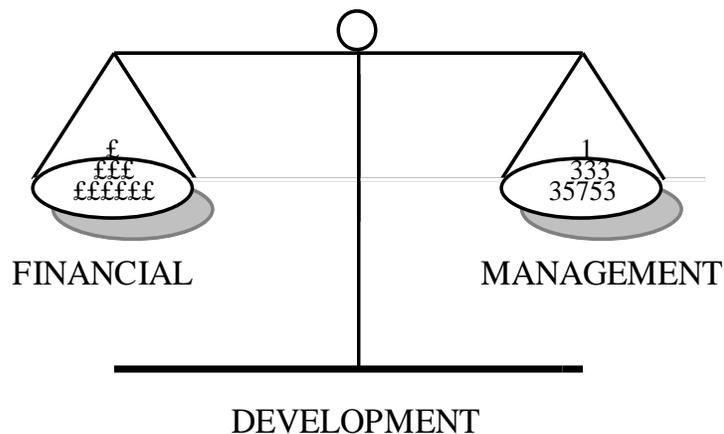


FINANCIAL MANAGEMENT DEVELOPMENT

CHARITY MANAGEMENT

NO 705

GIFT AID (UK ONLY)



ONE OF A SERIES OF GUIDES FOR
FINANCIAL MANAGEMENT DEVELOPMENT

FROM

www.FinancialManagementDevelopment.com

This is one of a series of documents produced by David A Palmer as a guide for managers on specific financial topics to assist informed discussion. Readers should take appropriate advice before acting upon any of the issues raised.

GIFT AID

OVERVIEW

Since 6 April 2000 UK charities have been able to benefit from a simplified scheme for the reclaim of tax on donations received from individuals. Provided the donor pays tax (and most people do) and signs a simple form, the charity can recover the basic rate tax which the individual has suffered on the value of the gift. Thus if someone gives £100, the charity can reclaim the tax that has been paid on that gift by the donor when they earned the money, at 20% that is 20/80 of £100 equal to a further £25.

Gift Aid is much simpler for the charity and the donor than the old system of Covenants and Gifts. The rules are simpler and the forms are easier to complete. Gift Aid only applies to gifts from individuals. If Companies give money or goods they merely deduct the value of the gift from their taxable profits so no adjustment is required.

These notes seek to explain the basic rules and how they operate for the benefit of those who are interested. For full details and for guidance on what to do go to Her Majesty's Revenue and Customs (HMRC) Website at www.hmrc.gov.uk/charities/gift-aid-toolkit.htm which has both detailed guidance and a section on getting started.

DISCLAIMER

All information in this paper is as I understand it. It may be wrong or it may have changed. If you intend to claim tax back on a gift, or set up a scheme to recover tax, you should ask for detailed advice. I must disclaim all liability for any action taken, or loss incurred as a result of acting on the contents of this document. I have tried!

WHAT IS GIFT AID?

It is a declaration by the donor that they pay tax and that they want a named charity to recover the tax. The declaration can be for a specific gift or can cover all gifts. The most common wording is "I want to treat this and all donations I have made since 6 April 20... and will make from this date, until I notify you otherwise as Gift Aid Donations. I confirm I am a UK taxpayer paying tax greater than the tax on the value of this gift."

HOW IT WORKS (In simple terms)

Fred gives a charity £100. Fred has worked hard to earn the money and has received it after paying tax on his income. (He earned £125 less tax of £25 i.e. 20% on £125). In essence Fred has not had the benefit of the money. He has given it to charity. It would be unfair for the Government to keep the tax so they should give it back to him. Fred has said "give the charity the tax as well". The charity merely asks the Government for £25. They pay it and all is as it should be. Any description that says "this is gift from the Chancellor" is misleading.

WHAT DOES THE CHARITY HAVE TO DO?

The first thing is to register with HMRC. Then ask donors to complete a declaration. Note these can be retrospective so it is worthwhile contacting past donors to get them to sign in respect of any gift made in the last four tax years. Once a reasonable value of gifts has been identified a claim should be made. Claims can be made annually, quarterly or monthly or on an ad hoc basis depending upon the number of donors and the frequency. The claim form is fairly simple and is effectively a list of names of donors, amounts and dates of gifts. The claim is normally processed within 30 days and the money sent to the charity.

