

THE ART OF GIVING SENSIBLY (Gift Aid - Back to Basics)

Since the budget of 21 March 2000 when Gordon Brown announced a package of measures to help charities, the Gift Aid scheme has become an invaluable source of extra income for charitable organisations. By allowing a registered charity to obtain a refund of tax on donations by individuals who are UK tax payers an additional 22% (being the current basic rate of tax levied on income) may be reclaimed on the value of any such donations.

In order for a charity to reclaim this tax it must register for Gift Aid with the Inland Revenue. The procedure is relatively simple and should be followed as soon as charitable registration is completed.

For charities wishing to register under the scheme in England a letter should be sent to:

Inland Revenue Charities
St John's House
Merton Road
Bootle, Merseyside L69 9BB

The letter will need to be either directly from the trustees of the charity or from a duly authorised professional adviser. If the adviser is making an application a letter of authorisation from the charity will be required. An alternative to sending a letter of authorisation would be for a trustee to sign or countersign the professional's letter of application. The reasoning behind this is that the Inland Revenue cannot take third party instructions and so requires authorisation from the charity.

The letter itself must include the following information;

- the full name of the charity;
- the charity's registration number;
- the date on which the financial year of the charity ends (if known);
- the reason for the application – presumably this will be to enable the charity to receive repayments of tax pursuant to the Gift Aid legislation in most cases; and
- the name and address to which the Inland Revenue should reply.

Upon receipt of a letter containing all of the above information the Inland Revenue will send out the necessary forms and provide a reference number which is private between the Inland Revenue and the charity. This reference number does not need to be put on the charity's Gift Aid declaration form but will be used by the Inland Revenue to deal with the charity's Gift Aid claim.

It is possible in the intervening period for the charity to receive donations and subsequently reclaim Gift Aid once the Inland Revenue has provided the reference number. This is because eligibility for the Gift Aid scheme begins either from 6 April 2000 or from the date when a charity becomes a charity in law if this is post 5 April 2000 (e.g. in respect of a company, the date of incorporation or the date of the last amendment to the memorandum and articles of association required by the Charity Commission in order for the body to qualify as a charity).

For a charity to operate the scheme and reclaim Gift Aid on donations received it will need to be able to show, via paper or electronic records, a link from the donation to the donor who has given a valid Gift Aid declaration. In order to do this the charity will need to obtain a declaration that the donor wishes to allow the charity to claim Gift Aid and that the donor is a UK taxpayer. This will be achieved by way of the donor making a Gift Aid declaration. A declaration can operate to make a particular donation subject to Gift Aid but more often than not it will be worded in such a way so as to apply to the present, past and future donations made to a charity after 5 April 2000. This is

because it is possible to backdate claims so that the charity may claim Gift Aid on all donations by a UK tax payer after 5 April 2000 or from the date at which the charity became eligible to operate the scheme if later.

The Gift Aid declaration does not have to be in any particular format and the Inland Revenue has produced a model Gift Aid declaration which is available on the Inland Revenue website – www.inlandrevenue.gov.uk. It is important that Gift Aid declarations are kept up to date and on the declaration itself many charities request that donors inform the charity when they cease to pay UK tax. This is vital as a charity can only claim Gift Aid where the donor has paid tax equal to or greater than the amount to be reclaimed.

The declaration should contain the following;

- the name of the charity;
- the donor's name and address;
- a description of the donations to which the declaration relates;
- the donor's declaration that the donations are to be treated as Gift Aid donations; and
- an explanation of the requirement that the donor has to an amount of either UK income tax or capital gains tax equal to the tax being reclaimed.

A charity can apply to the Inland Revenue for payment under the scheme whenever it chooses so long as the donor's tax has been received in order for the repayment to be made. The Inland Revenue prefers claims to be made when a payment in excess of £100 is due. This allows the Inland Revenue to turn around claims as quickly as possible, hopefully within the stated target of 10 working days.

The key to operating the scheme successfully is efficient administration. The charity will need to keep records of the donations received and the details of the donations for which it is claiming Gift Aid. The Inland Revenue provides forms for these purposes but there are also some computer software packages for handling this potentially time consuming activity. In order to comply with the scheme charities will no doubt need to retain information on those making donations and care should be taken to comply with the provisions of the Data Protection Act but that legislation is, as they say, another story.

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