

1. Gift Aid: the basics

Gift Aid is a way for charities to increase the value of monetary gifts from UK taxpayers by claiming back the basic rate tax paid by the donor. It can increase the value of donations by a quarter at no extra cost to the donor. Gift Aid is worth nearly £1 billion a year to charities and their donors.

How Gift Aid works

Tax relief for charities

Gift Aid is an easy way to help your charity maximise the value of its donations, as you can reclaim tax from HM Revenue & Customs (HMRC) on its 'gross' equivalent - its value before tax was deducted at the basic rate. This is 20 per cent from 6 April 2008. You can work out the amount of tax you can reclaim by dividing the amount donated by four. This means that for every £1 donated, you can claim an extra 25 pence.

In addition, HMRC will automatically pay your charity a further three pence for every pound donated. This 'transitional relief' - to adjust to the fall in basic rate tax (from 22 per cent to 20 per cent) - is available on Gift Aid donations made from 6 April 2008 until 5 April 2011. This means that for every £1 donated, your charity can receive 28 pence, so the total value of the donation is £1.28.

Tax relief for donors

If a donor is a higher rate taxpayer, they too can benefit from tax relief as they can claim back the difference between the higher rate of tax at 40 per cent and the basic rate of tax at 20 per cent on the total value of the donation - a total of 20 per cent. So if £1 was donated, the gross donation would be £1.25, so the donor could claim 25 pence back (20 per cent of £1.25).

The donor must pay at least as much UK tax (Income Tax and/or Capital Gains Tax) as the amount of Income Tax that you're reclaiming. If a donor makes a number of Gift Aid donations, they must pay a sufficient amount of UK tax on the total amount of those donations and they may be required to pay any shortfall in tax paid to HMRC. You must advise the donor of their tax requirement and keep a record of your notification along with the donor's confirmation - known as a Gift Aid declaration.

See the 'Keeping records' section below.

Example

John is a higher rate taxpayer and donates £100 to charity. As he pays regular Income Tax on his earnings, the basic rate of tax on his donation has already been covered by his tax payments and the charity claims back the basic rate tax of 20 per cent from HMRC. So the charity is able to make a repayment claim of £25 ($£100/4$) and HMRC will add an additional transitional relief of £3, making a total payment of £28.

As a higher rate taxpayer, John can claim the difference between the higher rate of tax at 40 per cent and the basic rate of tax at 20 per cent on the total value of his donation, so he can claim 20 per cent of £125, a total of £25.

Donations that qualify for Gift Aid

Gift Aid can only be claimed on gifts of money from individuals, sole traders or partnerships, in any of the following forms:

- cash
- cheque
- Direct Debit
- credit or debit card
- postal order
- standing order or telegraphic transfer

Gifts made by cheque only count as received once the cheque has cleared.
Your charity can accept gifts of money made in sterling or any foreign currency.

Payments that don't qualify for Gift Aid

These include:

- donations of money from a company
- donations in the form of a loan waiver or debt conversion - for example an individual may lend money to your charity and then, at a later date, agree that it does not have to be paid back - this is not a gift of money it is the waiver of a loan
- gifts made on behalf of other people for example a membership subscription paid on behalf of somebody else - this is a gift of membership from the payer to the member not a gift made to the charity
- gifts that come with a condition about repayment
- gifts with enforceable conditions about how your charity should use the money - for example on condition that it buys goods or services from the donor
- payments received in return for goods or services - these are not gifts - for example payment for admission to a concert, payment for a raffle ticket, an entrance fee for an adventure challenge event etc
- a 'minimum donation' where there is no choice about payment - this is simply a fee for goods or services, it is not a gift
- gifts made using 'charity vouchers' or 'charity cheques' provided by another charity

2. Keeping records

Your charity must keep an auditable record of:

- all Gift Aid declarations and confirmation that you have advised the donor that they must pay at least as much UK tax (for the tax year that they donate) as the amount your charity will reclaim on the donation
- any cancellations of Gift Aid declarations
- any benefits you provide to donors

Records must be kept in the same format as when you received them, but can be scanned and stored electronically. Your charity must also be able to locate individual declarations on request for audit checks.

