

# Gift Aid Simplification Survey Results



PROMOTING BEST PRACTICE  
IN CHARITY FUNDRAISING



stewardship<sup>®</sup>  
transforming generosity



CHURCHES'  
LEGISLATION  
ADVISORY  
SERVICE



# Background

In May 2010 the 'Simplification Group' led by the Charity Tax Group (CTG) issued a paper<sup>1</sup> outlining some of the options for simplifying the administration of Gift Aid. This paper was subsequently circulated to members of the Gift Aid Forum, a body set up by the HM Treasury to consider further measures needed to improve Gift Aid.

At a meeting of the Forum on 10 June 2010, the Treasury minister responsible for charity taxation, Justine Greening MP, said that the objectives of Gift Aid reform are to **increase its take up and simplify the system**.

There are various initiatives taking place:

- The Institute of Fundraising is co-ordinating a working party looking at the introduction of a composite rate scheme.
- CAF has commissioned a study by ResPublica looking at the way technology could revolutionise how people give and the way that Gift Aid could operate.
- CTG is co-ordinating a working group looking at simplification measures.
- The Institute of Fundraising is co-ordinating a working party looking at the potential of an accounts-based system for small charities.

This survey was put together and distributed by Charity Finance Directors' Group and CTG, the Small Charities Coalition, Stewardship, Churches' Legislation Advisory Service, and the Institute of Fundraising and was designed as a sector-led consultation on the main proposals for Gift Aid simplification outlined in the CTG paper. There was recognition of the need to assess the impact of various aspects of the current Gift Aid and tax relief system on organisations, alongside the potential impact of any changes made in order to achieve simplification. It also gave the opportunity for further comment and suggestions from professionals working with Gift Aid.

---

<sup>1</sup> CTG 'Gift Aid Simplification' June 2010

# Method

The survey design was based around the CTG paper on Gift Aid Simplification. This paper outlines a variety of measures which are intended to reduce the administrative burden of Gift Aid and increase the uptake.

None of the questions in the survey were compulsory. This is important to remember when assessing the results. Many respondents chose not to answer questions which they felt were irrelevant to their organisations. At the same time the survey gave the opportunity for individuals to comment on areas on which they may have valuable knowledge or views. This is of particular relevance to 'Part 3,' where many have chosen to skip areas of fundraising about which they have limited knowledge.

The first section of the survey gives an overview of the annual income, fundraising priorities and primary activities of the charities that responded.

Section two looks at the key proposals in the CTG paper relating to the administration of Gift Aid. These are the potential for a downloadable Gift Aid database and the online filing of Gift Aid.

Section three goes through specific areas where Gift Aid claims can be made. It looks at simplification measures where complexity is apparent and assesses the current utilisation and impact of these reliefs.

In order to collate views from a broad range of the sector, this survey was circulated to members of the participating organisations.

# Results

## Part 1 Overview of respondents

Overall **896** individuals responded to the Gift Aid survey. As no questions in the survey were mandatory, there were varied response rates. However, most questions in the first two parts of the survey were answered by a vast majority of participants.

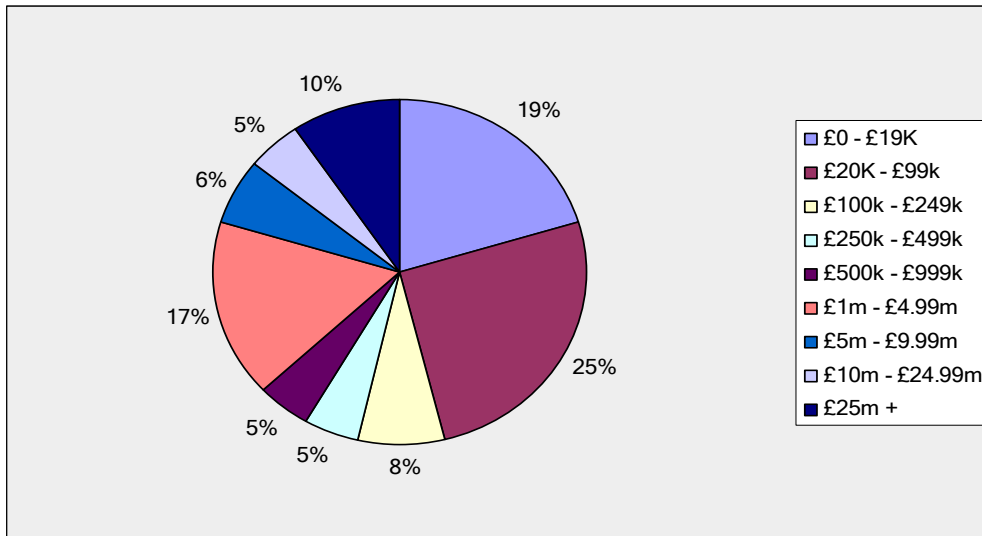
The survey gives a solid overview of the affected organisations, with views on simplification being contributed by both large and small organisations and from a wide variety of sectors within the overall charity sector.

