

Consultation on Gift Aid: the Government's response

March 2008



HM TREASURY



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INTRODUCTION

1.1 This report outlines the Government's response to the consultation on Gift Aid, which was launched on 19 June 2007. The consultation closed on 30 September 2007. The report aims to cover all the relevant information in one user-friendly document, so the Government's policy response to the consultation is provided in section 2 and section 3 provides a recap of the summary of responses published in December 2007.

1.2 Gift Aid is a hugely successful tax relief, which was worth £830 million to charities in 2006-07. This was recognised by charities during the consultation, many of whom emphasised their support for Gift Aid and the benefits it brings to the sector. The Government is keen to build on this success, recognising that there is greater scope for charities to claim additional funds through Gift Aid and further increase the benefits it brings to the sector. At Budget 2007, the Chancellor announced that the Government would,

“consult with the charitable sector on measures to increase take-up of Gift Aid”

1.3 This consultation, which was run by HM Treasury in collaboration with HM Revenue and Customs and the Office of the Third Sector, was designed in order that the Government could explore with the charitable sector and its representatives the case and scope for improvements to:

- the profile of Gift Aid among charities and donors;
- charity and donor accessibility to the benefits of Gift Aid;
- the ease of operation of Gift Aid for charities and donors; and
- the overall value of Gift Aid for the charitable sector.

1.4 The consultation document invited new and innovative ideas from the charity sector on how the Gift Aid system and processes might be improved to increase its benefit to charities, while minimising the administrative burdens and costs on charities, donors and HMRC. The Government also considered consultation responses and potential outcomes against the backdrop of wider policies for the third sector; recognising the need for simplification of systems, the importance of minimising administrative burdens for a sector that necessarily has to operate with low resource, and the importance of sustainable finance for charities.

THE CONSULTATION

1.5 Following the Chancellor's announcement at Budget 2007, the Government conducted a twelve-week consultation and engaged with a wide range of charities and other bodies across the UK. A wide-ranging approach was adopted in order to maximise the opportunities available to individual charities and their representatives for participation, and to ensure that the consultation was informed by a diverse range of sector voices. An online survey was used to collect initial views and priorities from the sector and to shape the agendas for consultation events. A number of consultation events were held across the country, and included seminars and workshops designed to explore the major Gift Aid issues identified by, and common to, many charities across the sector, as well as more narrowly focused and detailed discussions with representatives of particular sectors, such as the arts sector and visitor attractions. Event attendees had the opportunity to steer events, with flexible formats that enabled

them to set the agenda and identify the key issues for discussion. Finally, more detailed written responses were invited.

1.6 The Government received 98 written and 257 online responses. In addition, approximately 300 sector representatives attended consultation events. A wide variety of organisations participated in the consultation, including many individual charities and representative groups, such as the Association of Chief Executives of Voluntary Organisations, Charity Finance Directors Group, Charity Tax Group, the Institute of Fundraising and the National Council for Voluntary Organisations. The respondent breakdown by category for written submissions is as follows:

Breakdown of respondents

Breakdown of respondents	Respondent Proportion (approx)
Large/National Charities	19%
Churches/Church Bodies	17%
National Umbrella Bodies	15%
Sector Representative Bodies	15%
Small/Local Charities	14%
Individuals	5%
Private Companies	5%
Visitor Attractions	4%
Universities	2%
Community Amateur Sports Clubs	1%
Devolved Administrations	1%

THE GOVERNMENT'S RESPONSE

2.1 Throughout the consultation charities were strongly supportive of the Gift Aid system, recognising the benefits of this successful tax relief, which has grown to be worth £830 million to UK charities in 2006-07.

2.2 Having listened to over 500 views from across the third sector, the Government is today announcing a wide-ranging package of measures, **including major reform to the auditing process; a comprehensive programme for bringing more smaller charities into Gift Aid; redesign of guidance; outreach to 5000 new charities through the launch of targeted marketing tools; and a number of other administrative changes** (detail in box overleaf).

