

Consultation on Gift Aid

June 2007



HM TREASURY



CabinetOffice
Office of the **Third Sector**



**HM Revenue
& Customs**

Invitation to participate

From the Paymaster General

I am writing to invite you to participate in the Gift Aid consultation. This consultation will provide a valuable opportunity to take a closer look at the Gift Aid system and explore ways to increase the take up of Gift Aid.

Today Gift Aid is the most widely-used tax-efficient giving scheme in the UK and around 10 million adults use Gift Aid for one or more of their donations in an average month. However, I believe there is more we can do to ensure that charities benefit fully from this successful relief.

This consultation offers the opportunity for charities of all sizes to influence policy. I recognise that there is a wide and diverse range of charities in the UK, all of whom play a unique and valuable role in the community, and I encourage individuals and organisations from all parts of this sector to bring their knowledge and ideas to this consultation.

I very much hope that you will participate in the consultation, and look forward to hearing your views.



DAWN PRIMAROLO

This pack contains:

1. How can I get involved in the consultation? – Including event and contact details
2. Gift Aid explained – Frequently asked questions
3. Terms of reference – Scope of the consultation
4. Key consultation questions
5. Consultation process and timing
6. Further information

How to use this pack

This pack has been compiled to provide a clear and comprehensive guide to the consultation. However, if you have limited time and resources the key documents that you need to look at are 'How can I get involved' which gives details of how to get involved and consultation events, and the 'Key consultation questions' which set out the areas that have been identified as important to the sector in a series of questions.

How can I get involved?

How can I get involved in the consultation?

In this year's Budget, the Chancellor announced that HM Treasury would undertake a consultation to identify measures to drive up charitable giving through Gift Aid. This consultation pack initiates this process by explaining the background to the consultation, setting out the key aims and objectives and outlining the consultation process and the key questions to be addressed.

The consultation is open to all charities and the Government is keen to hear from representatives from all parts of the sector. So it would be very helpful if you would pass this information on to any other groups or individuals that you think may be interested in participating in this consultation.

How can I get involved?

You can get involved in one or all of the following ways, by:

- Completing the online survey which will be used to shape the consultation events. (The survey is available from the consultation website);
- Writing in with your suggestions and views using the contact details below;
- Attending one of our regional and national consultation events to be held during August and September (details below).

What are the next steps?

- Please pass this pack and invitation to participate on to your colleagues in the charitable sector

- Please use our online survey to register expressions of interest in attending a national or regional event and to help shape the themes of meetings. Alternatively, you can contact us at the addresses below. Please ensure when contacting us that you provide us with information about yourself and your organisation. The form included in this pack will help you to do this and can be emailed or posted to us with your response.

Event details

We will hold seven events during August and September in the following locations:

- London
- Bristol
- Birmingham
- Cardiff
- Leeds
- Edinburgh
- Belfast

Details of the regional and national consultation events will be posted on the consultation website along with any other latest updates.

Contact details

- Postal address: Gift Aid consultation, Lyndon Smith 2/NW, HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ
- Email address: giftaid-consultation@hm-treasury.gsi.gov.uk
- Website: <http://www.hm-treasury.gov.uk> and follow links to consultation and legislation.

About you

Contact details of respondent

Name: _____

Organisation: _____

Your role in the organisation: _____

Postal address: _____

Telephone numbers (s): _____

Email address: _____

Type of organisation: please tick all boxes that apply.

- | | |
|---|---|
| <input type="checkbox"/> Charity sector | <input type="checkbox"/> Representative body of charities |
| <input type="checkbox"/> Sector / regional body | <input type="checkbox"/> Community amateur sports club |
| <input type="checkbox"/> University | <input type="checkbox"/> Independent school |
| <input type="checkbox"/> Arts – museums, galleries
and visitor attractions | <input type="checkbox"/> Religious organisation |
| <input type="checkbox"/> Replying as individual | <input type="checkbox"/> Other, please state
_____ |

If you represent a charity, what is your charity's annual average income?

- | | |
|--|---|
| <input type="checkbox"/> £0-£10,000 | <input type="checkbox"/> £10,000-£100,000 |
| <input type="checkbox"/> £100,000-£1 million | <input type="checkbox"/> £1 million-£10 million |
| <input type="checkbox"/> £10 million + | |

Do any of your donors donate using Gift Aid?

- Yes No

Gift Aid explained

1. What is Gift Aid?

Gift Aid is a tax relief that was introduced in 1990 to encourage gifts of money to charities. Gift Aid enables sums of money given to charity by individual UK taxpayers to be treated as if they were net of basic rate income tax. The charity can then claim repayment equivalent to the basic rate of tax from HM Revenue & Customs (HMRC). Over time Gift Aid as a tax relief has increased in size and scope to become worth £828 million to UK charities in 2006-07.

