

Gift Aid

made simple



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SAYER | VINCENT

Sayer Vincent LLP

Chartered accountants
and statutory auditors

Invicta House

108–114 Golden Lane

London EC1Y 0TL

Offices in London and Birmingham

020 7841 6360

svinfo@sayervincent.co.uk

www.sayervincent.co.uk

 [@sayervincent](https://twitter.com/sayervincent)



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Introduction

Gift Aid is a system of tax relief for donations to charities and Community Amateur Sports Clubs ('CASC').

Corporate Gift Aid

For donating companies, the method of obtaining the tax relief is very simple – the company deducts the donation from its taxable profits before calculating its tax liability. The donation is thus made gross of tax and the charity does not claim back any tax from HMRC. There is no need for the company to provide the charity with a Gift Aid declaration, although other rules do apply, such as the donor benefit rules, which are explained below.

Individual Gift Aid

For donations from individuals, charities can reclaim the basic rate income tax the individual has paid on the donation, providing the individual provides the charity with a *Gift Aid declaration*. This boosts the value of the donation to the charity by 25% (assuming the basic rate of income tax is 20%).

However, there are some rules to follow and the charities are subject to inspection by HM Revenue & Customs (HMRC) to ensure compliance. This guide explains how you can minimise the risks of errors being found during inspections.

Individual Gift Aid is only available for monetary donations. Donations of other assets and gifts in kind do not qualify for Gift Aid, though the *Retail Gift Aid Scheme* is an HMRC approved way of obtaining Gift Aid on donated goods. Donations made in foreign currencies must be translated at the rate applicable on the date of the donation and there is no need to net off exchange costs.

There are also some special situations where Gift Aid can apply if you structure the arrangements correctly.

Gift Aid Small Donations Scheme

The Gift Aid Small Donations Scheme ('GASDS') was introduced on 6 April 2013 and is also covered in this guide.

How it works

A Gift Aid donation from an individual is assumed to be paid net of basic rate income tax. The charity can reclaim this tax from HMRC provided the donor has paid an equivalent amount of UK income tax and/or capital gains tax.

Higher rate taxpayers

A higher or additional rate tax payer, and in Scotland, an intermediate rate payer, can claim income tax relief on their donation and, if desired, carry this relief back to the previous tax year. In effect, the grossed up value of the donation is removed from the donor's highest rate income pot and placed in their basic rate income pot.

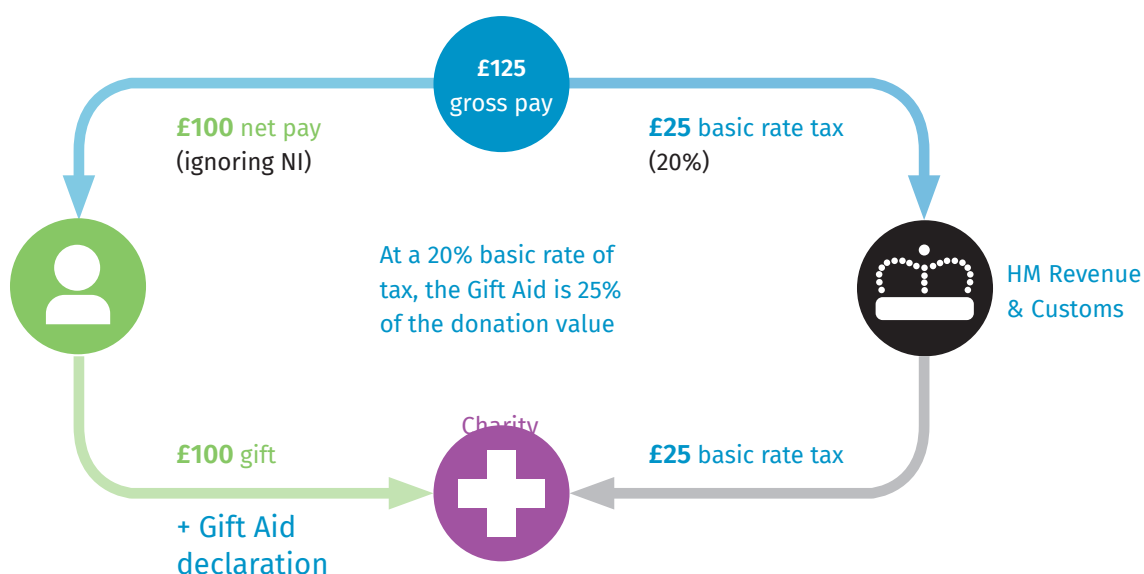
For example, if a higher rate (40%) taxpayer makes a £100 donation, the grossed up value of the donation is £125 (see diagram below). The higher rate tax relief is the difference between tax at the higher rate (40%) and basic rate tax (20%) – so 20% of £125 = £25. A higher, additional or intermediate rate donor must make a claim for relief through their tax

return or by notifying their tax office. If the donor claims higher rate relief at 40%, the charity receives £125 in total for a net cost to the donor of £75.

