



Policy statement

Gift aid

Introduction

The Gift Aid scheme, enabling charities to reclaim the basic rate on donations from individuals who pay UK tax, is the most widely used mechanism for tax-effective giving. For charities such as the BHF, income generated by Gift Aid is an important source of support for our life-saving work in the fight against heart disease.

Policy statement

The BHF strongly supports the Gift Aid scheme which has helped us to maximise donor gifts over the last decade. Gift Aid attracted £10.2 million in tax relief to the Foundation in 2011/12. The total amount donated to charities in 2011/12 under the Gift Aid scheme grew by 2.2%.

BHF shops are a vital source of income to our fight against heart disease. However, the current process for claiming Gift Aid on the sale of goods donated to charity shops is cumbersome to administer and costs the BHF approximately £365,800 a year. We welcome the commitment in Budget 2012 to simplify this system and believe that the reforms should remove the need to write to donors once their goods have sold and enable charities to request that donors waive their right to reclaim the value of the goods once they have sold, at the time of donation.

The UK government should invest in a sustained awareness-raising campaign to ensure that all charitable donors, and potential charitable donors, understand the Gift Aid scheme. This should encompass the whole sector, including support to charities administering the scheme.

The Gift Aid instruction made by donors should allow higher rate taxpayers to have the option to donate the full amount at source. In this way all that is required is a change to the instruction, not to regulations.

Moving to an opt-out scheme would vastly reduce administration and storage costs and help to ensure that the potential income from Gift Aid materialises. This may also reduce the burden of administering the scheme for Her Majesty's Revenue and Customs. However, it will be important for any changes to an opt-out scheme to be accompanied by clear advice on liabilities for donors.

Background

The Gift Aid scheme was originally introduced in the 1990 Finance Act but only covered gifts of £250 or more. The scheme was substantially reformed in 2000 to apply the scheme to all donations and to give donors more flexible ways of making donations.¹ The scheme was worth over £1,075 million to UK charities in 2011/12 and was worth £10.2 million to the lifesaving work of the BHF in 2011/12.²

Use of Gift Aid

In 2010/11, 42% of BHF donors used Gift Aid, a 2% increase on the previous year and a 10% increase since 2004/5. The larger the amount donated, the more likely donors were to use the scheme. In 2010/11 the proportions using Gift Aid were:

- 23% of those giving under £10 per month
- 45% of those giving between £10 and £25
- 60% of those giving between £25 and £100
- 70% of those giving higher level donations of £100 or more³

Process required in shops

BHF shops are a vital source of income to help us fight heart disease. However currently, to claim Gift Aid on proceeds from the sale of donated goods, we must write to the donor to inform them of the value of the items sold and confirm that the money will be taken as a donation. We must then wait 21 days before treating the money as a donation for Gift Aid purposes.

The current process is cumbersome and requires us to send out over 350,000 letters per year. The cost to our retail division in 2011-12 of administering Gift Aid was over £365,800. Reforming this system would help reduce our costs and, by reducing the length of the audit trail, costs to HMRC. The process also places risks on our relationships with donors who question our use of resources in writing to them.

Furthermore, the current system also allows the donor, on receipt of our letter, to reclaim the entire value of the goods sold – meaning that we can become an unpaid broker. However the reclaim rate is low and highlights that the vast majority of donors are happy to allow us, from the onset, to receive the money both from the sale of their donations and the related Gift Aid. Total reclaims under the scheme saw a decrease of 2.4%.

¹ <http://www.hmrc.gov.uk/charities/guidance-notes/chapter3/sectionb.htm>

² <http://www.cafonline.org/default.aspx?page=17412>

³ https://www.cafonline.org/pdf/UK_Giving_2011_Full_Rep.pdf

Gift Aid reform proposals

In June 2007, HM Treasury, under the previous UK government, launched a consultation on measures to increase take-up of Gift Aid.⁴ The consultation sought views on the profile of Gift Aid amongst donors, the accessibility of the scheme, the ease of administering the scheme and the overall value of the scheme to charities. In response, the then government announced measures including:

- a transitional rate of relief following changes to income tax
- changes to penalties to reduce the burden of audit
- a new allowance for the disposal of enduring Gift Aid declarations after six years as long as a database record is retained
- a web information service and toolkit to help charities administer the scheme⁵.

