The rules (UK)

### How is the amount of Gift Aid calculated?

Gift Aid is equal to the basic rate of tax, which is 20 per cent. Additionally, for donations between 6 April 2008 and 5 April 2011, charities also get a separate government supplement of three pence on every pound, making an initial donation of £1 worth £1.28 with Gift Aid.

### Gifts that qualify for Gift Aid

Gift Aid can only be reclaimed on gifts of money from **individuals, sole traders or partnerships** (not limited companies). The following types of contributions qualify as gifts for the purposes of Gift Aid:

- **donations** – monetary only, not gifts of goods or services;
- **membership subscriptions** – although these are not gifts they can be treated as so for Gift Aid purposes, provided that the payment is for membership of the charity only and does not allow any personal use of the charity's services or facilities. If, in the case of many voluntary arts groups, your members are the participants of your arts or crafts activity, then you may wish to consider charging a basic membership subscription, for example annually or quarterly (for which you can claim Gift Aid), and then charge a separate fee for participatory activities weekly or as they occur (which won't qualify for Gift Aid).
- **Donated expense payments** – if volunteers decide to support your charity by not claiming the expenses they are entitled to, Gift Aid cannot be claimed on the amount of expenses foregone – as they are not gifts of money. The 'value' of a volunteer's time as a 'donation in kind' does not qualify for Gift Aid. However, where your charity physically pays the expenses to a volunteer, they are free to keep the money or may choose to donate some or all of it back to your charity – in which case the normal process applies (see Section C).

### Payments that don't qualify for Gift Aid

These include:

- donations made in return for benefits valued above the stated thresholds (see *table right*);
- donations of money from a limited company;
- donations in the form of a loan waiver or debt conversion – for example an individual may lend money to your charity and then, at a later date, agree that it does not have to be paid back;
- gifts made on behalf of other people, for example, a membership subscription paid on behalf of somebody else;
- gifts that come with a condition about repayment;
- gifts with enforceable conditions about how your charity should use the money;
- payments received in return for goods or services;
- a 'minimum donation' where there is no choice about payment;
- gifts made using 'charity vouchers' or 'charity cheques' provided by another charity.

## Benefits

The benefits the donor is given in return for their gift must not be above prescribed limits:

<i>Amount of gift</i>	<i>Limit of benefit value</i>
£0 to £100	25 per cent of the donation
£101 to £1,000	£25
Above £1,000 donated up to and including 5 April 2007	2.5 per cent of the donation
Above £10,000 donated up to and including 5 April 2007	£250
Above £1,000 donated on or after 6 April 2007	5 per cent of the donation
Above £10,000 donated on or after 6 April 2007	£500

This rule applies to obvious things such as the right to attend a concert or event at no charge, but sometimes the benefit can arise in less obvious ways and care must be taken.

If you offer other goods and services as a result of the donation, e.g. in the case of membership subscriptions, then you will have to assess the value of these. Read the guidelines and seek advice (see *Further Resources for contact details*) if you are unsure about doing so.

The key principle to remember is that if any donor – or person connected to the donor – benefits significantly from their donation, then their donation(s) will not qualify for Gift Aid.

However, where a charity provides literature to its donors, HMRC accepts that the value of this benefit is nil, providing the material is relevant and furthers the aims of the charity. This means that newsletters, bulletins, annual reports, journals, members' handbooks and programmes of events will generally carry no value for the purposes of the donor benefit rules.

## C. The process (UK)

### I. Registering

Before you can claim Gift Aid, you will need to make sure your charity is registered with **HMRC**. If you are not already registered you can do so by downloading the form **ChAI** from the HMRC website at [www.hmrc.gov.uk/charities/cha1.pdf](http://www.hmrc.gov.uk/charities/cha1.pdf) and sending the completed form back to HMRC Charities in Liverpool.

Once HMRC recognises you as a charity for tax purposes, it will send you your reference number and more details of how to make claims.

**Please note:** registering with the HMRC does not in itself constitute charitable status. Before you can register with the HMRC you must be a registered charity with the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator or the Charity Commission for Northern Ireland.

The ChAI form allows you to nominate someone in your charity to be the authorised claimant, who can sign claim forms and receive money on behalf of the charity. You can nominate anyone you consider suitable for this role – for example, your treasurer, an employee, a trustee, the charity's accountant or a claimant agency.