2.3 The current Gift Aid regime is popular and charities are familiar with the existing system. Given the importance of minimising administrative burdens on the sector while ensuring predictable income streams for charities, this **Budget also announces that Gift Aid will be paid at a transitional rate of 22% for three years, with no increase in administrative burdens in claiming Gift Aid for charities.**

2.4 The consultation raised issues around the Gift Aid system and ways to alter the mechanics of the system to make it easier for some donors to give. These are complex issues that require a better understanding of donor behaviour, and a full assessment of the risks that could arise if alterations were to be made to a currently successful system. **The Government will continue to work with donors and charities to develop understanding of donor behaviour and use that to inform further thinking about Gift Aid.**

Supporting giving through Gift Aid

Having listened to the sector's views on Gift Aid, the Government will implement a package of measures aimed at increasing take-up of Gift Aid over the long-term, including:

Transitional Rate

- from 6 April **Gift Aid claims will be paid at a transitional rate of 22% in 2008-09, 2009-10 and 2010-11**, worth around £300 million to the sector over three years with no increase in administrative burdens in claiming Gift Aid for charities;

Auditing

- from today, reducing the fear of audit by **setting a de minimis error level of 4%**, below which charities with claims of less than £2,500 each year (two-thirds of claimants) will not be penalised for errors in record-keeping;
- from today, further reducing the audit burden by **allowing charities to repair errors at audit** before the error rate is extrapolated across the Gift Aid claim;
- **discussions in the summer on the option of self-certification** to reduce audit burdens for large charities;

Record-keeping and Claims Process

- from today, an adjustment to the Gift Aid claims process to allow charities to **aggregate donations under £10 in claims up to a total of £500**;
- by the summer, HMRC will **develop a framework setting out the option to destroy enduring Gift Aid declarations after 6 years** provided a database record is retained;

Guidance and Awareness

- from today, **the launch of the Gift Aid web information service** via www.direct.gov.uk/giftaid together with a detailed programme of upgrades to HMRC guidance, both of which will be developed in partnership with the sector, leading to a comprehensive online guidance system;
- **the development of a Gift Aid toolkit** containing all of the tools and guidance needed to run a successful Gift Aid scheme, available to over 5000 newly registering and 20000 existing registered charities;

Small Charities

- **extension of the Tax-effective Giving Initiative to meet the needs identified by the Gift Aid consultation**, delivered through the Institute of Fundraising to give charities access to training, resources and advice on operating tax-effective giving schemes, including Gift Aid;
- **a Small Charities Training Programme**, targeting charities with a turnover of less than £1 million per annum, to ensure that small local charities can access guidance and training on Gift Aid;
- **promoting the use of local 'umbrella charities'** to help charitable community and voluntary groups access the benefits of Gift Aid; and
- the development of a new **online Gift Aid mentoring forum** for charities.

SMALL CHARITIES

2.5 Smaller charities have specific needs and concerns, such as limited administrative and technical resources and a greater dependence on voluntary labour. Much of the wider Gift Aid package (outlined in other sub-sections of this chapter) will respond to many of these concerns. In particular, reform of the auditing process, will address the widespread fear of the audit process voiced by smaller charities responding to the consultation. However, the Government also announces a package of measures aimed specifically at small charities.

2.6 In response to calls for targeted guidance and support, the Government has announced an **extension of the Tax-effective Giving Initiative**, a successful scheme delivered through the Institute of Fundraising, which has been offering training and support on tax-effective giving to hundreds of charities since 2005. Rather than duplicate an already successful Government sponsored scheme, the Government has chosen to build on the Institute's vast experience in this area.

2.7 Through the initiative, charities will continue to have access to up-to-date sector-developed resources and helpline services dedicated to tax-effective giving. In addition, the Institute of Fundraising will build on its successful training scheme to develop a **Small Charities Training Programme**, marketed to, and tightly focused on charities with less than £1m turnover. The Government also announces funding for the Institute to develop and facilitate an **online Gift Aid Mentoring forum**, giving small charities and voluntary groups access to a network of experienced professional fundraisers and practitioners. Certain elements of this initiative will only be available in England as devolved administrations are responsible for funding in Scotland, Northern Ireland and Wales. However, the Government is exploring ways of supporting small charities with the devolved administrations. Further information on the Tax-effective Giving Initiative can be found on the Office of the Third Sector website and at www.tax-effectivegiving.org.uk.

2.8 Small charities asked for a practical guide to Gift Aid with standardised tools and guidance. The Gift Aid toolkit (further detail under Guidance and Awareness at 2.10) will provide a **comprehensive step-by-step guide for both new and experienced Gift Aid practitioners**. The toolkit will be developed by HMRC in partnership with the sector over the coming months and will include standardised forms, factsheets, marketing materials and all the other tools needed to launch, promote and administer a successful Gift Aid scheme. The toolkit will be launched in the autumn and will be made **available to over 5000 newly registering charities and around 20,000 existing registered charities**. HMRC will work with the charity regulators and Office of the Third Sector to promote the toolkit and to ensure optimum accessibility for charities. Further detail of how to get involved in developing the toolkit will be available in the supplementary document, '*Gift Aid – Administrative Changes and Proposals*' published on the HMRC website from Budget day.