Gift Aid record keeping and audit requirements

Your charity must keep records of donations received, the Gift Aid declarations relating to those donations - including any that are cancelled - and records of any benefits you have given in return for donations.

You must be able to show that your Gift Aid repayment claims are accurate and that all the conditions of Gift Aid are met - for example, that donations are for gifts of money and that the value of any benefits given in return are within certain limits. The records must also provide an audit trail linking each donation to an identifiable donor who has given a valid Gift Aid declaration.

If you don't keep adequate records you may be required to pay back any tax reclaimed, with interest. You may also be liable to a penalty under the rules of Self Assessment.

Gift Aid - declarations

Before your charity can claim tax on a donation made by an individual you need to:

- obtain a Gift Aid declaration from that donor to confirm that they want you to claim tax back for the donations specified
- advise them that they will need to pay at least as much UK tax in the tax year in which they donate as the amount your charity will reclaim on their donation(s)

There is no set design for a Gift Aid declaration, however, by law any Gift Aid declaration you obtain - whether written or verbal - must contain certain information such as the full name and home address of the donor.

You must also keep a record of declarations that have been cancelled by the donor - including the date the cancellation takes effect.

Format and storage of Gift Aid declarations

Your charity can decide how best to store your Gift Aid declarations, but your records must clearly show that each donor included in your repayment claim has made a declaration. Declarations must be made available for review if required by HM Revenue & Customs (HMRC).

HM Revenue & Customs - How Gift Aid Works

Paper declarations can be kept in their original format. Or they can be scanned and stored electronically, as long as the records can be searched and individual declarations located as required. If you keep scanned copies which are fully auditable you can destroy the originals. Transcription onto a separate list or database is not an acceptable alternative to keeping the original declarations, or scanned copies.

Records of donors who have made a declaration electronically, for example on a website, can be stored on a database.

If you use verbal declarations you could audio-record these in full at the time they are made. If you don't do this your charity must confirm the declaration in writing to the donor and be able to provide evidence of this correspondence.

If records are kept on computer, it is advisable to make regular back-ups and store them in more than one location.

Records of cash donations

Linking cash donations to Gift Aid declarations needs care. If your charity receives regular cash donations from donors, for example in church collections, you might want to consider using an envelope scheme. This is where you can collect cash donations in envelopes so that they can show an audit trail linking the donation to the donor.

For one-off donations, your charity may choose to pre-print the Gift Aid declaration on the envelope for completion by the donor. If the donor is a regular supporter, your charity may already hold their Gift Aid declaration, in which case the envelope needs to show either the donor's name or a unique identifier such as a reference number which can be cross-referenced to a donor register.

When the envelope is opened and the contents are counted, an official from your charity should record the amount on the envelope it came in, and in a donor record. You should keep the envelopes as part of your normal record keeping.

How long should you keep records?

The time limits for keeping Gift Aid declarations and Gift Aid payment records are different and depend on how your charity is treated for tax purposes. Most charities will be treated as companies for tax purposes. You will only be treated as a trust if your charity was set up by a trust deed or a will.

Most charities

If your charity is run as a charitable company - which most are - you must keep your tax records (including Gift Aid declarations and records) until the later of:

- four years after the end of the accounting period they relate to
- 12 months after you make your Gift Aid repayment claim for that accounting period

For example if a charitable company prepares its accounts to 31 December 2007 and makes a Gift Aid repayment claim for that period during 2008, it must keep the records until at least 31 December 2011. But if the charity waits until 2011 to make its repayment claim, it must keep the records until at least 31 December 2012.

If HMRC asks you questions about your tax return or repayment claim, you'll need to keep the records until the enquiries are finished.

