

Gift Aid

The purpose of Gift Aid is to enable charities to enhance the value of any donations that they receive. This factsheet outlines the principles of gift aid and also considers the practical aspects from a charities perspective.

What is Gift Aid?

Where a donation is made to a charity, the donation is assumed to have been made net of basic rate tax relief (i.e. 20%). The charity can then claim back the basic rate tax. For example, if a donation of £100 is made, the charity can claim an extra £25 ($£100 \times 100/80 \times 20\%$).

An individual making the donation can also claim further tax relief should they be a higher or additional rate taxpayer. The relief is based on the difference between the tax rate that they pay (i.e. 40% or 45%) and the basic rate tax of 20%. For example, if a higher rate taxpayer makes a donation of £100, they receive relief for £25 at source as above but can then claim further tax relief of an additional £25. This will result in the individual receiving total tax relief of £50 ($£100 \times 100/80 \times 40\%$).

Do all payments to charities qualify for Gift Aid?

Only payments made by individuals (generally UK resident), partnerships and sole traders are qualifying for Gift Aid. Therefore, where a company makes a monetary donation to a charity, this will not qualify for Gift Aid, although it will get corporation tax relief.

A donation must be a payment of a sum of money e.g. it cannot be made in kind. Generally, donations made prior to H M Revenue and Customs accepting that the Charity is a charity for tax purposes will not qualify for Gift Aid, although it may be possible to backdate this in certain circumstances (see below).



Registering with H M Revenue and Customs (HMRC)

Prior to being able to make a Gift Aid claim, it is necessary to register with HMRC. This is in addition to registering with The Charities Commission. On successfully registering with HMRC, they will provide the date from which Gift Aid can be claimed on donations and also provide a reference number to be used on claims.

The date that HMRC use as the date of eligibility to claim UK charity tax reliefs is normally the same as the date that the charity is entered onto the Register. However, HMRC may backdate this to the date on which the entity started to carry out exclusively charitable aims. This extension would need to be justified e.g. the time it took for the application to be dealt with by the Charity Commission. HMRC would also need to consider the charity's governing documents when establishing whether an extension could be justified.

At the time of registration, it will also be necessary to nominate an individual within the charity to be an authorised official, as that is the person who is able to submit the repayment claims.

Gift Aid

How to make the claim?

No claim can be made until the charity has received a Gift Aid declaration from the donor which must contain certain information including the donor's name, home address and a declaration that the donations are to be treated as Gift Aid donations.

Where a declaration is in writing, it must also include a note that the donor must pay an amount of income tax and/or capital gains tax equal to the tax deducted from the donations recoverable by the charity. Such a declaration can also apply indefinitely to future donations to the same charity.

Once the Charity has signed up to use the HMRC Charities Online Service, the Gift Aid online claim form can be completed. Alternatively, the Charity can use software or a paper form.

Only a certain amount of information needs to be entered on the claim form. For example, if there has been a sponsorship event, it is not necessary to enter every individual sponsor. Only the name of the participant needs to be entered, together with the total of the Gift Aid donations. However, any donations in excess of £500 will need to be entered individually.

Is there a time limit on making a Gift Aid claim?

A repayment claim by a Charitable Trust must be made no later than four years after the end of the tax year to which the claim relates i.e. for donations made during the year ended 5 April 2015, any claims must be made by 5 April 2019. If a Charitable Company, the time limit is no later than four years after the end of the accounting period to which the claim relates. Interest will be received on backdated repayment claims.

Specific situations - Events

If a payment is required to enter an event, then no Gift Aid claim can be made as the payment is not voluntary. In addition, where a minimum donation is required, this also would not qualify. However, if a donation was made in excess of this minimum amount, then the excess would be a qualifying payment for Gift Aid.

If a donation is optional, it is qualifying for gift aid.

Small Charitable Donations Scheme

Since April 2013, certain charities can make claims in respect of small cash donations without having to identify the individual donors and also without the need for gift aid declarations.

Only charities with an acceptable gift aid compliance history can use this scheme i.e. has made a successful claim in at least two of the previous four tax years.

A small cash donation is one that is not in excess of £20. In addition, this scheme only applies up to a maximum of £5,000 per tax year. The so called 'matching rule' must also be complied with i.e. for every £10 of donations claimed under the scheme, it must be matched by £1 of donations on which the normal gift aid rules apply.

Keeping records

A charity must keep a record of all Gift Aid declarations. It must also retain records of all sponsorship forms and benefits provided to donors. Should a charity fail to retain adequate records, HMRC may require it to pay back any reclaimed tax plus interest. Potentially, a penalty could also be imposed.

This release has been prepared as a guide to topics of current financial business interests. We strongly recommend you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting as a result of the material can be accepted by us.

Hazlewoods LLP is a Limited Liability Partnership registered in England and Wales with number OC311817. Registered office: Staverton Court, Staverton, Cheltenham, Glos. GL51 0UX. A list of LLP partners is available from each office. Hazlewoods LLP is registered as auditors by the Institute of Chartered Accountants in England & Wales.