2.9 Finally, the consultation uncovered a scheme operated through a local Council for Voluntary Service (CVS). This scheme allows local community and voluntary groups with a charitable purpose to access the benefit of Gift Aid on donations from supporters, when the donations are directed through local umbrella organisations that are registered charities. **The Government supports this scheme, which helps Gift Aid to reach local charitable fundraising activities and is now publishing guidance on how to operate such a scheme**. This can be accessed through the Gift Aid web information service at www.direct.gov.uk/giftaid and the Office of the Third Sector website.

GUIDANCE AND AWARENESS

2.10 There was a strong call from respondents to the consultation for clarification and simplification of guidance on Gift Aid. The Government recognises the need to work in partnership with the sector to ensure that guidance meets the needs of the end-user. In order to identify key areas for improvement, HM Treasury held a follow-up meeting in January on guidance and awareness with a small focus group of sector representatives. Overall, the group felt that awareness of Gift Aid was relatively high and that measures should target the production of clearer and more accessible guidance, and the provision of standard tools and forms for practitioners.

2.11 The Government has announced the **launch of a Gift Aid web information service via www.direct.gov.uk/giftaid**. This will form the basis of a comprehensive suite of information giving access to the key sources of guidance and support on Gift Aid for donors and charities. It will be developed in partnership with the sector over coming months in order to ensure it fully meets user needs.

2.12 Our feedback from the sector suggested that HMRC is considered to be the most trusted source of guidance on Gift Aid but that its guidance can be complex to non-tax practitioners. **HMRC will therefore implement a programme of upgrades to its Gift Aid guidance** over coming months to make this more accessible and user friendly. Work has already begun and will be completed in the autumn. The upgrade will include a 5-month programme of customer research and engagement, content development and user testing with the sector before publication. HMRC will also introduce a **'news feed' facility**, with which charities can register to receive regular updates on changes to guidance. The main Gift Aid site will be integrated with the upgrades to HMRC guidance to ensure that charities have access to a comprehensive online facility, providing an easily navigable route to information resources for Gift Aid.

2.13 The Government has also heard the sector's views on the need for standardised tools and forms that can be adapted to charities' specific fundraising methods. HMRC will work with the sector to **develop a comprehensive Gift Aid toolkit, which will contain all of the tools needed to promote and run an effective Gift Aid scheme**. This will include standard forms, marketing materials and guidance for a variety of common fundraising activities. The toolkit will be developed in partnership with the sector. Further detail of how to get involved will be available in the supplementary document, '*Gift Aid – Administrative Changes and Proposals*', published on the HMRC website from Budget day.

HIGHER RATE TAXPAYERS

2.14 The principles underpinning Gift Aid make it clear that tax associated with donations to charity can be reclaimed, and the current system enables that process in the most simple and least administratively burdensome way. The consultation showed that opinions on higher rate Gift Aid varied widely with some believing the relief should go directly to the charity, and some that basic rate relief should also go to donors. There are systems that enable higher rate donors to route their relief to charities but many felt that these processes could be simplified to encourage more donors to use these options. These issues are complex and many of the proposals would involve radical restructuring of the Gift Aid system, making it difficult to judge how the donor population might react. This prevents an accurate assessment of the risks associated with major changes to the current Gift Aid system and the level of funding it provides to charities. **The Government will continue to work with donors and charities to develop understanding of donor behaviour and use that to inform further thinking about Gift Aid.**

SECTOR SPECIFIC CONCERNS

2.15 Calls to extend Gift Aid to new forms of giving attest to how valuable a tax relief this is to the charity sector. However, many of the proposals put forward related to extending Gift Aid to non-cash gifts or payments for benefits. Gift Aid was introduced to encourage gifts of money to charities and any benefit received in return for the donation is capped at certain limits. Other proposals would involve significantly greater complexity, while the majority of charities responding to the consultation asked for simplification of the scheme.

2.16 The Government welcomes the views of sub-sector groups and was interested to learn more about the particular complexities that they face within the Gift Aid scheme. The Government recognises the particular difficulties facing these groups and will continue to work with them on ways of increasing Gift Aid take-up and reducing administrative complexities within the existing system. In particular, the Government hopes to work closely with representatives of these groups in the development of guidance and the Gift Aid toolkit to ensure that it meets sector-specific needs and helps reduce these complexities.

2.17 The Government believes that sector specific groups will benefit overall from this consultation and that the measures announced at Budget will help to increase take-up of Gift Aid across the entire charity sector.