Responses from religious organisations account for 52% of completed surveys indicating the importance of Gift Aid to this part of the sector. 21.6% of responses were from “educational” organisations, whilst there was also a high response rate from “Social Care” organisations (8.5%) “culture, recreation and arts” organisations (8.3%), international development organisations (7.2%) and “disability” organisations (6.2%).

We asked individuals to describe their organisational role; 48.4% have a role in the financial management of their charity, whilst 42.3% were responsible for Gift Aid. 9.3% of respondents are fundraisers for their charity.

### **Annual income of responding charities**

As can be seen below in table 1.1, the survey received responses from a sample of organisations, varying greatly in size in terms of annual income. 46% of respondents work for an organisation with an annual income under £99k. 14.1% of respondents work for an organisation with an annual income of over £10m. This is a fairly strong representative sample of the sector which takes perspectives from the very small to the very large organisations.



**Table 1.1 Estimated annual income of responding organisations**

### **Income derived from Gift Aid**

Respondents were asked to estimate the proportion of their charity's income on which Gift Aid is claimed. The mean estimate for this is 26.4%. If charities that do not claim Gift Aid at all are discounted, this figure rises to 27.1%. The median average for this estimate was 18% and the mode was only 10%.

This shows that in general, Gift Aid is not claimed on large proportion of charity income. However, there are a few charities that are claiming Gift Aid on comparatively high proportions of their income, which is bringing the mean average up significantly. This finding could be down to a variety of reasons. One contributing factor is likely to be the complexity of the Gift Aid system and the fact that few organisations are able to optimise its use.

**Overall, 43.2% of respondents stated that they do not currently maximise their potential income through Gift Aid.** Looking at the results more closely this impact is sector wide and does not seem to be reported disproportionately by smaller charities.

### **Use of Gift Aid**

Another important consideration to make is on what types of fundraising organisations are claiming Gift Aid. **Regular donations through standing orders and direct debits were the most likely forms of fundraising on which Gift Aid is claimed.** However, one-off donations, membership fees and sponsored events are also strongly associated with Gift Aid claims.

The areas listed above are also by far the most significant types of fundraising for Gift Aid claims for organisations that have said that they feel they maximise their potential Gift Aid income. This indicates that they may in general be simpler to administer. This is unsurprising if we consider that most of these activities can now be done electronically and automatically.

### **Selectively making Gift Aid claims**

One of the intended consequences of Gift Aid reform is to increase uptake. Administrative burden means that many organisations are not making use of Gift Aid for all of their donations.