The charity needs to keep all records in case HMRC want to see them to substantiate a claim. Normally you need name, address, date of gift and amount. There are also rules to enable reclaim of tax on "bucket collections" but the limit is low.

ARE THERE ANY RESTRICTIONS?

Yes lots, but they are fairly sensible ones. The gift must be cash. The donor (or persons connected with the donor) should not receive any benefit as a result, although some things are not treated as benefits e.g. receipt of a newsletter. Care needs to be taken with items like Charity Dinners or Charity Auctions where a donor might pay £100 for a meal worth £25. There are some detailed rules for these sort of items, but they are fairly sensible. If in difficulty, showing ticket price £25 plus suggested donation £75 saves a lot of argument.

The donor must be paying Income or Capital Gains Tax of more than the tax recovered. However even those with modest income probably pay some income tax or suffer it on interest on bank accounts etc.

ANYTHING ELSE?

If the donor is paying tax at the higher rate - say 40% (although some lucky people pay at 50% presumably to encourage them to move income abroad and pay 0% to HMRC!), the donor can claim the extra tax relief to bring the value up to 40% i.e. the donor can claim a further 20%. Thus if Fred was a higher rate taxpayer who gave £100 and he had had to earn £166.66 to receive £100 after tax, having suffered tax (at 40%) of £66.66 on his earnings; he should claim back an additional £25 (20% of £125) by showing that he has given away £125 (the gift plus the tax). Fred receives £25 and the charity receives £25. Notice HMRC keep £16.66, being the difference between the tax paid and the two amounts repaid - effectively the tax (at 40% on £41.66) on the £25 net received by Fred.

Charities can also receive gifts of shares and there are benefits in encouraging people to give shares which have gone up in value to the charity, as the charity can sell them and not suffer tax on the gain in value.

Donations made to charities in a will (legacies) are also free of tax and do not count as part of the deceased's estate for Inheritance Tax purposes. The best avoidance scheme for Inheritance Tax is to give all your money to charity.

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David is an experienced financial professional who has devoted his skills to management training in practical understanding and utilisation of financial information. A Graduate, Chartered Accountant, and Associate of the Institute of Taxation, he is also a Member of the Chartered Institute of Personnel and Development and has been an Ordained as a Deacon in the Catholic Church.

He has worked as a Financial Controller and Company Secretary in the Finance industry and as a Director of Finance and Administration in the Computer Services industry. Since 1990 he has conducted management development programmes for over forty major organisations including Arla Foods, Blue Circle, BP, CSC Computer Sciences, Conoco, Ernst & Young, Lloyds Bowmaker, Royal Mail, Unilever and Zeneca. He also runs programmes for the Leadership Foundation and the management teams at a number of Universities. International training experience includes work in Belgium and Holland for CSC, in Denmark, Kenya and the Czech Republic for Unilever, in Holland and the US for Zeneca, in Dubai for Al Atheer, in Bahrain and Saudi Arabia for Cable & Wireless.

He specialises in programmes in financial management for both tactical and strategic decision making. In addition he has run courses in acquisition evaluation (The Economist, Eversheds, Blue Circle and Hays Chemicals) and in post-acquisition management (Unilever). All training is specifically tailored to the needs of the organisation with the emphasis on practical applications to enhance profitability and cashflow. He has developed material for delivery by in-house personnel (Royal Mail, Lloyds Bowmaker and Conoco), computer based training packages (The Post Office, Unilever and BP), and post course reinforcement self-study workbooks (CSC and Zeneca). He has also produced a training video on Cashflow Management.

He is a prolific writer of case studies, role plays and course material. He has also published articles on the financial justification of training, financial evaluation of IT investment proposals, the use of Activity Based Costing and Customer Profitability statements, commercial considerations for consultants, the need for taxation awareness training for general managers, evangelisation and Christian business ethics.

Many of his generic documents are freely available on his website:

FinancialManagementDevelopment.com including papers on Charity Management.

In addition to his Diaconal work in the Church, he has held a number of voluntary positions including University, College and School Governor, Hospice Treasurer and Trustee of various charitable institutions. He continues to provide ad hoc commercial advice to several other charitable organisations. He has been married for over 35 years and has one daughter and three granddaughters.

This series of papers is designed to help managers by providing a basic understanding of key financial concepts to assist them in their work. It is provided at no cost since this knowledge is a Gift from God and thus to be shared (Matthew 10:8).