RECORD-KEEPING AND CLAIMS PROCESS

2.18 The Government recognises that the Gift Aid record-keeping requirements can be onerous for some charities. However, in seeking workable solutions to these problems, it was important to strike a balance between the benefits of reducing record-keeping and the procedures necessary to protect the integrity of this very valuable relief and demonstrate a link to the taxpayer and thus maintain Gift Aid as a tax relief.

2.19 A key proposal put forward in the consultation was for the creation of a universal Gift Aid declaration and central database of donors. However, further study of this proposal identified several issues, including data protection constraints and questions over who would administer the database and operating costs. The Government also questioned whether this would actually reduce the administrative burden for charities given that they would still need to obtain and retain records for each donor and then cross-check them against a database. The Government also recognised the concerns of a number of charities that a centrally administered database would have a detrimental impact on their relationship with their donors.

2.20 To reduce the burden of storing records, HMRC will work with the sector by summer to develop **a framework setting out the option to destroy paper records of enduring Gift Aid declarations** (those made to cover a defined period rather than one-off declarations) after 6 years, provided a database record is retained.

2.21 To simplify the claims process HMRC will also allow charities to **aggregate donations of under £10 in claims up to a total of £500**, and will explore further with the sector to establish whether £10 is an appropriate level. Charities will still need to obtain Gift Aid declarations for these donations but there will no longer be a requirement for charities to list individual donations on the claim form.

2.22 Further details of the changes to record-keeping can be found in the supplementary document, '*Gift Aid – Administrative Changes and Proposals*' published on the HMRC website from Budget day.

AUDITING

2.23 While respondents to the consultation generally reported positive experiences at audit, administrative burdens and the risk of having to repay Gift Aid for innocent errors can deter many smaller charities from claiming Gift Aid.

2.24 To reduce the fear of audit, the Government is announcing major reform to the audit process. This new approach means that two-thirds of Gift Aid claimants (those who claim less than £2,500 each year) will not be penalised for errors in record-keeping. From today, HMRC will introduce **de minimis error levels of 4% for all charities and a monetary de minimis below which it will not recover overpayments for errors in record-keeping**. In addition, there will be different monetary limits to determine whether HMRC recovers for errors in earlier years. HMRC auditors will also operate a 'Yellow Card' approach to differ between errors found at first audit, and those found at a later review arising from the same causes that have not been addressed.

2.25 Furthermore, HMRC will adopt a lighter touch approach so that **where charities can repair errors identified in a sample at audit, the new 'repaired' error rate will be extrapolated across similar claims before any overpayment is recovered**.

2.26 These reforms address many of the concerns that smaller charities voiced in the consultation. However, to reduce administrative burdens for large charities, many of which are already operating sophisticated error-free Gift Aid schemes, the Government will engage in **further discussions on the possibility of allowing charities' external auditors to certify their Gift Aid claims**.

2.27 Further details of the changes to auditing can be found in the supplementary document, '*Gift Aid – Administrative Changes and Proposals*' published on the HMRC website from Budget day.

REFORMING GIFT AID

2.28 While some respondents supported the fundamental design principle of Gift Aid - as a system tied to the basic rate of income tax - others pointed out that this meant that Gift Aid income fluctuated with the basic rate of taxation. Some respondents sought a transitional relief alongside the reduction in the basic rate of income tax in April 2008. A number of respondents supported an accounts based method, or a composite rate, although others were keen to see Gift Aid retain its link to tax rates and proposed changes that allowed higher rate donors to route their relief to charities.

2.29 Throughout the consultation respondents reiterated the importance of maintaining simplicity in the Gift Aid system and minimising administrative burdens, making it clear that any changes would need to be provided in such a way as to ensure this. To meet these concerns, while providing predictable income streams for the sector, the Budget announces **that Gift Aid will be paid at a transitional rate of 22% for three years, with no increase in administrative burdens in claiming Gift Aid for charities**. Proposals for complex reforms require more time for consideration, particularly given the need to assess fully the risks of any changes to the system and the funding it provides for charities (as discussed at 2.14 under Higher Rate Taxpayers). The Government will continue to work with donors and charities to develop understanding of donor behaviour and use that to inform further thinking about Gift Aid.

GENERAL VIEWS

3.1 Overall, charities recognised Gift Aid as a valuable system from which they have benefited greatly, particularly given the changes made since 2000.¹

“By utilising Gift Aid fully, the charity not only maximises the donation, but additionally sends donors the message that they are engaging in a 'special' activity that benefits their society, and importantly, that this activity is recognised by the state.... also believes that Gift Aid offers charities and opportunity to build stronger relations with donors.”

