

From HMRC website - http://www.hmrc.gov.uk/charities/gift_aid/basics.htm

Gift Aid: the basics

Gift Aid is a way for charities or Community Amateur Sports Clubs (CASCs) 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.

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How Gift Aid works

Tax relief for charities

Gift Aid is an easy way to help your charity or CASC 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 or CASC 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 or CASC 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 ($£100 \div 4$) 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 or CASC 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 or CASC 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 or CASC
- gifts that come with a condition about repayment
- gifts with enforceable conditions about how your charity or CASC 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

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Providing benefits in return for donations

Your charity or CASC can give donors modest (low value) tokens of appreciation - called 'benefits' - in order to acknowledge a gift but there are limits on their value.

Benefit value limits for donations

Amount of donation	Benefit value limit
£0 -100	25% of the donation
£101 - £1,000	£25
Above £1,000 donated up to and including 5 April 2007	2.5% of the donation
Above £10,000 donated up to and including 5 April 2007	£250
Above £1,000 donated on or after 6 April 2007	5% of the donation
Above £10,000 donated on or after 6 April 2007	£500

The key principle to remember is that if any donor - or person connected to the donor - benefits significantly from their donation, then their donation(s) will not qualify for Gift Aid.

The benefit limits listed above are for Gift Aid purposes only. If you give a donor a benefit in return for a payment this may be considered a business supply for VAT purposes and VAT may be due on income.

Gift Aid - rules in specific situations

In certain circumstances some payments made to charities which are not strictly gifts - such as successful bids at a charity auction - may be treated as donations for Gift Aid purposes as long as the Gift Aid rules are followed.

More information about Gift Aid Rules that apply to specific situations can be found on the HMRC website.

Claiming tax back on Gift Aid donations

Your charity or CASC can claim tax back on Gift Aid donations in the same way you claim other tax relief.

You don't have to register to claim Gift Aid but your charity must be recognised by HMRC for tax purposes. Recognition by HMRC as a charity is a separate process from registering with the Charity Commission for charitable status.

Likewise your sports club will have to register as a CASC with the HMRC CASC Unit in order to be able to claim tax back on Gift Aid donations.

Before you can make a Gift Aid or other repayment claim you need to nominate someone in your charity or CASC to be a signatory and/or a claimant. This means that they can claim/receive money on behalf of your charity or CASC.

Find out more by following the links below

From HMRC website - http://www.hmrc.gov.uk/charities/gift_aid/basics.htm

Keeping records

Your charity or CASC 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 or CASC 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 or CASC must also be able to locate individual declarations on request for audit checks.

To find out more about Gift Aid record keeping, audit requirements and Gift Aid declarations, please go to the HMRC website.

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.