Tax to cover

In any income tax year (6 April to the following 5 April) the donor must have paid sufficient UK income tax plus capital gains tax to cover all Gift Aid claimed on the donor's Gift Aid donations in that tax year. If the donor makes donations to several charities or CASCs, their tax must cover the Gift Aid reclaimed by all the charities and CASCs.

Charities are not expected to police this and it is for the donor to declare to each charity or CASC that they have paid or will pay sufficient tax. If it transpires that a donor has not actually paid enough tax, HMRC may pursue the donor for the tax, though if a charity has colluded in an abusive scheme involving Gift Aid, HMRC can demand repayment of any Gift Aid claimed under the 'tainted charity donation' rules.



Scottish taxpayers

The Scottish Government can now set its own rates of Income Tax and Income Tax bands, so there are now two basic rates of Income Tax in the UK, the 'Scottish basic rate' and the 'rest of the UK basic rate'. Charities reclaim Gift Aid at the rest of the UK basic rate irrespective of whether the donor is a Scottish or rest of the UK taxpayer. Tax relief for Scottish taxpayers then works as for rest of the UK taxpayers. For example, the Scottish higher and basic rates are currently (18/19) 41% and 20% whilst the rest of the UK basic rate is 20%. If a Scottish higher rate taxpayer donates £100 under Gift Aid, the grossed up donation would be £125 (using the rest of the UK basic rate of 20%), and the higher rate tax relief would be $£125 \times (41\% - 20\%) = £26.25$.

Welsh taxpayers

From April 2019 the Welsh Government will be able to vary the rates of income tax payable by Welsh taxpayers, so similar considerations will apply to Welsh taxpayers and the Welsh rates of tax.

Gift Aid declarations

An individual donor must provide the charity with a declaration that their donation is made under Gift Aid. This declaration can be provided at the time of the donation, in advance of the donation, or, within certain time limits, after the donation was made. A donor can provide a declaration in writing (including by email, text message or by completing a website form) or orally (usually over the telephone).

With effect from 6 April 2017, individuals can also authorise an intermediary to make a Gift Aid declaration to one or more charities on their behalf. The authorisation lasts until the end of the tax year, at which point it must be renewed, though if authorisation was given on or after 1 March, the authorisation continues until the end of the next tax year.

Written declarations

A written declaration must contain the following:

The donor's name

HMRC state that as a minimum they will accept an initial and surname.

The donor's home address

HMRC state that as a minimum they will accept a house number and postcode. Addresses that are clearly business addresses will be rejected.

The identity of the beneficiary charity

The full name of the charity does not have to be provided but there should be enough to identify the intended beneficiary beyond doubt

Identification of the gift(s) to which the declaration relates and confirmation that Gift Aid should apply

For example, 'please Gift Aid all donations made within the last four years, this donation and all future donations'. A single declaration can cover future donations, current donations and past donations. If a declaration is to cover past or future periods it must be dated. A declaration that covers past and future periods is referred to as an 'enduring declaration'.

Tax to cover statement

The donor must also have been made aware that they need to have paid sufficient income tax and/or capital gains tax to cover the Gift Aid and that if there is a shortfall they will be held liable. HMRC provide model wording to use to explain this and this model wording is updated from time to time.

HMRC model declarations

HMRC provide several model declarations (see below) and these can be adapted to suit your particular charity. There is no need to obtain prior approval of declarations, although HMRC may be prepared to do so.

Oral declarations

For oral declarations, the charity should obtain the same details as those required for a written declaration and explain to the donor that they must have paid sufficient tax. The charity must either keep a recording of the conversation or send the donor written confirmation (by post, email etc) of the details together with a statement that they have 30 days in which to cancel the declaration.

The charity must keep a record or copy of this written confirmation, though HMRC accept this can comprise a template mail merge letter together with a record of the donor details entered into the letter and the date the letter was sent. The charity may not reclaim the Gift Aid until the statement is sent. If the donor cancels their declaration within 30 days, it is treated as if it was never made and the charity must repay to HMRC any Gift Aid claimed under the declaration.