(Large national charity)

“We regard GA as presently structured as the best tax relief system for giving by individuals to charity that this country has ever seen.”

(Church organisation)

“Views within the sector on the specifics of the consultation are diverse, but there is universal agreement that the existence of gift aid is a positive thing, and an appreciation that during the last few years the UK tax system has increasingly helped to foster education fundraising.”

(Sector representative body)

3.2 Participants welcomed the consultation, noting that there was room for further development of Gift Aid, particularly in terms of its profile and take-up among donors, and reducing the administrative requirements for charities.

SMALL CHARITIES

3.3 An important aim of the consultation was to explore ways to help smaller charities maximise their use of, and benefit from, Gift Aid. This was reflected at consultation events where there was a dedicated forum available for participants to explore and discuss issues specific to smaller charities, and to share tips and best practice.

3.4 Issues identified as specific to small charities included limited administrative and technical resources and difficulties associated with the complexity and administrative burdens associated with Gift Aid reclams

“Smaller charities are likely to lack a high level of administrative infrastructure and will therefore require clear and concise information to be provided to them directly or have it easily accessible via various mediums including online and paper based.”

(Small local charity)

3.5 Many respondents felt that small charities needed specially targeted guidance and support to encourage them to use Gift Aid. Suggestions ranged from a basic Gift Aid starter pack, including tailored advice and standardised forms, to a 'buddying' system

¹ The main changes to Gift Aid in 2000 were the abolition of the minimum donation limit, the introduction of a new, simpler and more flexible Gift Aid declaration (including the ability to make an oral declaration covering a series of payments) and the removal of tax relief for covenant donations in a bid to make Gift Aid the main vehicle for tax-efficient gifts of money.

whereby large charities with experience of Gift Aid offer mentoring and support to smaller, less experienced charities.

3.6 Respondents also called for simplification for smaller charities. One proposal was that local Gift Aid 'umbrella' groups should be established, either by Government or by the sector, charged with encouraging take-up and centralising record keeping and claims for local charities. Other suggestions included, a special composite rate model for smaller charities; a less resource-intensive 'Gift Aid lite' scheme; and Government top-ups of smaller charity's first year Gift Aid claim to encourage smaller charities to enter the system.

GUIDANCE, TOOLS AND TRAINING

3.7 Some respondents felt that the rules governing Gift Aid were complex in some areas, and that the absence of simple, clear and easily accessible guidance could present a barrier to inexperienced volunteers. There was a need for clarification of the Gift Aid rules in areas of complexity, such as sponsorships, auctions and benefit rules. A large number of respondents also called for automatic updates of changes in the Gift Aid guidance.

"If we are in doubt, we don't claim Gift Aid and we feel we could be losing money using this philosophy."

(Small local charity)

3.8 A number of respondents felt that the provision of up to date, clear and easily accessible guidance, including simple, step-by-step guides and worked examples could potentially achieve more benefit for charities than a donor-awareness-raising campaign. Some respondents suggested that certain umbrella or representative bodies currently provide more accessible and simple guidance.

"This [suggested simple guidance publication issued by HMRC] should assume little or no understanding of the subject and take organisations comprehensively and transparently through the process. Stages in the process could include: why should you use the Gift Aid scheme and are you eligible, setting up data collection systems, promoting Gift Aid to visitors, claiming Gift Aid, the audit process, and signposts to other sources of information advice and support."

(Sector representative body)

3.9 Suggestions varied as to how guidance might be best made available. Ideas included the creation of a dedicated HMRC Gift Aid website for donors and charities; dissemination of guidance through umbrella bodies and local Councils for Voluntary Services (CVS); and the creation of regional tax-effective 'resource centres'. Some respondents supported the idea of a Gift Aid 'starter pack' for all new charities, which could include written, online and other start-up resources. Many respondents suggested that guidance should be available both online and in print and should include standardised forms and record-keeping tools.

"Simple guidance on a Gift Aid (rather than HMRC) website, with templates and perhaps even a 'Gift Aid for dummies'."

(Large national charity)

3.10 Finally, there was support for the suggestion that as well as written guidance, regular advice and support on Gift Aid should be available to charities.

"We would like to see (in respect of small and medium charities in particular) a concerted effort by HMRC to quell the 'fear' factor associated with audits through consistent delivery and the training of charity volunteer fundraisers."