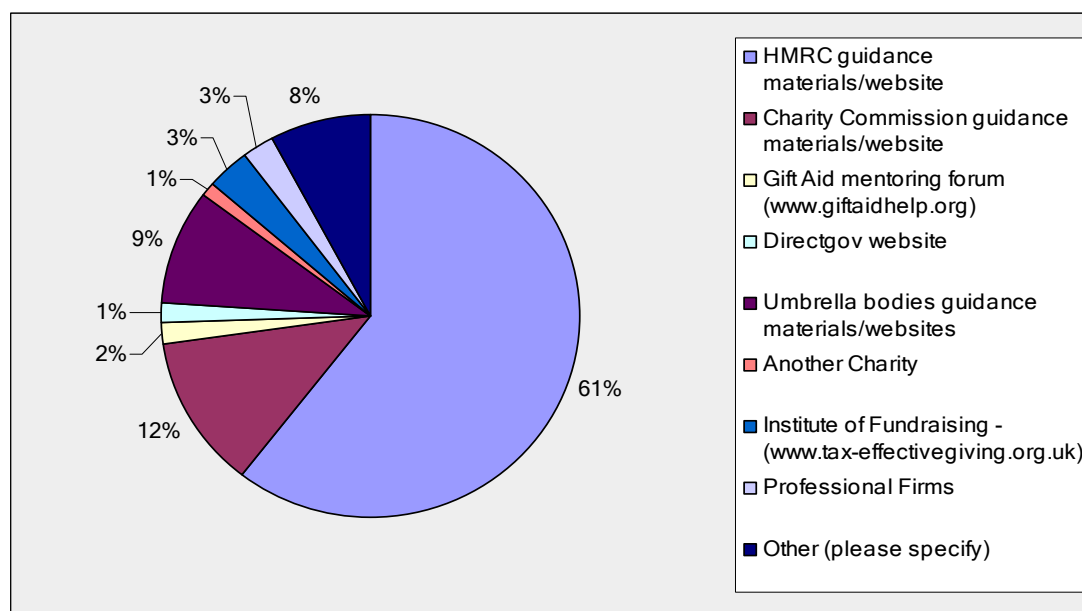
A key finding of this survey is that 80% of those organisations that are selective about when they make Gift Aid claims (which constitute over half of the respondents to the survey), do not claim Gift Aid on donations under £5. A further 14% would not claim for a donation under £10. **This goes some way to demonstrating the large volumes of money being lost by the sector on what are likely to be legitimate claims.**

For charities with smaller incomes, if it were easier to make these claims they could, potentially, benefit from a significant amount of extra income. Some respondents mentioned that significant amounts of income come in small one-off cash donations “where the donor cannot be bothered to fill out the declaration form.” Suggestions included allowing automatic gift aid on donations under a certain level, therefore addressing this particular problem and increasing the uptake of the system. This is consistent with the Minister’s stated objectives. This proposal was put forward in relation to donations on sponsored events, in the CTG Gift Aid Simplification paper (see section 3.6 of this report).

**Access to resources**

Table 1.2 shows where organisations access information on Gift Aid. 61% of respondents make use of the HMRC website and materials as their dominant source of information. This further highlights the need for this resource to be clear, well explained and easy to navigate. The Charity Commission also has an important role to play in effectively delivering information on Gift Aid alongside umbrella organisations.

Later in this report we look at some of the opportunities where HMRC, the Charity Commission and umbrella organisations may be able to provide additional support. This may be particularly needed if new systems and processes are brought in and charities require guidance in transition.



**Table 1.2 Where charities seek information regarding Gift Aid**

## Part 2

# Administration of Gift Aid

There is a general consensus that the current Gift Aid system is complex and difficult to administer. This is likely to be felt disproportionately by small charities. However, as our results have shown, large charities are also currently unable to maximise their Gift Aid income.

*“Our main problems are the vast amount of paper the system generates, with consequent risk of loss/error. We had a GA audit last year, and while we had a positive outcome, it did bring home to us that only a small percentage of missing paper declarations, out of the thousands we store, could have had a serious effect on our income.”*

There appears to be concern among the sector over the necessity of some of HMRC’s requirements. For example one individual commented:

*“Why does HMRC demand for every donor the date of the last donation within the stated period? It would not help with the audit trail.”*

The CTG paper on Gift Aid Simplification outlined two key proposals that would help with simplifying the overall system: the development of a Gift Aid database, which can act as the Gift Aid record, and the implementation of an online filing system for making Gift Aid claims.

The survey assessed the views of the sector on both of these proposals, the results are discussed below.

### 2.1 Gift Aid Database

The proposal in the CTG Gift Aid Simplification paper was for a downloadable database which would act as the Gift Aid record and means that charities could save on the administrative time and storage costs relating to paper declarations. This proposal would also provide HMRC with the required audit trail.

Charities that are currently disincentivised from claiming Gift Aid due to the complex paper trail could potentially increase their use of the scheme. Many larger charities have already invested in their own databases; however, HMRC still requires those charities to maintain paper copies of the declarations.