Gift Aid intermediaries

With effect from 6 April 2017 a Gift Aid intermediary can issue a Gift Aid declaration on a donor's behalf. This is designed to facilitate the use of commercial fundraising websites to generate Gift Aid donations. The intermediary must be authorised by the donor to issue the declaration on their behalf and the authorisation must be updated by the intermediary each tax year, though if an authorisation was issued on or after 1 March, it is effective for the following tax year.

If an intermediary has issued a Gift Aid declaration on behalf of a donor, then by 31 May following the end of the tax year of issue, the intermediary must send the donor a written statement, or details as to how the donor can access a written statement, stating:

- a the total value of donations made under a Gift Aid declaration in the tax year
- b the maximum amount of Gift Aid which charities may claim on the gift aided donations,
- c that the statement does not include any Gift Aid declarations given by other donor intermediaries or by the donor directly, and
- d that if the donor paid less income tax and

capital gains tax in that tax year than the amount of gift aid claimed by charities on all the donor's donations in that tax year, it is the donor's responsibility to pay any difference.

However this does not apply to a tax year during which the aggregate value of the gift aided donations is £20 or less, or only one gift aided donation is made.

Deeds of covenant

Before April 2000 charities could reclaim basic rate income tax on regular donations made under a deed of covenant. Though the scheme was similar to Gift Aid, this was a separate relief. In April 2000 the separate relief for deeds of covenant was abolished and all claims under deeds of covenant are now made under the Gift Aid scheme.

For donations made under deeds of covenant in place at 6 April 2000 HMRC will not require the charity to obtain a separate Gift Aid declaration. However, for deeds executed after 6 April 2000 the charity must obtain a separate declaration or ensure the deed contains all the information required of a Gift Aid declaration. If a donor with a deed in place at 6 April 2000 makes a donation outside the terms of the deed, this must be covered by a separate Gift Aid declaration.

Model Gift Aid declaration

HMRC update their model Gift Aid declarations from time to time. The current (October 2015) version for an enduring declaration is reproduced below.

HMRC advise that this text should be used for all enduring declarations issued on or after 6 April 2016.

HMRC also provide model declarations for a single donation and for donations at sponsored events – see [Further information](#) for links and see [Special situations](#) for more on sponsored events.

Gift Aid declaration for past, present and future donations

Name of charity

Boost your donation by 25p of Gift Aid for every £1 you donate

Gift Aid is reclaimed by the charity from the tax you pay for the current tax year.

Your address is needed to identify you as a current UK taxpayer.

In order to Gift Aid your donation you must tick the box below.

☐ I want to Gift Aid my donation of £ _____ and any donations I make in the future or have made in the past 4 years to:

Name of charity _____

I am a UK taxpayer and understand that if I pay less Income Tax and/or Capital Gains Tax than the amount of Gift Aid claimed on all my donations in that tax year it is my responsibility to pay any difference.

My details

Title _____ First name or initial(s) _____

Surname _____

Full home address _____

Postcode _____

Date _____

Please notify the charity if you:

- want to cancel this declaration
- change your name or home address
- no longer pay sufficient tax on your income and/or capital gains.

If you pay income tax at the higher or additional rate and want to receive the additional tax relief due to you, you must include all your Gift Aid donations on your self-assessment tax return or ask HM Revenue and Customs to adjust your tax code.

Claiming Gift Aid

Before a charity can claim Gift Aid it must register with HMRC by completing and submitting an online application CHA1. If the charity should be registered with a charity regulator (such as the Charity Commission or OSCR) it must have done so before registering with HMRC.

Charities Online

There are three ways to claim Gift Aid.

Online claim

The charity must first set up a Government Gateway online account and enrol that account for the Charities Online Service. If the charity already has a Government Gateway account (for example, to submit VAT or corporation tax returns) the Charities Online service can be added to the account's service options provided the charity is registered with HMRC.

The Charities Online service provides an online claim form to which can be attached a spreadsheet listing of donors and their Gift Aid donations. HMRC provide two model spreadsheets to use for the upload; one is Microsoft Excel compatible and the other is open source compatible (LibreOffice). The spreadsheet can list up to 1,000 donors. You download the appropriate spreadsheet from the HMRC website, enter or copy and paste the donations data, then upload the spreadsheet to the online claim form. As you upload the spreadsheet, the HMRC system checks the entries for errors. You have to make sure all your records fit the HMRC permitted format or the upload will be rejected. You can make as many claims as you like.

Direct database claim

If you use compliant donor management software, your software will be able to submit claims directly to the HMRC system. Each claim can be for up to 500,000 donors and you can submit up to one claim per day.

Paper claim

A paper claim form (ChR1) can be ordered from the HMRC Charities helpline. This can list up to 90 donors though you can submit as many claims as you like. HMRC will scan completed forms so you must use original forms – photocopies cannot be used.

