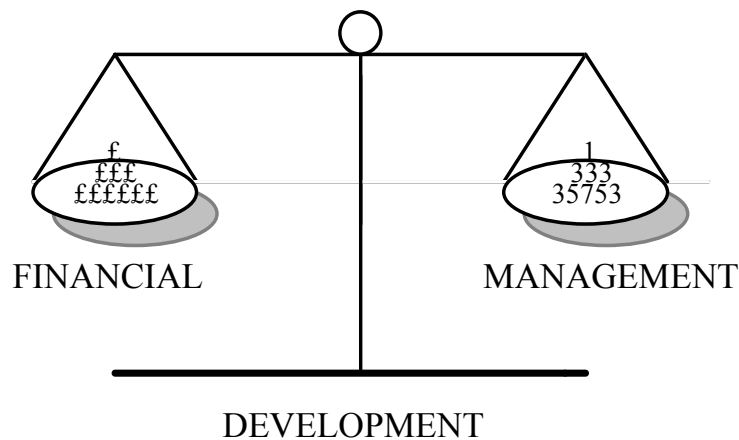


FINANCIAL MANAGEMENT DEVELOPMENT

CHARITY MANAGEMENT

NO 705

GIFT AID (UK ONLY)



ONE OF A SERIES OF GUIDES FOR
FINANCIAL MANAGEMENT DEVELOPMENT

FROM

www.FinancialManagementDevelopment.com

This is one of a series of documents produced by David A Palmer as a guide for managers on specific financial topics to assist informed discussion. Readers should take appropriate advice before acting upon any of the issues raised.

GIFT AID

OVERVIEW

Since 6 April 2000 UK charities have been able to benefit from a simplified scheme for the reclaim of tax on donations received from individuals. Provided the donor pays tax (and most people do) and signs a simple form, the charity can recover the basic rate tax which the individual has suffered on the value of the gift. Thus if someone gives £100, the charity can reclaim the tax that has been paid on that gift by the donor when they earned the money, at 22% that is 22/78 of £100 equal to a further £28.

Gift Aid is much simpler for the charity and the donor than the old system of Covenants and Gifts. The rules are simpler and the forms are easier to complete. Gift Aid only applies to gifts from individuals. If Companies give money or goods they merely deduct the value of the gift from their taxable profits so no adjustment is required.

These notes seek to explain the basic rules and how they operate for the benefit of those who are interested. For full details and for guidance on what to do in detail there is no better source than the Inland Revenue Document "Getting Britain Giving" 21 March 2000 or look at the Inland Revenue Website at www.inlandrevenue.gov.uk/charities which has both detailed guidance and a section on getting started.

DISCLAIMER

All information in this paper is as I understand it. It may be wrong or it may have changed. If you intend to claim tax back on a gift, or set up a scheme to recover tax, you should ask for detailed advice. I must disclaim all liability for any action taken, or loss incurred as a result of acting on the contents of this document.

WHAT IS GIFT AID?

It is a declaration by the donor that they pay tax and that they want a named charity to recover the tax. The declaration can be for a specific gift or can cover all gifts. The most common wording is " I want to treat this and all donations I have made since 6 April 2000 and will make from this date, until I notify you otherwise as Gift Aid Donations. I confirm I am a UK taxpayer paying tax greater than the tax on the value of this gift."

HOW IT WORKS (In simple terms)

Fred gives a charity £100. Fred has worked hard to earn the money and has received it after paying tax on his income. (He earned £128 less tax of £28 i.e. 22% on £128). In essence Fred has not had the benefit of the money. He has given it to charity. It would be unfair for the Government to keep the tax so they should give it back to him. Fred has said give the charity the tax as well. The charity merely asks the Government for £28, they pay it and all is as it should be.

WHAT DOES THE CHARITY HAVE TO DO?

The first thing is to register with the Inland Revenue. Then ask donors to complete a declaration. Note these can be retrospective so it is worthwhile contacting past donors to get them to sign in respect of any gift made since 6 April 2000. Once a reasonable value of gifts has been identified a claim should be made. Claims can be made annually, quarterly or monthly or on an ad hoc basis depending upon the number of donors and the frequency. The claim form is fairly simple and is effectively a list of names of donors, amounts and dates of gifts. The claim is normally processed within 30 days and the money sent to the charity.