**81% of responding charities would in principle prefer a downloadable database to the current paper based system.**

When asked if respondents could provide any further detail on the issues they face, overwhelmingly the storage of paper records was a major issue for many of the respondents. To that end a database which eradicates the need for keeping paper records would be very much welcomed.

*“maintaining the paper trail can add to the burden in storing/archiving.”*

*“The database sounds like a really good idea.”*

Those who have already invested in their own databases have said that this has improved their administration and costs. However, the requirement for paper storage is still a major burden and costly for these charities.

*“The major burden is record keeping – online filing and an e-database would solve most of these issues, especially where charity officers hold a post for a fixed period of time.”*

Another issue that could be solved by a database involves claiming Gift Aid on income banked by branches. Comments highlighted this as an issue, due to a lack of centralisation of information. A central database would help ensure that information is properly accounted for.

*“Therefore, a system where access could be achieved remotely will be preferable.”*

Organisations were asked whether they agreed or disagreed with statements regarding the use of a database. This has helped to identify the perceived advantages and disadvantages of implementing such a system and gives an idea as to where work can be done to ensure effectiveness.

### **Advantages of a downloadable database**

- There is a clear indication that respondents agree that an online database would lead to cost savings on paper storage (around 60%) and time savings on maintenance of records (73%).
- 80% of responding organisations agree that this would make it easier to compare and collate information and 83% agree that it would create a standardised system which would ensure continuity.
- Another advantage identified by 67.6% of respondents was the protection that a database would offer organisations from loss or damage of data.
- 80% of respondents agreed that this system would reassure charities that they were following standard practice and that HMRC procedures had been followed.

### **Disadvantages of a downloadable database**

- Generally organisations are not concerned about the audit trail being compromised. However almost 50% of respondents raised concerns that there may be difficulties in proving a donor had initially signed a declaration if this was subsequently denied.
- Further clarity is needed as to the set-up costs for such a database (this is discussed in more detail below).

### **Moving forward**

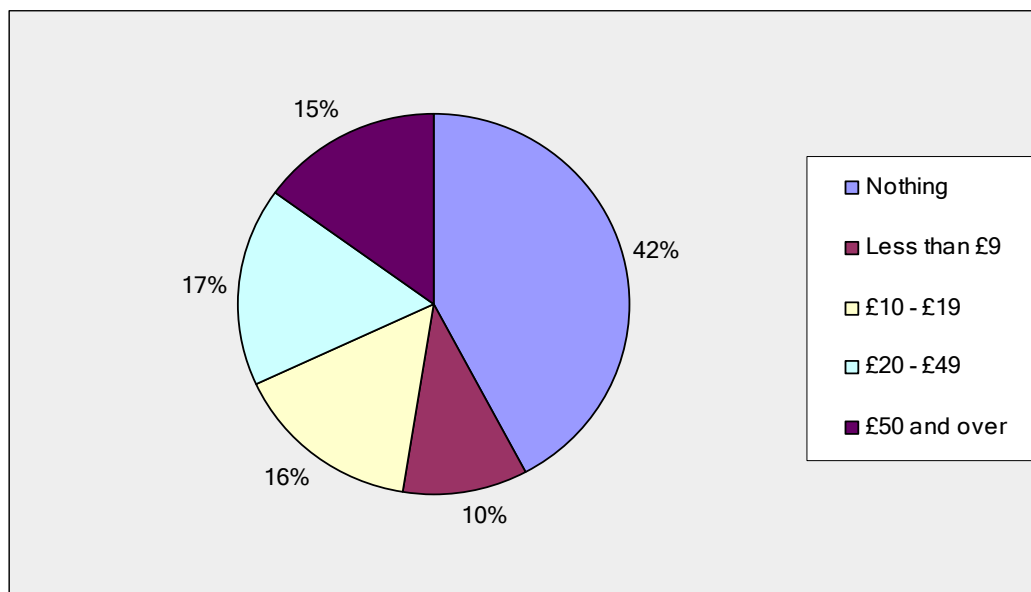
Looking at the 19% of respondents that did not wish to implement such a system, reveals more about concerns that need to be considered. 63% of these were smaller charities with incomes less than £99,000. Although many of these organisations agreed that a database would make it easier to collate and compare information, there was heightened concern regarding the audit trail, set-up costs and, most pressingly, IT skills and facilities.