(Small local charity)

3.11 Some respondents referred to the Institute of Fundraising's tax-effective giving training programme as a model. However, opinions differed as to whether such support and training should be provided by HMRC or by other bodies. Several respondents also suggested that the advice available from HMRC's Gift Aid helpline should be enhanced.

AWARENESS

3.12 Many respondents felt that the main issue was not a lack of awareness among donors, but rather a lack of donor understanding of the benefits Gift Aid could bring to a charity. Furthermore, donors were uncertain of the implications of completing a Gift Aid declaration – in terms of future contacts with the tax authorities and the charity – and remained concerned about disclosure of personal details. Also identified as disincentives to making a declaration were: uncertainty among donors as to their status as taxpayers (particularly among retired donors); concerns about retention and use of data; the language used on declarations and the more general perceived burden of 'form filling'.

"Many retired people neglect to fill in Gift Aid declarations on the assumption that they do not pay tax when in reality they are taxed on bank interest or dividends. Because what they pay is not income tax, they assume that they are ineligible to make the declaration."

(Church organisation)

3.13 Respondents suggested again that there was good awareness of the Gift Aid scheme among charities, but that there remained knowledge gaps and misconceptions to be overcome. Challenges identified by respondents included a lack of understanding of technical rules; perceptions that Gift Aid will impose administrative burdens; and lack of charity resources for promoting or administering the scheme.

"Gift Aid is a mechanism for charities to maximise the income they receive through donations from individuals and companies. The onus of making use of this mechanism remains with individual charities. However, there may be a role for Government in promoting the principles of the scheme more broadly and reiterating the commitment to forgoing taxation on charitable donations."

(National umbrella body)

3.14 There was widespread agreement that an awareness raising campaign – as announced by the Government at Budget 2007 - could help improve take-up of Gift Aid among donors and those charities currently not operating the system. There was a range of views on where, how, and by whom this awareness raising campaign should be delivered.

3.15 Many respondents supported a media campaign aimed at raising the profile and branding of Gift Aid. They favoured a message focussing on the simplicity of Gift Aid, and the fact that at there is no cost to the donor but a huge benefit to charities. Several stakeholders cited the Government's Giving Campaign and more recent campaigns on

tax credits and self-assessment returns as good examples of effective marketing in this area.

3.16 However, others felt that a one-off media campaign would not leave a lasting legacy and that Government should focus on finding ways of increasing awareness and understanding over the long-term. Suggestions included a dedicated Gift Aid website for donors; and promoting Gift Aid in schools. There was a general consensus among respondents that existing Government contacts with taxpayers, such as tax returns, coding notices or the point of issue of national insurance numbers, should be used by HMRC to promote the relief on an ongoing basis.

“HMRC issues thousands of pieces of correspondence to individuals each week and these could all be used as a means of issuing reminders/further information regarding the benefit of giving by Gift Aid.”

(Sector representative body)

3.17 Views also differed on whether a campaign should be aimed at the general public as a whole, or be targeted at particular donors or charities which do not appear – on the basis of current evidence – to be maximising their use of Gift Aid. These include smaller charities, higher rate taxpayers, people from ethnic minorities and the self-employed.

“The Government needs to work hand-in-hand with the charity sector to run some kind of long-term media campaign, targeting specific groups of people with different messages. In Breakthrough's opinion, running one generic awareness campaign for everyone will not work because we know, from experience, that different types of people donate to charity for different reasons so we need to take this into account with our messaging.”

(Large national charity)

3.18 There was also some support for the suggestion of a range of different groups, including umbrella bodies, local infrastructure groups, CVS, and financial advisors – participating in an awareness raising campaign targeted at certain ‘hard to reach’ sectors.

HIGHER RATE TAXPAYERS

3.19 Under the Gift Aid scheme, higher rate taxpayers can claim tax relief on donations, in addition to the amount that has already been claimed by the charity. Although some higher rate donors will allow for higher rate relief when deciding how much to give, some may decide to make a further donation of the higher rate relief to the charity. In some cases it is possible to do this through SA Donate.

3.20 The effects of higher rate relief were felt to be a major issue with many respondents doubting that such relief had much impact on amounts donated. However respondents from sectors where larger individual donations are common believed that the higher rate relief was a major motivating factor for donors. Several respondents felt that more research was needed into the impact of the higher rate relief on donors and donations.

“We don't currently know what motivates higher-rate taxpayers to donate but anecdotal evidence would suggest that it is unlikely to be the additional tax relief unless giving in very large amounts.”