There are some claim rules for Charities Online:

- You have to provide the donor's address in addition to the donor's name, donation date and donation amount. If the donor's address is in the UK, you have to provide a valid UK postcode. You can use a postcode lookup database if the donor has not provided a postcode. If the donor advises a change of address, you must use the new address for claims from then on.
- You can aggregate up to £1,000 of donations of £20 or less onto a single claim line.
- For sponsored events, you can list donations by event participant rather than donor. However, individual donations of £500 or more must be separated out and listed by donor.
- You cannot enter negative amounts on the forms, but there is a box for disclosing the amount of Gift Aid over-claimed.

Time limits for claiming Gift Aid

The time limits for claiming Gift Aid depend on whether the charity is a company or a trust. For claims made after 1 April 2010:

Charitable company

Four years after the end of the accounting period to which the claim relates.

Charitable trust

Four years after the end of the tax year (5 April) to which the claim relates.

Donor benefits

A basic principle underlying Gift Aid is that the gift should be freely given with nothing substantial expected or provided in return. The donor, and persons connected to the donor, must not receive a substantial benefit in return for the donation. However, some benefits can be ignored and there are monetary limits below which a benefit is not considered 'substantial'. If the benefit limits are breached, it may be possible to split the donor's payment into payment for the benefits and a donation, so that the donation element can be Gift Aided.

Permitted benefits

Certain benefits are ignored for donor benefit purposes.

Charity literature

Where a charity sends literature to its donors, HMRC accept the literature can be ignored provided:

- The material is produced solely for the purpose of describing the work of the charity whether produced by the charity or a third party
- The material is relevant to and distributed exclusively in furtherance of the objects of the charity

The fact that the literature has a cover price and is also on sale to members of the public is not relevant. This means that literature like newsletters, bulletins, annual reports, journals, magazines, members' handbooks and programmes of events will generally carry no value for the purposes of the donor benefits rules.

Acknowledgements

An acknowledgement of a donor's generosity in a charity's literature or on a plaque etc will not amount to a benefit, provided

the acknowledgement does not take the form of an advertisement for the donor's business. HMRC will take into consideration the size and prominence given to the acknowledgement.

Naming rights

HMRC accept there is no Gift Aid benefit where a building is named after an individual. However, HMRC may see a Gift Aid benefit if a building is named after a company or business.

Admission rights

The right of admission to view charity property is ignored if certain conditions are met. This is explained below.

Third party benefits

HMRC accept that where unconnected third parties (such as commercial retailers) offer benefits such as discounts to a charity's donors, these benefits are not Gift Aid benefits provided they are entirely unsolicited by the charity or the donor. However, if a charity negotiates discounts for its donors, for example, as part of a sponsorship agreement, the third party benefits must be taken into consideration for Gift Aid benefit purposes.

Fundraising events in honour of a donor

HMRC state "Charities that receive a large donation from a donor will often want to give some form of 'thank you' to the donor, for example, they may hold a gala dinner to which they will invite the donor as a 'guest of honour', their family, friends and other potential donors. If the purpose of the dinner is to both celebrate the donation and promote the charity to stimulate more donations from others attending the events and would not be treated as a benefit to the

donor; the dinner is simply an opportunity to help raise more funds. However, if a dinner is a private affair limited to the donor and a few guests and there is no significant element of additional fundraising involved, then that is simply a private dinner for the donor and that is a benefit.”

Priority booking rights

HMRC help sheet 4 “What is a benefit for Gift Aid purposes?” accepts that priority booking rights can be ignored.

Small negligible value items

Stickers, pins, badges and other items of nil or negligible value can be ignored.

Minor benefits

Benefits valued below certain limits are not considered substantial. The maximum benefit allowed for an individual donation is:

Donation	Maximum benefit allowed
Up to £100	25% of donation
Over £100 and up to £1,000	£25
Over £1,000	5% of donation

These limits are applied on a donation by donation basis, though if several donations and benefits are linked, they may have to be treated as one.

With effect from 6 April 2019 the donor benefit limits will be simplified to:

Donation	Maximum benefit allowed
Up to £100	25% of donation
Over £100	£25 plus 5% of donation amount over £100

There is also a limit for the total value of all benefits. Any gift that provides a benefit and takes the value of all the benefits received by a donor in a tax year over £2,500 cannot be Gift Aided. However, gifts within the £2,500 limit are unaffected as are gifts that provide absolutely no benefit at all.