2. How does Gift Aid work?

Gift Aid donations are treated as being paid to charity net of the basic rate of income tax. At the current basic income tax rate of 22 per cent, a gift of £10.00 is treated as if it is a sum of £12.82, which the charity receives net of £2.82 tax. The charity can then claim repayment of the £2.82 basic rate tax from HMRC. Donors taxed at the higher rate can claim an additional 18 per cent tax relief (the difference between the higher rate of 40 per cent and the basic rate of 22 per cent) on the grossed up donation (i.e. the deemed £12.82 gift).

In order for the charity to claim Gift Aid, the donor must:

- have paid enough UK tax (income tax and/or capital gains tax) for the tax year of donation to cover the amount of tax the charity will reclaim; and
- make a valid Gift Aid declaration, which should include their name, home address and confirmation that they have paid sufficient UK tax to cover the tax the charity will reclaim.

Declarations can be made to cover individual donations, a series of donations over a specific period, or all future donations. They can also be backdated for up to 6 years prior to the date of the declaration, provided the donation was made after 6 April 2000.

3. Why does Gift Aid work in this way?

The system provides a simple and user friendly route for donors to ensure that their tax relief goes directly to the charity of their choice. This is crucial in encouraging donors to use the system, as personal commitment to particular charities has been shown to be a primary objective for donors.

A spending measure (distribution of funds that is not directly linked to a tax relief) would bring challenges for charities: they would need to compete with other spending priorities for funds and there would be no guarantee that levels of spending would rise at the same rate that Gift Aid is rising.

4. Why is record keeping important?

Gift Aid is a tax relief. The relief can only be granted when it is covered by the tax paid by the donor. A charity must therefore maintain sufficient records to show an audit trail linking the donation to an identifiable donor who has made a valid declaration to establish entitlement to a Gift Aid repayment. This is necessary to protect the integrity of the tax system.

5. What happened at Budget 2007?

Budget 2007 announced that the basic rate of income tax would fall from 22 pence to 20 pence from April 2008. This means that the rate at which Gift Aid repayments to charities are made will fall from about 28 pence in every pound to 25 pence in every pound, in line with the reduction in the basic rate of income tax. Higher rate income tax will be unchanged at 40 per cent so donors who pay the higher rate will normally be able to claim 20 per cent tax relief on the grossed up donation.

6. How successful is Gift Aid?

Gift Aid is a popular and well-used system. Around one-third of people donating to charity in the UK use Gift Aid for one or more of their donations in the average month and it is on the increase; the amount of Gift Aid paid out to charities increased from £506 million in 2002-03 to £828 million in 2006-07. The Government believes there is greater scope for charities to claim additional funds through Gift Aid.

This consultation seeks to identify measures to drive up charitable giving through Gift Aid.

HM Treasury will consult with a wide range of charitable organisations of all sizes, including umbrella organisations and infrastructure bodies, small and large charities, local voluntary organisations, schools and universities, arts organisations, sports clubs, visitor attractions, hospices and religious bodies.

The consultation process will consist of an online consultation; an opportunity to submit written views; and, eight regional and national consultation events shaped through initial online consultation with the sector.

Scope

Gift Aid on individual donations is the most widely used tax efficient giving scheme in the UK. The consultation is aimed at the charitable sector, rather than donors (although we will draw on the research that infrastructure bodies have undertaken with donors where possible), and seeks to obtain workable suggestions as to how the unique and valuable Gift Aid tax relief for UK charities might improve in terms of its:

- profile;
- accessibility;
- ease of operation; and
- overall value in the hands of the charitable sector.

We are looking for new and innovative ideas on how to improve the Gift Aid system, which has proved to be a highly successful means of driving up the value of donations to charities. The consultation will consider Gift Aid in the wider context of the need to minimise administrative burdens and costs on charities, donors and HMRC.

This consultation will draw on the experience of the third sector review but will be conducted as a separate exercise focusing on tax policy.

A cross-departmental steering group, comprising representatives from relevant Government departments and agencies will oversee the consultation.

This deadline for written responses is 30 September.

Key consultation questions

The following areas have been identified as important to the sector and a number of key questions have been set out to guide you. However, we welcome your thoughts and ideas on any other areas that fall within the terms of reference of this consultation.