If you wish to change your nominee, or if you are already registered with HMRC but have not yet nominated anyone, you can do so using form ChVI available to download from the HMRC website at [www.hmrc.gov.uk/charities/cha1.pdf](http://www.hmrc.gov.uk/charities/cha1.pdf).

## 2. The Gift Aid declaration

In order to claim Gift Aid, your donors will have to make what is known as a **Gift Aid declaration**. This is a simple form that donors only need to fill out once to cover all of their gifts, past (up to four years from the end of the accounting period to which the claim applies) and future.

A Gift Aid declaration **must include**:

- the donor's full name;
- their home address;
- the name of your charity;
- details of their donation;
- a declaration that it's a Gift Aid donation; and
- a declaration that they will have paid enough income tax and/or capital gains tax in the financial year the gift is being made to cover the tax refund to the charity.

The Gift Aid declaration must be kept by the charity, and can be either a written form or an online form – as long as there is a way of recording and keeping the completed forms physically or electronically. The declaration does not have to be signed and dated as long as it includes the statement that the donor pays enough tax.

### Example Gift Aid declaration:

By using Gift Aid you can make your donation worth more. For every pound you give us, we get an extra 28 pence from HMRC.

*giftaid it*

- Yes, please treat all my donations from [date] and until further notice as Gift Aid.  
I confirm I pay an amount of income tax and/or capital gains tax at least equal to the tax that [charity name] will reclaim on any donations in the tax year.
- No, I do not pay income tax or capital gains tax in the UK.
- I would prefer not to make a Gift Aid declaration.

### The 'giftaid it' logo

The Gift Aid logo is made up of the words 'giftaid it'. The creators of the logo wanted people to think of Gift Aid as an action rather than a thing, and to emphasise this, they made the logo into a verb – a call to action.

You should refer to 'Gift Aid' when talking about it in text. But the logo always says 'giftaid it' (never 'giftaid' or 'Gift Aid it') and is always written in this script. You can download copies of the logo from [www.tax-effective-giving.org.uk/generator/assets/gift\\_aid\\_logos.pdf](http://www.tax-effective-giving.org.uk/generator/assets/gift_aid_logos.pdf) and further details on how to use it from [www.tax-effective-giving.org.uk/generator/assets/gift\\_aid\\_toolkit.pdf](http://www.tax-effective-giving.org.uk/generator/assets/gift_aid_toolkit.pdf).

## 3. Claiming

Claims for Gift Aid are made to HMRC using the forms **R68 Gift Aid schedule** and **R68 Gift Aid claim form** available to download from [www.hmrc.gov.uk/charities/r68-gift-aid.pdf](http://www.hmrc.gov.uk/charities/r68-gift-aid.pdf) and [www.hmrc.gov.uk/charities/r68-claim.pdf](http://www.hmrc.gov.uk/charities/r68-claim.pdf) respectively.

Use the Gift Aid schedule to enter the names of the donors who have completed a Gift Aid declaration, along with the amounts they have donated. This will help you to calculate the amount of tax you can claim back using the claim form.

You can use the same form to claim repayment for more than one tax year or accounting period. You should not send in any Gift Aid declarations with your claim.

You will also need to provide payment details – who HMRC should make the payment to, and whether it should be via a direct payment or by cheque. Your nominated signatory must remember to sign and date your claim. When both forms are completed you can return them to:

**HMRC Charities, Repayments (Unit 361A),  
St John's House, Merton Road, Liverpool L75 1BB.**

Once HMRC receives your claim form, if everything is in order you can expect your payment within 15 working days. If this is your first claim, it may take up to 25 working days to process your claim.

### Gift Aid claims for sponsored events

Gift Aid claims for sponsored events are slightly different in that you can submit a copy of the sponsorship form instead of the R68 Gift Aid schedule (you'll still need to send the R68 Gift Aid claim form though).

Sponsored event claims should be made separately from any other repayment claim and you must keep all of the original sponsor forms in case of any audit of your claim by HMRC. If you're using the sponsorship form instead of a Gift Aid schedule then the form must contain the following:

- the name of your charity;
- the sponsor's full name;
- the sponsor's home address including postcode;
- a Gift Aid declaration;
- a column containing a checkbox for the sponsor to tick, indicating that they want their donation to be treated as a Gift Aid donation and that they understand what the Gift Aid declaration means;
- a note explaining that the sponsor must pay a sufficient amount of tax at least equal to the amount that your charity or CASC will claim.

