



Charity and not-for-profit

## Gift Aid basics

# Gift Aid is the most useful tax relief for the majority of charities.

Of the various tax reliefs associated with charitable giving, Gift Aid is the best known and, for the majority of charities, the most useful.

### How does it work?

It is open to any individual UK taxpayer to apply Gift Aid to a donation to a UK charity or a registered community amateur sports club. The payment is treated as made after the deduction of basic rate tax (currently 20%) and the charity is able to recover this from HMRC. If the individual making the donation is a higher or additional rate taxpayer, they can claim further relief. As an example, a donation of £80 with a Gift Aid declaration would enable your charity to claim £20 from HMRC (bringing the amount of the donation up to £100); if the donor is a 40% taxpayer he/she can claim relief such that their tax bill is reduced by £20 (bringing the net cost of the donation down to £60).

### Gift Aid is subject to certain conditions:

- For the tax year in question, the individual must pay or bear UK income tax and/or Capital Gains Tax at least equal to the tax deemed to be deducted from their donations.
- The donation must be a sum of money which belongs to the donor.
- Outright payments to a charity in return for services, rights or goods are not eligible.
- A valid Gift Aid declaration must be made.

### The paperwork

The Gift Aid system is audited by HMRC and it is essential that the appropriate paperwork is completed and appropriate records kept. There are a number of basic requirements for a written Gift Aid declaration – the simplest way of ensuring that these are met is to use wording from HMRC's model form. In the case of an oral declaration the same information needs to be obtained and the charity must either keep a recording of the conversation or (far safer) send the donor written confirmation.

HMRC encourage the online submission of claims for Gift Aid relief. Whether you apply online or on paper, however, the basic requirements are the same – you need to obtain and retain properly worded and completed declarations for each donation and you need to be able to show how the claim has been calculated.

Charitable trusts have four years from the end of the tax year in which a donation was received to submit the associated Gift Aid claim; charitable companies, CIOs and community amateur sports clubs have four years from the end of the financial period in which it was received.

### Can donors receive anything in return?

The basic rule for Gift Aid to apply is that a donor should not receive a benefit in exchange for his donation. However, certain modest "benefits" (such as the receipt of charity literature and a basic acknowledgment in that literature) are ignored. Those with a value that falls within set limits are also discounted and there is an option of splitting a receipt such that one part is treated as consideration for a benefit with the balance treated as a donation. Last but not least, there is an exemption for charges to view charity property provided that certain conditions are met.

As a charity you should tread carefully if any benefits are provided and take professional advice if in doubt.

### HMRC inspections

Gift Aid claims are generally processed without query. HMRC police the system via inspection visits and audits of claims and the supporting paperwork. Charities are risk-assessed by reference to the amounts claimed, their claims history and any other information in HMRC's possession. Bear in mind that, if HMRC find mistakes, they may seek penalties in addition to disallowing the amount claimed. They may also look to extrapolate the 'error rate' across previous claims.



Gift Aid can extend to membership subscriptions, sponsored events, charity auctions, the sale of donated gifts and donations to overseas charities.

### The Gift Aid small donation scheme

Introduced in 2013, the Gift Aid Small Donations Scheme enables charities to claim a Gift Aid like top-up on donations of up to £20 per donor per tax year. There is an upper limit for claims and various conditions have to be met.

### More complex issues

Gift Aid can extend to membership subscriptions, sponsored events, charity auctions, the sale of donated gifts and donations to overseas charities. In each case there are clear conditions that have to be met for income to attract relief.

### How we can help

Gift Aid is an important element of funding for many charities – not only are the sums recovered from HMRC substantial (in excess of £1bn per year in total) but the availability of further tax relief is believed to be an important factor in encouraging higher earners to donate more. Nevertheless, it is estimated that significant sums go unclaimed either because the necessary paperwork is not in place or because the charities concerned wish to avoid any possible issues with HMRC.

Gift Aid is great if it is operated properly. If you are not sure if your paperwork is adequate, ask us to review it (even a last-ditch review prior to an HMRC audit can help to avoid some serious problems). If you are not sure that you are quite within the rules – or you want to know whether you can extend Gift Aid to a particular source of income – ask us.



### The next step

If you do not know the answers to the above questions, we suggest that you act soon and seek professional advice. For further information please contact your local UHY adviser.

Alternatively, visit our website for more information at [www.uhy-uk.com/charities](http://www.uhy-uk.com/charities).

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