

Gift aid

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Gift aid

The gift aid scheme is a tax break designed to encourage individuals to give money to charity. Registered charities can reclaim the basic rate tax paid by the donor on the donation, while higher rate tax payers can claim higher rate tax relief.

Basic rate relief

When an individual makes a donation of, say, £1,000 to charity, he or she is treated for tax purposes as having made a donation of £1,282 from which basic rate income tax has been deducted (although the basic rate of tax was reduced to 20% with effect from April 2008, charities can effectively reclaim tax at the higher rate of 22% until 5 April 2011).

If the donor signs a gift aid declaration, the charity can reclaim the basic rate tax from HM Revenue & Customs ("HMRC"). The total value of the donation to the charity is therefore greater than the cost of the donation to the donor.

Higher rate relief

Higher rate taxpayers can claim additional tax relief on donations on their tax returns.

The relief is the difference between the basic and higher rates of income tax (i.e. presently 20%) on the full amount of the gift. The tax repayment due to the donor (£231 on the above example) further reduces the total cost of the gift to the donor. And, if the donor has insufficient income to fully utilise this relief, the donor can claim it against his or her capital gains. The relief can also be carried back for one tax year.

Relief may be at a different rate where the donor has dividend income.

Additional donations

Higher rate taxpayers can donate their tax repayments to charity using their tax return. In the above example, the donor could opt to donate the tax repayment to charity. There is a list of potential charitable beneficiaries to choose from, and taxpayers can opt to donate all or part of the refund. Charities must be registered with HMRC in order to be included in the list.

How to gift aid a donation

When making a donation, the donor must give the charity in question a declaration confirming that the donor will pay an amount of income tax or capital gains tax equal to the basic rate tax that the charity reclaims on the gift. Non-UK resident donors can make gifts under the scheme provided they have sufficient income or gains which are liable to UK tax.

Gift aid declarations can cover one-off donations as well as regular payments. They can be given orally (in which case there must be clear evidence of the gift) or in writing (including by fax and by email), and many charities now provide a declaration for donors to complete. Making an anonymous gift to charity will mean that the donor is unable to reclaim the tax because they will have no gift aid declaration to match with the donation.

Benefits

Gift aid is not available where a donor (or a member of their family or anyone else who is connected to them) receives certain benefits in return for a donation. Some benefits with a modest value can be given in return without preventing gift aid relief from applying (25% of the value of gifts of under £100, £25 for gifts of between £100 and £1,000, 5% of the value of gifts between £1,000 and £10,000 and £500 for gifts in excess of £10,000).

Record-keeping

Donors should keep records of all gift aid payments made in a tax year, i.e. the name of the charity, the amount of the gift and the date on which the payment was made. The donor should also keep a copy of his or her gift aid declaration.

Substantial donor rules

There are anti-avoidance measures which are designed to catch certain types of transactions between charities and donors who make gift aid donations of more than £25,000 in one year (or £150,000 over the space of six years). Although it is the charity which will lose its tax exemption on funds that fall foul of these rules, taxpayers should be aware that certain transactions with charities to which they have donated significant sums in the past may pose problems for that charity in the future.

Further advice

This note provides general guidance only. You should not rely or act upon it without taking advice on your specific circumstances.

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