## 4. Record keeping

You must keep a record of:

- all Gift Aid declarations, including confirmation that you have advised the donor that they must pay at least as much tax (for the tax year that they donate) as the amount you are reclaiming on the donation;
- any cancellations of Gift Aid declarations;
- any benefits you provide to donors.

Records must be kept in the same format as when you received them, but can be scanned and stored electronically. You must also be able to locate individual declarations on request for audit checks.

**Note:** administration, including record keeping, costs time and money and you may feel that it is not be worth using the Gift Aid scheme for donations under, say, £10.

## D. Tax efficient giving in the Republic of Ireland

Eligible charities in the Republic of Ireland (see list at [www.revenue.ie/en/business/authorised-charities.html](http://www.revenue.ie/en/business/authorised-charities.html)) can claim back the tax paid on personal donations, **but only on donations of €250 or more** in any one year (1 January to 31 December) by individuals who are on PAYE (Pay As You Earn). Donations don't have to be made in one go – they are cumulative, so a direct debit or standing order of €21 a month will bring a donor over the threshold.

If your donor is a PAYE taxpayer and pays tax at the standard rate of 20 per cent, their donation of €250 is actually worth €300 to your charity. If they are a PAYE taxpayer and pay tax at the higher rate of 41 per cent, their donation of €250 is actually worth €352.50 to your charity.

Donations for which tax relief is claimed must not:

- be repayable;
- confer any benefit on the donor or any person connected with the donor;
- be conditional on, or associated with, any arrangement involving the acquisition of property by the eligible charity or the approved body.

Additionally, where there is a direct association between the donor and the charity at the time the donation is made (e.g. where the donor is an employee or member), tax relief on donations is restricted to ten per cent of the total income of the individual for the relevant year of assessment.

Self-assessed tax payers and corporations can also reclaim tax on donations which is retained by the person or corporation. Many companies make the decision to donate the reclaimed tax

to the charity they gave the original gift to, making their donation go even further.

To enable tax-effective giving, your donors must complete and sign part one of the form **CHY2**, available from the Office of the Revenue Commissioners ([www.revenue.ie](http://www.revenue.ie)), and give/send it back to you. You can give the donor a blank copy of the form at the time of their donation. It is then up to you as the charity to complete part two and return the fully completed form to:

**Office of the Revenue Commissioners,  
Collector-General's Division, Charity Claims Unit,  
Government Offices, Nenagh, Co. Tipperary**

## Further Resources

- **HM Revenue & Customs** – [www.hmrc.gov.uk/individuals/giving/gift-aid.htm](http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm)
- **HMRC Charities Helpline** – 0845 302 0203 (open from 8am to 5pm, Monday to Friday)
- **Institute of Fundraising** – [www.institute-of-fundraising.org.uk](http://www.institute-of-fundraising.org.uk)
- **Directgov** – [www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/GivingMoneyToCharity/DG\\_10015097](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/GivingMoneyToCharity/DG_10015097)
- **Institute of Fundraising** – Gift Aid mentoring forum – [www.giftaidhelp.org](http://www.giftaidhelp.org)
- **Office of the Revenue Commissioners** – [www.revenue.ie/en/personal/charities.html](http://www.revenue.ie/en/personal/charities.html)
- **CHY2 Charities tax relief information leaflet** (Republic of Ireland) – [www.revenue.ie/en/tax/it/leaflets/chy2.pdf](http://www.revenue.ie/en/tax/it/leaflets/chy2.pdf)
- **Promoting Gift Aid – 10 top fundraising tips and ideas to promote fundraising by Gift Aid** (Institute of Fundraising) – [www.tax-effective-giving.org.uk/generator/assets/gift-aid-tips.pdf](http://www.tax-effective-giving.org.uk/generator/assets/gift-aid-tips.pdf)

Information contained here may go out of date and you are therefore advised to check its currency. Updated information may be available on the VAN website: [www.voluntaryarts.org](http://www.voluntaryarts.org)

**Disclaimer:** Reasonable precautions have been taken to ensure the information in this document is accurate. However, it is not intended to be legally comprehensive; it is designed to provide guidance in good faith at the stated date but without accepting liability.

We therefore recommend you take appropriate professional advice before taking action on any of the matters covered herein.

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