

Gift Aid explained

1. What is Gift Aid?

Gift Aid is a tax relief that was introduced in 1990 to encourage gifts of money to charities. Gift Aid enables sums of money given to charity by individual UK taxpayers to be treated as if they were net of basic rate income tax. The charity can then claim repayment equivalent to the basic rate of tax from HM Revenue & Customs (HMRC). Over time Gift Aid as a tax relief has increased in size and scope to become worth £828 million to UK charities in 2006-07.

2. How does Gift Aid work?

Gift Aid donations are treated as being paid to charity net of the basic rate of income tax. At the current basic income tax rate of 22 per cent, a gift of £10.00 is treated as if it is a sum of £12.82, which the charity receives net of £2.82 tax. The charity can then claim repayment of the £2.82 basic rate tax from HMRC. Donors taxed at the higher rate can claim an additional 18 per cent tax relief (the difference between the higher rate of 40 per cent and the basic rate of 22 per cent) on the grossed up donation (i.e. the deemed £12.82 gift).

In order for the charity to claim Gift Aid, the donor must:

- have paid enough UK tax (income tax and/or capital gains tax) for the tax year of donation to cover the amount of tax the charity will reclaim; and
- make a valid Gift Aid declaration, which should include their name, home address and confirmation that they have paid sufficient UK tax to cover the tax the charity will reclaim.

Declarations can be made to cover individual donations, a series of donations over a specific period, or all future donations. They can also be backdated for up to 6 years prior to the date of the declaration, provided the donation was made after 6 April 2000.

3. Why does Gift Aid work in this way?

The system provides a simple and user friendly route for donors to ensure that their tax relief goes directly to the charity of their choice. This is crucial in encouraging donors to use the system, as personal commitment to particular charities has been shown to be a primary objective for donors.

A spending measure (distribution of funds that is not directly linked to a tax relief) would bring challenges for charities: they would need to compete with other spending priorities for funds and there would be no guarantee that levels of spending would rise at the same rate that Gift Aid is rising.

4. Why is record keeping important?

Gift Aid is a tax relief. The relief can only be granted when it is covered by the tax paid by the donor. A charity must therefore maintain sufficient records to show an audit trail linking the donation to an identifiable donor who has made a valid declaration to establish entitlement to a Gift Aid repayment. This is necessary to protect the integrity of the tax system.

5. What happened at Budget 2007?

Budget 2007 announced that the basic rate of income tax would fall from 22 pence to 20 pence from April 2008. This means that the rate at which Gift Aid repayments to charities are made will fall from about 28 pence in every pound to 25 pence in every pound, in line with the reduction in the basic rate of income tax. Higher rate income tax will be unchanged at 40 per cent so donors who pay the higher rate will normally be able to claim 20 per cent tax relief on the grossed up donation.

6. How successful is Gift Aid?

Gift Aid is a popular and well-used system. Around one-third of people donating to charity in the UK use Gift Aid for one or more of their donations in the average month and it is on the increase; the amount of Gift Aid paid out to charities increased from £506 million in 2002-03 to £828 million in 2006-07. The Government believes there is greater scope for charities to claim additional funds through Gift Aid.