Meaning of connected persons

Benefits provided to *connected persons* are caught by these rules. For example if a donor makes a gift to a charity and the donor’s spouse receives a benefit in consequence of the gift, that benefit is caught by the rules. Connected persons include:

- The donor’s husband, wife, civil partner
- Immediate family members who are ‘ancestors’ or ‘descendants’ e.g. son, daughter, parent, grandparent, grandchild etc
- Any immediate family members of the donor’s spouse or civil partner
- A company under the control of the donor, or under the control of any of the above.

Valuing donor benefits

Where a benefit is normally sold by the charity or is sold commercially the value of the benefit will be the normal sale price (including VAT if applicable). Where a benefit is not commercially available HMRC state:

Events

Where a benefit takes the form of attendance at an event that is not open to the public (so that there is no ticket price) the benefit should be valued by reference to the cost to the charity of staging the event and the number of people in attendance.

Life membership

Where a benefit is given in return for a life membership subscription the value of all benefits that will be received over the lifetime of the membership must be estimated when valuing the benefit. For practical purposes the benefits received over the first 10 years of membership will be taken as the benefits received over the life of the member when deciding whether the benefit limits have been breached

Discounts

Where the benefit is a discount on goods or services, which an individual member may or may not take advantage of, the valuation can be based on the average take-up of the benefit by all your charity's members. In order to establish the average benefit the charity must keep complete records of all the discounts received by its members.

Splitting the payment

If a benefit has a readily ascertainable value (for example it is commercially available or otherwise sold by the charity) and the donor is aware of this value at the time of making their payment, the donor can specify that part of their payment is consideration for the benefit with the balance a pure donation. The charity should retain evidence of the donor's instruction, for example a pre-printed form the donor signs. However, this approach will not work for items that are not commercially available such as celebrity enhanced items. The split payment approach is commonly used for charity auctions (see below).

Special situations

Right of admission to view charity property

There is a special Gift Aid exemption that allows admission charges to view charity property to be treated as a donation and Gift Aided provided either:

- The payment grants a right of admission for at least 12 months at all times when the public have access (though admission may be denied on up to five “event days”), or
- The payment is at least 10% more than the normal admission charge, in which case the whole payment can be Gift Aided, not just the 10% excess.

Charity property is property preserved, maintained, kept or created by a charity for its charitable purposes and includes buildings, grounds or other land, plants, animals, works of art, artefacts, and property of a scientific nature. Entrance charges to performances (such as plays) are specifically excluded, though HMRC accept Gift Aid can apply to entry charges to property that include incidental performances such as historic re-enactments, demonstrations of technical processes and interactive experiments.

The admission charge can also grant access for members of the donor’s family and it is not necessary for all members of the family to visit at the same time.

Membership subscriptions

If a charity membership subscription provides no substantial member benefits or the value of benefits provided is within the donor benefit limits, then the whole subscription can be Gift Aided.

However Gift Aid cannot be claimed on the following membership subscriptions:

- Membership subscriptions paid to a CASC are specifically excluded and are never eligible for Gift Aid.
- Tax deductible professional membership subscriptions paid to a ‘list 3’ body. However HMRC accept that list 3 subscriptions paid by retired or student members with no relevant income from which to make a deduction can be Gift Aided provided:
 - the charity receives the member’s confirmation that they’ve no relevant earnings against which the subscription is deductible as an expense deduction for tax purposes
 - the Gift Aid conditions are satisfied so that the subscription could be regarded as a gift, and
 - the conditions of the Gift Aid Scheme are otherwise met.

Benefits such as the provision of literature that explains the work of the charity, the occasional opportunity to visit and view the work of the charity and the right to attend and vote at general meetings are not usually regarded as substantial benefits for Gift Aid purposes.

Sponsored events

Individuals may raise money for charity by asking for sponsorship for their participation in events such as marathons. The participant is asking other individuals to donate to their chosen charity, so these donations can normally be Gift Aided. If the charity provides a sponsorship form for the participant to collect donations, then this can be used as the Gift Aid declaration providing it gathers

the necessary details. HMRC provide a model Gift Aid sponsorship form on their website.

Problems can arise where the participant completes the sponsorship form on behalf of sponsors. To be effective as a Gift Aid declaration there must be evidence that the donor personally made or authorised the entry, so it can be advantageous to require donors to personally sign or initial a 'please Gift Aid box' rather than just tick it.

Participants sometimes receive substantial benefits such as travel and accommodation provided for a challenge event. If the benefits breach the donor benefit rules then sponsorship payments from persons connected to the participant cannot be Gift Aided. However, if the participant pays towards their benefits, reducing the value of the Gift Aid benefit below the donor benefit limits, then sponsorship payments from connected persons can be Gift Aided. It is important that literature provided to the participants explains this, so that the charity can demonstrate that it informed participants when Gift Aid can and cannot be claimed.