The charity needs to keep all records in case the Inland Revenue want to see them to substantiate a claim. In addition to name date of gift and amount it is a good idea to have a note of the donor's address.

ARE THERE ANY RESTRICTIONS?

Yes lots, but they are sensible ones. The gift must be cash. The donor (or persons connected with the donor) should not receive any benefit as a result, although some things are not treated as benefits e.g. receipt of a newsletter. Care needs to be taken with items like Charity Dinners or Charity Auctions where a donor might pay £100 for a meal worth £25. There are some detailed rules for these sort of items, but they are fairly sensible. If in difficulty, showing ticket price £25 plus suggested donation £75 saves a lot of argument.

The donor must be paying Income or Capital Gains Tax of more than the tax recovered. However even those with modest income probably pay some income tax or suffer it on interest on bank accounts etc.

ANYTHING ELSE?

If the donor is paying tax at the higher rate (currently 40%), the donor can claim the extra tax relief to bring the value up to 40% i.e. the donor can claim a further 18%. Thus if Fred was a higher rate taxpayer and had had to earn £166 to receive £100 after tax, having suffered tax of £66 on his earnings; he should claim back the remaining 18% by showing that he has given away £128 (the gift plus the tax) and he will then recover £23 worth of tax (being 18% of the £128) from the Inland Revenue.

Charities can also receive gifts of shares and there are benefits in encouraging people to give shares which have gone up in value to the charity, as the charity can sell them and not suffer tax on the gain in value.

Donations made to charities in a will (legacies) are also free of tax and do not count as part of the deceased's estate for Inheritance Tax purposes. The best avoidance scheme for Inheritance Tax is to give all your money to charity.

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David is an experienced financial professional who has devoted his skills to management training in practical understanding and utilisation of financial information. A Graduate, Chartered Accountant, and Associate of the Institute of Taxation, he is also a Member of the Chartered Institute of Personnel and Development.

He has worked as a Financial Controller and Company Secretary in the Finance Industry and as a Director of Finance and Administration in the Computer Services industry. Since 1990 he has conducted management development programmes for over thirty major organisations including Arla Foods, Blue Circle, BP, CSC Computer Sciences, Conoco, Ernst & Young, Lloyds Bowmaker, The Post Office, Rothmans and Zeneca. International training experience includes work in Denmark, Kenya and the Czech Republic for Unilever, in Dubai for Al Atheer, in Holland and the U.S. for Avecia and Zeneca and in Bahrain and Saudi Arabia for Cable & Wireless.

He specialises in programmes in financial management for both tactical and strategic decision making. A key output from the training is demonstrable use of the knowledge and skills acquired to enhance corporate profitability. In addition he has run courses in acquisition evaluation (The Economist, Blue Circle and Hays Chemicals) and in post-acquisition management (Unilever). He has also developed material for delivery by in house personnel (Royal Mail, Lloyds Bowmaker and Conoco), computer based training packages (The Post Office, Unilever and BP) and post course reinforcement workbooks (CSC and Zeneca). He has also produced a training video on Cashflow Management.

He is a prolific writer of case studies, role plays and course material, he has also published articles on the financial justification of training, financial evaluation of IT investment proposals, the use of Activity Based Costing and Customer Profitability statements, commercial considerations for consultants and the need for taxation awareness training for general managers. He is also an active promoter of the need for the demonstration of the benefit of Christian values in the workplace, as a founder member of the Christian Institute of Training and Development.

He is married with one grown up daughter and his outside interests include being a Trustee of Crew Trust (Catholic Charismatic Renewal in England and Wales), a Trustee of the Sion Community for Evangelisation, The Treasurer of the Hospice of St. Francis (Berkhamsted), a Governor at Dunstable College and a member of the Catholic Evangelisation Services Team (producing video series on the love of God for His people expressed through His Church) and the Catholic Alpha Training Team (Promoting the Alpha course on Basic Christianity). He was a Governor of Luton University for nine years and a school Governor for four years.

This series of papers is designed to help managers by providing a basic understanding of key financial concepts to assist them in their work. It is provided at no cost since this knowledge is a Gift from God and thus to be shared with all (Matthew 10:8).