

# 10 things charities need to know about Gift Aid

**Helen Elliott, partner at Sayer Vincent, looks at the 10 most important things about Gift Aid for charities to keep in mind, including the restrictions on who is eligible to use and what kinds of benefits are excluded**

In March 2018 HMRC published research about Gift Aid, in which it reported that 8% (£180m in Gift Aid) of donations to charities are Gift Aided but ineligible for Gift Aid and 25% (£560m in Gift Aid) are not Gift Aided but eligible. The over-claims were not deliberate but a result of the poor understanding of gift aid rules. Here are the ten key things to know about Gift Aid for those working in and with charities.

28 Nov 2018

**Helen Elliott**



Partner, Sayer Vincent

[View profile and articles.](#)

## 1. How does Gift Aid work?

Only donors who pay UK income tax and/or UK capital gains tax (CGT) should donate under Gift Aid. A donation with a valid Gift Aid declaration is assumed to have been paid net of basic rate income tax which charity can reclaim from HMRC. This is now 20%, so the Gift Aid claim would be 25% of the 80% donation amount.

The donor must have paid sufficient UK income tax or CGT to cover the tax claimed on their Gift Aid donations in the tax year or they will be liable for the difference, and HMRC regularly checks donors have paid sufficient tax.

If the donor is a higher rate taxpayer, they can claim the extra tax relief through a self-assessment tax return or by asking HMRC to amend their tax code.

## 2. Types of donation that can be Gift Aided

Gift Aid is available on donations of money from UK income tax and CGT payers. This includes individuals, unincorporated sole traders and partnerships or LLPs, In the latter, each partner is required to provide a declaration for their share. It is not available where tax relief is already provided, such as in payroll giving; for companies (who have a different corporate Gift Aid); where something is given in return e.g, lottery or raffle tickets; or for donations of goods or volunteer time.

## 3. Gift Aid declarations

There are two types of Gift Aid declaration: single donation declarations, for example, 'please Gift Aid the enclosed donation'; or enduring declarations. These apply to multiple donations, for example, 'please Gift Aid the enclosed donation, all donations made in the previous 4 years and all future donations'.

Declarations can be in writing or verbal and must conform to HMRC's regulations, which provides model written declarations and a procedure to follow for verbal declarations. Charities are strongly advised to use and follow these.

Since 6 April 2017 a donor can authorise an intermediary, such as a commercial fundraising website, to issue Gift Aid declarations to charities on their behalf.

Charities should retain written Gift Aid declarations and HMRC's specified evidence of oral declarations for at least 6 years after the last donation to which the declaration relates.

## 4. Who can claim Gift Aid?

The following entities can make Gift Aid claims: UK community amateur sports clubs ('CASCs'), UK charities, and charities established in other EU or European Economic Area (EEA) states

## 5. How to claim Gift Aid

The charity or CASC must first register with HMRC by adding the Gift Aid service to its online account. It can then submit Gift Aid claims in one of three ways:

- **direct database claim** - from compliant Gift Aid management software to HMRC;
- **spreadsheet claim** - complete and upload a template spreadsheet from the HMRC website - it can list up to 1,000 donors; or
- **paper claim** - a paper form (ChR1) ordered from the HMRC charities helpline can list up to 90 donors. Use original forms only.

Claims must list the donor name, home address, donation date and amount. UK addresses must include a postcode. You can aggregate up to £1,000 of donations of £20 or less onto a single claim line and for sponsored events, you can list donations by event participant rather than donor, though individual donations of £500 or more must be included separately.

## 6. Claim time limits

Understand when you must claim Gift Aid by. The time limits depend on the type of claimant. Corporate charities and CASCs can claim in the financial year of the donation or following four financial years. Charitable trusts can claim in the tax year of the donation or following four tax years.

## 7. Gift Aid inspections

Be aware of the risks of making incorrect or invalid claims. HMRC risk assesses and checks Gift Aid claims either by visiting or asking for supporting evidence. HMRC allows a charity to try to correct the problem, for example seeking a replacement for a lost declaration. For uncorrected problems HMRC establishes a sample error rate by value, then extrapolates this over the entire claim under review - and possibly to all claims in the same year - and in the past four or six years and demands repayment and interest.

## 8. Donor benefits

Understand the rules on giving donors benefits in return for their donations. Charities may provide donors and people connected to them, with small benefits in return for their donation. There are financial caps on these, although they will relax slightly next in April 2019:

Donation amount	Benefit cap: to 5 April 2019	Benefit cap: from 6 April 2019
Up to £100	25% of donation amount	25% of donation amount
£100 to £1,000	£25	£25 plus 5% of donation amount over £100
Over £1,000	5% of donation amount	
Annual limit	£2,500	£2,500

Certain benefits can be ignored, including:

- provision of charity literature that describes the work of the charity (brochures, newsletters, programmes of events, annual reports etc.);
- acknowledgements of donations (e.g. on a list, or plaque);
- naming rights, for example naming a building after a donor, provided it is not an advert for the donor's business; or
- certain rights of admission to view charity property for example admission to a museum or gallery, can be ignored as a donor benefit provided the admission payment either grants a right of admission for at

least 12 months whenever the public have access; or the payment is at least 10% more than normal admission, when the whole payment can be Gift Aided.

HMRC's approach to valuing benefits is to take into consideration the usual sale price, including VAT if applicable. In cases of an event, the value is based on the cost to the charity of an event not open to the public divided by the number of people in attendance.

For a discount on goods or services, the valuation can be based on the average take-up of the benefit, as long as the charity keeps records of all discounts given. For a life membership, the benefits value over the first 10 years of membership is used.

## 9. The split payment approach

When a benefit value would exceed the donor benefit limits, it may be possible for the donor's payment to be split between an amount to cover the cost of the benefit and an amount treated as a gift, eligible for Gift Aid. However, HMRC's position is that Gift Aid can only be applied to the gift part if the benefit can be purchased separately, and the donor is aware of the value of the benefit at the time the donation is made.

## 10. Retail Gift Aid Scheme

Many charities raise funds by selling donated goods in charity shops. Gift Aid is restricted to monetary donations, so gifts of goods do not qualify. However, there is an HMRC scheme under which charities can claim Gift Aid on the proceeds from sales of donated goods in charity shops. The charity acts as agent for the donor in selling the goods so when they are sold, the proceeds (less the seller's commission), belong to the donor. The donor agrees, either in advance or when the goods are sold, that the net proceeds are to be Gift Aided to the charity and provides an enduring Gift Aid declaration to cover this.

The Retail Gift Aid Scheme has a complicated set of rules imposed by HMRC, so it can be administratively burdensome. However, it is generally considered worthwhile as the Gift Aid proceeds usually exceed the cost of implementation.

## About the Author

Helen Elliott is a partner at Sayer Vincent