Charity auctions

Charity auctions typically involve participants paying over the odds for auction items with the intention that the excess is a donation. Even if the donor benefit rules are broken, provided there is a clear market value for the item and the participant is aware of this at the point at which they become committed to the purchase, the excess can be Gift Aided (subject to the normal Gift Aid rules).

To have a clear market value HMRC normally insist that the item must be commercially available. Where an everyday item has been

celebrity enhanced, for example a signed football, its market value will be taken to be the full price paid by the participant so no part of it can be Gift-Aided.

The charity should retain evidence of the commercial value of items auctioned and that bidders were made aware of this – for example, by having the values printed in an auction programme.

Patron/supporter schemes

Many arts charities (theatres, galleries, museums etc.) operate patron or supporter schemes in which individuals are offered a range of arts related benefits (e.g. newsletters, updates, previews, free tickets or ticket discounts, priority booking, exclusive supporter events, cafe discounts) for a specified amount. These schemes are usually structured as either:

- **Under the threshold** Supporters must pay a set amount to join and the benefit value does not exceed the donor benefit limits for the set amount, so the whole supporter payment can be gift aided.
- **Split payment** The supporter is asked to make a suggested payment which comprises a mandatory minimum payment for the benefits and a suggested donation, with the latter eligible for Gift Aid. The minimum payments must at least cover the cost to the charity of providing the supporter benefits and the supporter must be aware they can purchase the benefits for the minimum payment only.

With such schemes it is important to also bear in mind the VAT consequences. In general, where benefits are provided in return for a set minimum payment, the minimum payment is within the scope of

VAT, however any voluntary donation paid in addition is seen as being outside the scope of VAT. If the benefits are standard-rated for VAT, then it will usually be better (taking into account both Gift Aid and VAT) to structure the supporter scheme as a split payment scheme. However if the benefits are zero-rated or exempt, it will usually be better to structure the supporter scheme as under the threshold.

Retail Gift Aid scheme

Goods donated to charity for resale cannot be Gift Aided as they are not donations of money. However, the donor can agree that the charity or its trading company sells the goods on their behalf as agent. Provided the net proceeds (selling price less any sales commission charged) belong to the owner at the time of sale, the owner can then give the proceeds to the charity under Gift Aid if all other Gift Aid conditions are met.

The Retail Gift Aid scheme is an HMRC approved way of selling goods as agent of the owner and then claiming Gift Aid on the net

proceeds. HMRC provide detailed guidance on how the scheme should be operated and it is recommended that this guidance is followed carefully (see Further information below for a link). Care must also be taken to establish any other tax consequences, in particular, the consequences for VAT, for charitable trading income tax and corporation tax reliefs and for business rate relief. HMRC provide guidance on the VAT and trading aspects of the scheme.

From April 2013, all operators of the scheme must use HMRC template wording in their communications with owners of goods. HMRC have also introduced two new ways of operating the scheme under which the owner can agree they do not need to be informed of sales proceeds provided they remain below an agreed amount in any tax year. The agreed amount must be at most £100 if a charity operates the scheme, and at most £1,000 if a trading company operates the scheme.

Record keeping

Charities must maintain auditable records of declarations and of receipt of donations on which Gift Aid has been claimed. Most charity's accounting systems should be able to provide an auditable record of receipt of donations but special systems may need to be set up to store and retrieve declarations. For charities with a small number of Gift Aid donors a simple manual filing system will usually suffice. It may be simplest to set up individual donor files which hold the donor's declaration, correspondence with the donor and details of donations made.

As the number of Gift Aid donors increases most charities find it easiest to use special donor management software. There are many software packages available and these vary considerably in features and cost, with some systems being able to submit database claims directly to the HMRC Gift Aid system. Systems usually operate by assigning a unique ID to each donor, with this ID being used to cross-link donations, declarations, Gift Aid claims and donor correspondence. Some packages allow you to dispose of paper records by scanning in and storing declarations and donor correspondence electronically. HMRC provide a list of software products that can interact with the HMRC Charities Online service, see Further information.

For oral declarations charities must either maintain a sound recording of the declaration or a record of the follow up letter sent to the donor. Follow up letters can be printed off and filed, copies stored electronically or HMRC accept a template mail merge letter together with a database record providing the donor's details and the date the template letter was sent to the donor.

To link donations to declarations, most software packages provide facilities for entering donations against donors and then either automatically or manually posting these as a batch receipt to the accounting system. This avoids the need to enter individual donations in both the donor management system and in the accounting system.