I. Small and local charities

Initial discussions with representatives of the charitable sector have identified that smaller charities and local voluntary organisations charities find it particularly difficult to benefit fully from the Gift Aid scheme. The Government is particularly keen to hear the views of these smaller organisations in order to establish how it can work with the sector to help smaller charities to access Gift Aid.

- **How can the Government work with charities to increase their overall awareness and understanding of Gift Aid?**
- **What proportion, if any, of your donations is made using Gift Aid? If this proportion is small, why do you think this is the case? If this proportion is relatively large, what challenges do you face and how have you overcome them?**
- **Do you make Gift aid repayment claims? If not, why not?**
- **What kind of guidance or mechanisms do smaller charities need to support them in the Gift Aid process and what format should this take?**

2. The donors

Research into UK giving by the Charities Aid Foundation (CAF) and the National Council for Voluntary Organisations (NCVO) in 2005-06 showed that about one third of donors in the UK use Gift Aid for one or more of their donations in an average month. However, there is scope for take-up to be increased. The Government recognises the need to raise donor awareness of Gift Aid and a separate awareness raising campaign will take place over the coming months. Your responses to these questions will help shape this campaign.

- **Do you find that Gift Aid encourages your donors to give more?**
- **What do you think are the perceived barriers to using Gift Aid amongst the general public?**
- **How can the Government work with the sector to raise the awareness of Gift Aid amongst donors?**

3. Wealthy donors and higher rate taxpayers

Wealthy donors stand out as a particular target for Gift Aid promotion. Wealthy donors usually pay higher rate income tax and can therefore currently claim an additional tax relief of 18 per cent (the difference between the higher rate of 40 per cent and the basic rate of 22 per cent) on their donations. However, nearly half of donors giving more than £100 per month are not giving tax-efficiently, and the use of Gift Aid within this group has dropped substantially since 2004-05, while it has remained static amongst other groups. Representations from the sector have also identified that there is potential to increase the number of higher rate taxpayers making a further donation of their additional tax relief to charity.

- **What proportion of your donors giving large sums of money donates using Gift Aid?**
- **Do you believe that the higher rate relief encourages wealthy donors to give? If so, what evidence do you have of this?**
- **Have you employed any particular methods to increase awareness of the higher rate relief? How successful has this been?**

- In your experience, do higher rate taxpayers also donate the tax relief that they receive on Gift Aided donations? Which mechanisms are they using to do this?
- Are you promoting the use of SA Donate? If so, how?
- What, in your view, are the key reasons for higher rate taxpayers not donating their additional tax relief?
- What measures might encourage higher rate donors to donate their additional tax relief?
- How can the government work with the sector to raise awareness of the higher rate relief amongst wealthy donors?

4. Gift Aid in respect of rights of admission

Gift Aid claims and repayments are allowable in certain circumstances in respect of admission charges to view property preserved, maintained, kept or created by a charity including buildings, grounds or other land, works of art and other specified types of objects or places of public interest.

A right of admission can qualify for Gift Aid provided the donor chooses to pay ten percent more than the standard admission charge for a one-off right of entry or that payment secures admission to the property for twelve months or more.

- **If you are a charity that is eligible to claim Gift Aid on rights of admission, do you operate such a scheme?**
 - If not, why not?
 - If so, what is your experience and what are the main challenges you have faced?
- If you are not eligible to use the scheme do you feel disadvantaged?
- What more could be done to encourage Gift Aid visits?

5. The record-keeping and auditing process

Charities claiming Gift Aid repayments must keep appropriate records. This enables HMRC to verify that the donations on which a repayment is claimed have been made and that they come from an identifiable donor who has made a valid declaration and paid sufficient tax. Charities may undergo an audit by HMRC to ensure that systems and records are being operated and correctly maintained. The Government has received representations from the sector indicating that elements of the record-keeping and audit process can present barriers to charities claiming Gift Aid.