Voluntary sector umbrella bodies including the Institute of Fundraising, the National Council of Voluntary Organisations and the Charities Aid Foundation attended meetings at HM Treasury to make further progress on Gift Aid reform. This group was known as the Gift Aid Forum and reported to Justine Greening, former Economic Secretary to HM Treasury of the current UK coalition government on 3 December 2010. The recommendations focused on prioritising the needs of smaller charities, promotion and simplification of the scheme and prioritising ability of higher rate taxpayers to redirect the relief on their donations.

Following the Gift Aid Forum report, recommendations were taken to the HMRC Charity Tax Forum which met five times between January 2011 and May 2012. This group had a wider remit than Gift Aid. The Economic Secretary to HM Treasury did not accept all the proposed reforms, including extending Gift Aid to donated goods. Seven working groups were set up including one for the Gift Aid Small Donations Scheme and one for a Gift Aid database. A number of actions were addressed by the group:

- updated HMRC guidance online
- development of intelligent forms (partially automated completion) and online filing (expected to go live 2013)
- simplification of small charity donations

Higher rate taxpayers

Higher rate taxpayers can claim the difference between the higher rate of tax (40 per cent) and the basic rate of tax (20 per cent) on the total (gross) value of their donations to charity. This claim is made as part of the annual tax return and higher rate taxpayers can choose to keep this money for themselves or to donate it to a single charity of their choice.⁶

For example, on a donation of £100, the total value of the donation to the charity is £125. If the donor pays 40 per cent tax they can claim back £25 from HMRC or choose to donate this to the charity. If the donor pays 50 per cent tax they can claim back £37.50 from HMRC or donate this to the charity.

⁴ http://www.hm-treasury.gov.uk/press_67_07.htm

⁵ http://www.hm-treasury.gov.uk/d/bud08_giftaid_335_.pdf

⁶ http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/GivingMoneyToCharity/DG_10015097

In December 2009, HM Treasury published the results of independently commissioned research looking at the options for reform of higher rate tax relief.⁷ The research found that only 35% of higher-rate donors claim the rebate with 30% of people surveyed unaware of how to make a claim. The majority of donors said they would not change their giving if there were changes to Gift Aid relief for higher-rate taxpayers, indicating that more money would go to charities.

The research also examined the potential to introduce a composite rate for Gift Aid falling between the basic and higher rate of tax as a way of simplifying the system. The research found that introducing a composite rate of 37 pence would mean a small increase in donations, a 10% increase in the value of all Gift Aided donations and a 21.5% increase in costs to the Exchequer. Introducing a composite rate of 30 pence would mean a small increase in donations and some costs saved to the Exchequer. The option of a composite rate has not been pursued by the coalition government.

The Gift Aid Small Donations Scheme

The Chancellor announced in the 2011 Budget that a new Gift Aid Small Donations Scheme would be introduced in 2013 and would allow charities to claim a Gift Aid style payment on donations received in circumstances where it is difficult to collect donors' details, or where donors may be reluctant to give them. The scheme will apply only to donations collected in the UK, a qualifying donation will be cash of £20 or less and the maximum limit of £5,000 per year on small donations eligible for a 'top-up' payment under the scheme⁸.

For further information please email policy@bhf.org.uk

⁷ http://www.hm-treasury.gov.uk/psr_giftaid_higherraterelief.htm

⁸ Gift Aid Small Donations Scheme http://www.hm-treasury.gov.uk/psr_giftaid_higherraterelief.htm