(National umbrella group)

3.21 Proposals for improvements to the higher rate relief arrangements varied. Some respondents felt that the full value of the income tax relief (basic rate and higher rate) should be available to the donor, others thought should all the relief should be reclaimable by the charity. Other proposals included restricting the higher rate tax relief to donations over a certain value; abolishing the higher rate relief and using savings to support small charities; allowing the 'tax to cover' rule to date back to the previous tax year; and combining the basic and higher rate reliefs into one composite rate. There was also support for allowing donors to opt on the Gift Aid declaration to allow the charity to reclaim additional higher rate relief direct from HMRC.

"We think that the single change that would make the most difference to charities' income from Gift Aid is to pay the higher rate Gift Aid relief directly to the charity rather than to the donor... We do not believe that such a change would deter higher rate tax payers from making substantial donations although more research is needed in this area."

(Sector representative body)

3.22 Respondents also focused on the need for simplification. It was suggested that take-up of the higher rate relief was lower than it might otherwise be, due to the complexities of claiming, and limited awareness. Respondents noted that it was easier for those using the self-assessment system to donate their higher rate relief, but that increasingly fewer taxpayers fall into this group. They also suggested that the current self-assessment reclaim system (SA Donate - under which a donor can request that additional tax relief is passed to the charity) could be improved by allowing donors to use the registered charity number, and by allowing a donor to nominate more than one charity to receive relief.

"In the last financial year...NML increased the total amount claimed through Gift Aid by 39%...this was due to a focus on promoting tax effective giving; identifying supporters we suspected were on a higher tax rate and encouraging them to make large donations."

(Sector representative body)

3.23 Finally, respondents highlighted the need for awareness raising among both charities and donors. They noted that targeting higher rate donors is particularly difficult but suggested that the Government could promote the relief in tax returns and PAYE coding notices.

SECTOR SPECIFIC CONCERNS

3.24 There were calls from some respondents for the extension of Gift Aid to new areas such as gift membership payments, donations to charity consortia, sponsorship by linked persons and junior membership subscriptions to registered Community Amateur Sports Clubs. Schemes to allow Gift Aided donations of store card loyalty points, loose change on store bills and spare pennies of bank interest were suggested. There were also some suggestions for additional tax reliefs for non-cash gifts such as gifts in kind, the value of volunteers' time, gifts of work of art etc. However, calls for the extension of Gift Aid were echoed with calls for simplification of the scheme.

3.25 Respondents operating in specialist areas, primarily charity shops and those in the arts/heritage and visitor attraction sectors, raised sector specific complexities and concerns.

3.26 Reclaiming Gift Aid on the cash proceeds from the sale of goods donated to charity shops was deemed to give rise to particular complexities. Respondents called for simplification, suggesting that the Government allow Gift Aid declarations to be made at the time of donation and that the donor should not be allowed to reclaim the money raised in the sale of donated goods. However, some charity shops argued that the existing scheme is not as complex as it might appear, supporting instead general awareness raising and guidance to bring more charity shop operators and donors into the scheme.

3.27 In the arts and heritage sectors respondents drew attention to the rules governing gifts of land, property, shares and securities, calling for a system of carry back or carry forward of the tax relief to other tax years. Some respondents also raised concerns over the Gift Aid benefit limits on membership and patron schemes, calling for these limits to be raised and for a simplification of guidelines.

3.28 Representatives of visitor attractions shared some of the concerns of the arts/heritage sector and also raised concerns over the impact of the changes in relation to Gift Aid and admissions made in 2006. Some respondents argued that these rules created administrative burdens, longer entry queues and the need for additional trained staff to explain the scheme to visitors. Some proposed that Gift Aid should be available on all charges paid by UK taxpayers for admission to qualifying visitor attractions, while others argued for the need for increased awareness of the current rules among staff and the general public. Finally, a number of respondents called for an extension of the Gift Aid on admissions scheme to charity events, exhibitions and historic properties.

"Many museums... choose not to recover Gift Aid on any ticket sales, firstly because there is a lack of clarity as to when it is permissible, but also because of the difficulty in convincing people to pay a differential price and the administrative burden of collecting gift aid information in a ticket queue."

(Sector representative body)

RECORD-KEEPING AND CLAIM PROCESS

3.29 Respondents told us that storage and retention issues; data protection; the need to maintain audit trails; different record-keeping requirements for different fundraising activities and high staff turnover all presented challenges in relation to record keeping. Some suggested that the record-keeping burden often outweighs the benefit of claiming on small-value donations.

"It can cost more to administer a Gift Aid scheme than the amount that can be recovered... charity funds are being diverted to lawyers, VAT advisers and audit firms to work their way through the red tape involved in Gift Aid."