Claims and record-keeping

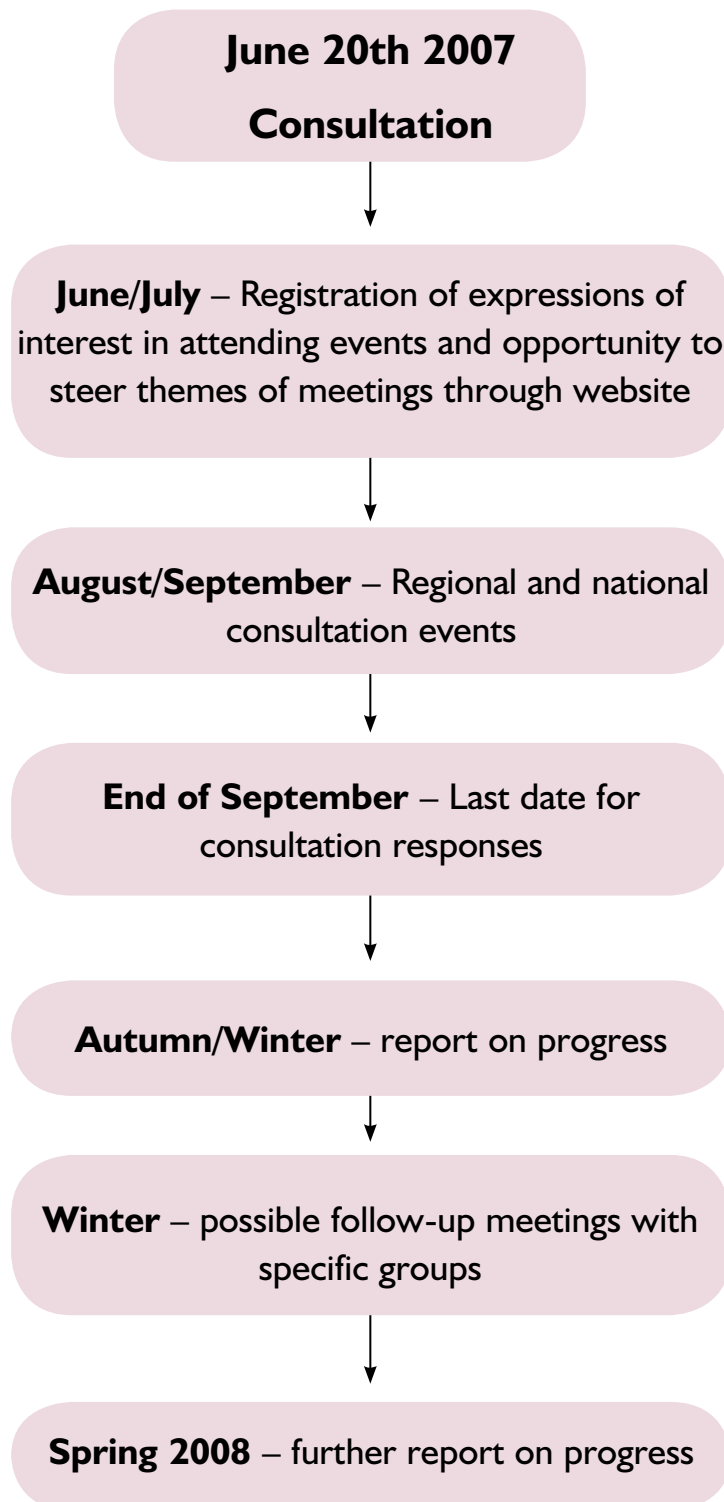
- **Do you operate Gift Aid repayment claims? If so, what are the main challenges that you face in reclaiming Gift Aid?**
- **How do you keep track of your donors, donations and claims?**
 - **Could the claim process be simplified? If so, how?**
 - **Is there anything that would encourage you to operate a Gift Aid system if you do not?**
- **Do you use the record keeping process to follow up with donors that have made gifts through Gift Aid?**
- **Do you use information technology to support your organisation to keep a record of Gift Aid declarations? If so, what do you use and how helpful is it? Are there other ways that IT systems could support the process?**

Audit process

- **What has your experience been of the Gift Aid audit process and what challenges have you faced?**
- **If you have faced any particular difficulties, how do you think the process could be improved?**

Consultation process and timing

The key stages of the planned consultation are set out below:



If you have any further questions about the consultation, please email the consultation team at giftaid-consultation@hm-treasury.gsi.gov.uk or call us on 020 7270 4376.

How we will use the information you give us?

Your responses and the information that you give us about yourselves will be used to inform the consultation. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department will process your personal data in accordance with the DPA and in the majority of circumstances, this will mean that your personal data will not be disclosed to third parties.

About the consultation process

This consultation has been conducted in accordance with the consultation criteria in the Cabinet Office Code of Practice. If you wish to access the full version of the Code, you can obtain it at <http://www.cabinetoffice.gov.uk/regulation/Consultation/code/index.asp>.

The consultation criteria

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
2. Be clear about who may be affected, what questions are being asked, and the timescale for responses.
3. Ensure that your consultation is clear, concise and widely accessible.
4. Give feedback regarding the responses received and how the consultation process influenced the policy.
5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
6. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

If you feel that the consultation does not satisfy these criteria, or if you have any complaints about the process, please contact –

Duncan Calloway

Better Regulation Unit

020 7147 2389 or duncan.calloway@hmrc.gsi.gov.uk