Charities must maintain declarations for as long as HMRC can make an assessment on any Gift Aid claimed against that declaration. For open ended declarations (where the declaration covers all future donations) the charity may need to keep the declaration indefinitely if it is possible the donor will continue making donations. Where it is known the donor has ceased making donations, or the declaration relates to a fixed period, records should be kept for at least six years from the end of the year of the last claim, the year being the financial year for a corporate charity and the tax year for a charitable trust.

Gift Aid audits

HMRC conduct periodic audits of Gift Aid claims. The audit involves checking a sample of donations from Gift Aid claims in the previous financial year (charitable companies) or tax year (charitable trusts) to obtain evidence that each donation was received and was covered by a valid declaration.

An error rate is determined by taking the total value of problem donations found and dividing this by the value of all donations in the sample. This error rate is then applied ('extrapolated') to all claims in the year being audited and potentially also to claims made in previous years.

However, HMRC will allow charities to 'repair' errors in a sample before extrapolation. For a missing or incomplete declaration, the charity may be able to obtain a replacement declaration. For missing banking records the charity may be able to obtain evidence of receipt. There is then a 'de-minimis' error regime for the repaired error rate:

The amount at stake is the annual amount of Gift Aid claimed by the charity multiplied by the repaired error rate. Where HMRC issue a yellow card they will not extrapolate errors back to prior years but issue advice on how errors should be avoided in future. If a future HMRC visit shows that remedial action has not been taken then HMRC will go back and assess for earlier years.

Repaired error rate	Amount at stake	Action by HMRC	Yellow card issued?
Less than 4%	Less than £100	No action	No
	Less than £500	Recover in year of audit but not in prior years.	Yes
	More than £500		
More than 4%	Less than £500	Recover in year of audit and in prior years	No
	More than £500		

Minimising audit risk

If the repaired error rate is significant and there are many claims across which this can be extrapolated, the resultant HMRC assessment for overclaimed Gift Aid can be very high. There are, however, steps you can take to reduce the risk from HMRC Gift Aid audits:

You can undertake periodic in-house Gift Aid sample checks or ask external consultants to do this for you. This should flag up potential problems well in advance of any HMRC audit. Gift Aid problems usually arise from process failures, with some processes having higher error rates than others. For example there may be a greater risk of being unable to trace cash donations than being able to trace direct debits.

If different types of Gift Aid claim are subject to significantly different processes, you may be able to stop HMRC determining a single error rate and extrapolating this across all claims. Instead, HMRC will have to determine separate error rates for each distinct process.

For example, subjecting high value donations to extra Gift Aid procedures and checks may be worth the effort if this results in a much lower error rate for all high value donations. If this approach is adopted you should inform HMRC before any Gift Aid audit commences and it may be advantageous to claim each process type separately so they can be easily identified

Donations to foreign charities

Before 2009, Gift Aid was only available for donations to UK charities. A 2009 European Court of Justice case (*Persche v Finanzamt Lüdenscheid* C-318/07) established that this restriction was in breach of the UK's treaty obligations. With effect from 6 April 2010 Gift Aid was extended to donations by UK taxpayers to charities in other EU states, Norway and Iceland, and with effect from 31 July 2014, Liechtenstein.

To deal with Gift Aid claims from foreign charities, the government has changed the conditions under which any charity (including UK established charities) may claim Gift Aid. From this date Gift Aid is only available to a body or trust if it meets all the following conditions:

- It is established for charitable purposes only. Charitable purposes are as defined in the Charities Act 2006, so a foreign charity must meet the English law definition of a charity to qualify.

- It is subject to the jurisdiction of the courts of the UK, another EU state, Norway, Iceland, or with effect from 31 July 2014, Liechtenstein.
- It has complied with any requirement to be registered with a regulator, for example the Charity Commission in England and Wales and OSCR in Scotland.
- Its managers are “fit and proper persons” to be managers of the body or trust. Managers means the persons having the general control and management of the administration of the body or trust. HMRC has provided guidance on their website on the meaning of fit and proper.

From April 2010, all charities wishing to claim Gift Aid for the first time will have to submit an application form to HMRC to establish they meet the above tests.

Gift Aid Small Donations Scheme

The Gift Aid small donations scheme (“GASDS”) started on 6 April 2013. It was substantially modified with effect from 6 April 2017 and the guidance below relates to the modified scheme. It allows a charity to claim a Gift Aid-like top up payment on small cash donations (notes, coins and contactless card payments, but not other card payments, cheques, bank transfers etc) of £20 or less from individuals without having to obtain and store Gift Aid declarations. The top up is calculated in the same way as Gift Aid, so with basic rate tax at 20%, the top up payment is worth 25% of the value of the donation. The total value of donations eligible for the top up payment is capped as explained below. All GASDS claims must be made through the Charities Online process. To be able to make a GASDS claim in any tax year a charity must meet all of the following conditions:

- It must be recognised as a charity for tax purposes and registered with HMRC.
- It must make a successful Gift Aid claim in the tax year.
- If the charity incurs a penalty in respect of a Gift Aid or GASDS claim, that blocks any GASDS claim in the tax year to which the penalty relates and the following tax year.