HM Revenue & Customs - How Gift Aid Works

A single Gift Aid declaration may apply to more than one donation, so you'll need to work out when the last gift specified on a particular declaration is received, and keep the declaration long enough to satisfy the rules set out above.

If you have any enduring Gift Aid declarations covering ongoing donations you'll need to keep them permanently.

3. Gift Aid claims for sponsored events

Gift Aid claims for sponsored events follow a slightly different procedure, as follows:

- You should make the claim separately from any other repayment claim.
- You can make a separate claim for each sponsored event.
- You still need to complete form R68 Claim form.
- The name of each participant in a sponsored event can be listed on the R68 Gift Aid schedule together with the total Gift Aid donations on their sponsorship form(s). Alternatively the name of each sponsor and the amount of their gift should be listed on the R68 Gift Aid schedule.

You must still keep all of the original sponsor forms available for any audit of your claim by HMRC.

Sponsorship form design

If you're using the sponsorship form as a schedule to your repayment claim it's important to include the correct information on the form. The sponsorship form must contain the following:

- the name of your charity
- the sponsor's full name
- the sponsor's home address including postcode
- a Gift Aid declaration
- a column containing a checkbox for the donor to tick, indicating that they want their donation to be treated as a Gift Aid donation and that they understand what the Gift Aid declaration means
- a note explaining that the sponsors must pay a sufficient amount of tax at least equal to the amount that your charity will claim

There is no official form available for sponsored events but HMRC provides a Gift Aid Sponsorship Declaration Form that you can adapt to suit particular events.

Rules for sponsorship declaration form completion

You can only claim Gift Aid on the donations where the sponsorship form has been correctly completed by the sponsors.

Donors who want their sponsorship payments to be treated as a Gift Aid donation must:

- give their full name (at least their last name and initial) - Nana, Uncle Fred etc are not sufficient
- give their home (not work) address - as a minimum their house name/number and their full postcode is acceptable - HMRC accepts that some donors, for example in the workplace, may not want to give their full home address
- tick the column to indicate that they want your charity to treat their sponsorship payments as Gift Aid donations

Gift Aid forms checklist

Once you've completed your repayment forms, check them carefully as any missing information may delay your repayment.

Use the checklist below to make sure you've completed everything before you send your form to HMRC.

- Has the form been signed and dated by an authorised official or nominee?
- If the authorised nominee has changed since your last claim have you enclosed a completed form ChV1 Charities Variations form or form ChN2A Nomination of Authorised Signatory for a nominated agency with the claim?
- Have you checked that the figures on each of the schedule(s) and on the claim form add up correctly?
- Have the figures on the schedule(s) been correctly added up and copied on to the R68 Claim form?
- Have all the necessary supporting schedules been enclosed with the form?
- Have you correctly worked out the tax that you are claiming on the R68 Claim form?
- Have you calculated your repayment using the correct rate of tax? Basic rate tax is currently 20 per cent.
- For claims relating to sponsored events have you restricted your claim to only those donations where the sponsorship form has been correctly completed?
- Have you included your correct and up-to-date bank account details on the R68 Claim form? A change in your banking details may cause a delay in making repayment to your charity.

You should not send in any Gift Aid declarations with your claim.

Sending your claim forms to HMRC

When you've completed and checked your forms, return them to:

HMRC Charities
Repayments (Unit 361A)
St John's House
Merton Road
Liverpool
L75 1BB

When can you expect your repayment?

Once HMRC receives your claim form, if everything is in order you can expect your payment within 15 working days. First claims submitted to HMRC should be paid within 25 working days of receipt.

If you make any mistakes or leave gaps on your form, HMRC may have to contact you or make further enquiries which can cause delays and may mean you wait longer for your payment. Please allow four weeks for your claim to be paid before chasing progress

Contacting the HMRC Charities Helpline

For more help you can contact the Charities Helpline on Tel 0845 302 0203 (open from 8.00 am to 5.00 pm, Monday to Friday). Select Option 6 for Gift Aid.