(National umbrella body)

3.30 In terms of the declaration required from the donor, it was suggested that alternative information identifying the donor (other than donor's name and address) should be acceptable. A universal Gift Aid declaration and accompanying donor card was suggested, as were declarations by tax-paying households rather than individuals. Other respondents suggested the establishment of a central Gift Aid database managed by HMRC, the Charity Commission or an independent body, through which donors could register a universal Gift Aid declaration and obtain a unique identification number or donor card. However, there was some concern about how the database would be administered and the impact upon charities' relationship with their donors.

3.31 As regards the record keeping and claim requirements upon charities, aggregated claims for small donations; bi-annual claims or reducing the current £100 minimum claim limit and a reduction in the current record keeping requirements were suggested. A number of respondents proposed the creation of standard accounting packages or spreadsheets to support smaller charities. It was also suggested that there should a facility to make online Gift Aid claims and to upload records directly on to the HMRC website.

AUDITING

3.32 In general, respondents that had been through the audit process reported positive experiences. Several noted that HMRC auditors had offered them practical operational advice, helping them to implement simpler processes and systems.

“Audits have provided an opportunity for face-to-face clarification with HMRC on matters of detail, such as how best to handle and record verbal Gift Aid declarations received during telephone fundraising campaigns, and Gift Aid relating to receipts from fundraising dinners.”

(Sector representative body)

3.33 However, charities that had been audited also highlighted that preparing for and undergoing an audit can be administratively burdensome, particularly for smaller charities. They also suggested that there had been a tightening of HMRC’s approach to the audit over recent years, and that HMRC had applied the Gift Aid rules inconsistently in different cases.

3.34 The audit process and potential penalties generated a ‘fear factor’ among many charities. Some highlighted that an innocent error found in a sample at audit could be extrapolated across the entire Gift Aid claim.

“Although we didn't have to repay any tax as a result of our last audit, we struggled to find four very old covenants and this could have cost £200,000 due to the extrapolation method.”

(Large national charity)

3.35 Respondents suggested a number of ways in which the auditing and penalty system could be improved. There was support for the introduction of a de minimis error rate (ranging from 5 -10%), below which charities would not face penalties or repayment claims for lost or incorrect Gift Aid declarations. Some respondents also proposed that charities be given a period in which to correct errors and replace missing declarations, or that errors be tested over larger samples before extrapolations. Other suggestions included a threshold under which charities are exempt from audit; HMRC not acting on errors found at the first Gift Aid audit; a compliance/risk based two-tier audit system; and allowing an interest free extended payment period for Gift Aid tax recoveries.

3.36 Respondents suggested that HMRC introduce more regular, ‘lighter touch’ audits, or alternatively maintain more regular contact with charities between audits. Some proposed an audit ‘toolkit’ to guide charities through the audit process.

“(We would like to see) a concerted effort by HMRC to quell the ‘fear’ factor associated with audits through consistent delivery and the training of charity volunteer fundraisers.”

(Large national charity)

REFORMING GIFT AID

3.37 While some respondents supported the fundamental design principle of Gift Aid - as a system tied to the basic rate of income tax - others pointed out that this meant that Gift Aid income fluctuated with the basic rate of taxation. Some respondents sought a transitional relief alongside the reduction in the basic rate of income tax in April 2008.

3.38 Many respondents proposed a fundamental reform that would transform Gift Aid from a taxation based system to an accounts-based method that allowed a charity to reclaim a fixed proportion of its total voluntary income – at a composite rate calculated on an individual, donor-based or sector-by-sector basis. This would remove the need for the charity to obtain and retain Gift Aid declarations from donors.

"The upshot... is that we should put most effort into raising the numbers who contribute at base rate, lessen the complications for higher rate taxpayers and give a simpler system time to bed down. IT will need to be promoted widely through all media."

(National umbrella body)

3.39 A variation on this proposal was that Gift Aid should operate on the basis of a composite rate – set somewhere between the basic and higher rate of income tax – that was claimable by the charity. However, unlike the accounts basis model this proposal would retain a link to tax paid by the donor, and a requirement for declarations from individual donors.

3.40 However, other respondents supported a continuation of the link between Gift Aid and the basic rate of income tax

"Whilst fixing the claiming rate would alleviate the uncertainty of changing rates, we conclude that this system could possibly work against charities and that Gift Aid is best remaining linked to the basic rate of income tax."

(Church organisation)

"It is critical that the status of GA as a tax reclamation is maintained, and that it does not technically become government expenditure, and so vulnerable to the whims of successive administrations."

(Large national charity)

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