A small donation must meet all the following conditions:

- It must be £20 or less in coins, bank notes or contactless payments, in any currency. For contactless payments, HMRC expect records of contactless donations produced by each contactless terminal to be kept. .
- It must be from an individual and must not be made under Gift Aid or payroll giving. However, the individual does not have to be a UK taxpayer.

- It must be made in the UK and banked in a branch of a bank or building society physically located in the UK.
- There must be no benefits associated with the donations, the only exception being a negligible value lapel sticker, badge of similar. Membership subscriptions do not qualify.

The value of small donations on which a claim can be made in any tax year is capped at the lower of the specified amount and ten times the value of donations in the tax year on which Gift Aid has been successfully claimed. The specified amount is calculated as follows:

- By default it is £8,000 (from April 2016).
- If two or more charities are connected, it is £8,000 divided by the number of connected parties making GASDS claims in the tax year. Charities are connected if they have the same or substantially similar purposes and activities and they are controlled by the same or connected persons.
- If a charity does not carry on activities in more than one community building, its specified amount is as explained above. If a charity carries on activities in two or more community buildings, it can either calculate the specified amount on a charity wide basis (for all small donations collected in the UK) as above, or it can calculate it under the community building rule. The community building rule is explained below.

Community building rule

To qualify under the community building rule, all of the following conditions must be met:

- A community building is a building or those parts of it, to which the public or a section of the public has access at some or all times but excludes any parts of a building that are used wholly or mainly for residential purposes or the sale or supply of goods. Examples are town halls, village halls and places of worship. Commercial premises, such as a function room in an hotel, are excluded, unless a charity carries out a charitable activity in those parts, and at all times while it does so, the parts are available for use exclusively by the charity in carrying out the activity.
- The charity must run primary purpose activities in the community building for ten or more beneficiaries on at least six occasions in the tax year. None of the beneficiaries must be required to pay in order to access the building. The charitable activity must be open to members of the general public, or a section of the public.

Under the community building rule, the specified amount is the sum of the charity's 'community building amounts'. For each community building and for each tax year, the community building amount is the sum of the small donations made in that building and small donations made in the same local authority area. If there are several community buildings in a local authority area, the donations made outside the community buildings can be split between community buildings as the charity wishes. Each community building amount is then capped at £8,000 per tax year.

Local authority area means: in England, a district council, a county council for an area for which there is no district council, a London borough council, the City of London or the Council of the Isles of Scilly; in Wales, a county council or a county borough council; in Scotland, a council constituted under section 2 of the Local Government (Scotland) Act 1994; in Northern Ireland, a district council constituted under section 1 of the Local Government Act (Northern Ireland) 1972.

To claim under GASDS in this way, a charity must keep additional records that show, for each community building, the address and postcode of the community building, where the donations were collected, and evidence that this location is in the same Local Authority area as the community building.

Where connected charities carry out activities in community buildings then all of the connected charities should claim GASDS under the community building rules unless the group of connected charities agree to make an election to HMRC to share a single UK wide specified amount of £8,000.

Future developments

With effect from 6 April 2019 the revised donor benefit limits will take effect (see page 14)

HMRC is also in the process of revising its Chapter 3 Gift Aid guide, particularly with a view to updating the guidance on valuing donor benefits and the split payment approach.

Further information

HMRC 'chapter 3' guidance on Gift Aid

www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-3-gift-aid

Model Gift Aid declarations

www.gov.uk/claim-gift-aid/gift-aid-declarations

Guide to tax effective giving

www.tax-effective-giving.org.uk/

HMRC list of commercial software suppliers for charities online

www.gov.uk/government/publications/charities-online-commercial-software-suppliers/charities-online-commercial-software-suppliers



Made simple guides

Made Simple guides are aimed at finance professionals and other managers working in charities. They cover technical areas such as tax and VAT treatments as well as information management areas and aim to provide practical guidance to busy managers and trustees in charities.



The content of guides is correct at the time of going to print (August 2018), but inevitably legal changes, case law and new financial reporting standards will change. You are therefore advised to check any particular actions you plan to take with the appropriate authority before committing yourself. No responsibility is accepted by the authors for reliance placed on the content of this guide.

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