Comments reveal that due to the largely voluntary workforce responsible for the administrative process, the cost-benefits were not necessarily relevant or significant and therefore did not outweigh these concerns. Two options would be to not make the database compulsory or to phase it in over a period of time. Therefore, those charities equipped to utilise the database would no longer be required to keep paper records.

Like the wider participants, this group identified **a step by step toolkit and online support as popular ways of aiding the transition.** From the overall sample, 87% of respondents indicated that an initial step by step guide or toolkit would be useful if a database were introduced. This will be especially important if charities are relying on several members of (paid) staff or volunteers to make use of the new system. There were also positive comments in a later section of the survey about using current or previously-available HMRC resources. Table 1.2 showed that charities generally accessed HMRC materials for information on Gift Aid and some of the comments mentioned that they found HMRC Gift Aid courses and CD useful

**Cost of the database**

The results in table 2.1 show that only 15% of respondents would be willing to pay over £50 for this type of software. 42% indicated that they would not be willing to contribute anything at all towards the initial cost of such a database.



**Table 2.1 How much organisations would be willing to pay towards initial download of a database**

Many of those charities that have said they would not pay anything towards the system are small charities. However there are also a significant number of larger charities that feel the database should be provided free, including 15 charities with incomes over £25 million that have stated they would prefer to have a database system, but they would not be in a position to pay anything for it.

Unsurprisingly most of those that did not want the database also stated that they would not want to pay for it. This may need to be considered if these charities are

going to be encouraged to trial a new system, as they are unlikely to wish to do so if it costs them money.

## 2.2 Online filing

Table 2.2 below shows that an overwhelming majority of respondents indicated a willingness to utilise an online filing system for making Gift Aid claims (similar to PAYE). 51% of respondents would make use of this as long as there was not any additional administration associated.

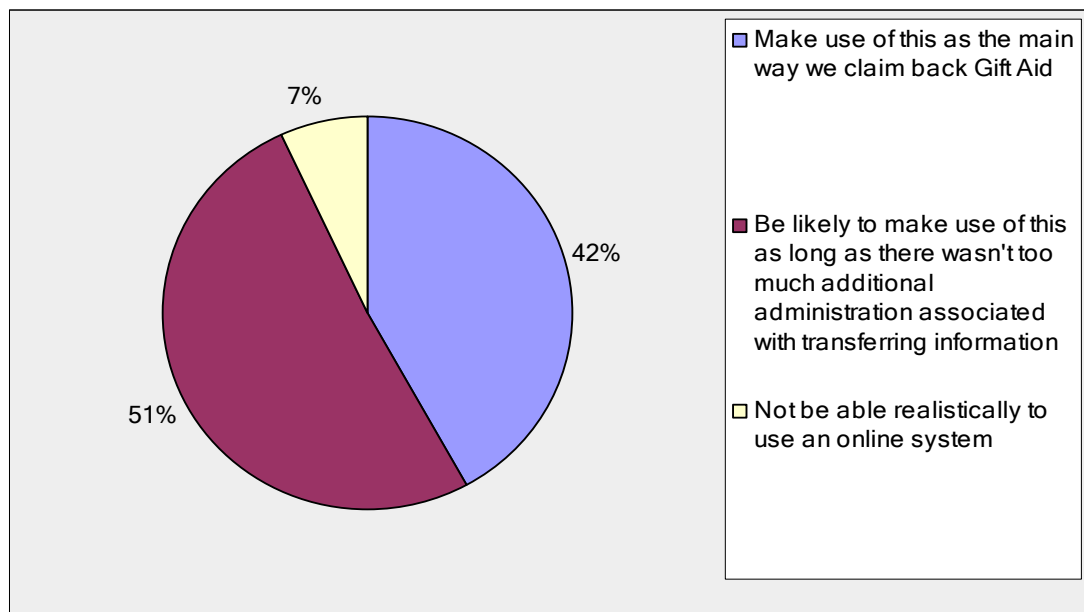
The general comments were also supportive of a move to online filing.

*"Online claims will probably save the most time."*

*"Being able to claim on line, surely in this day and age it should be easy to do."*

Some respondents also had an issue with the length of time it took to process a claim. One had a claim go missing in the post and could not enquire about it until the 28 days had passed. An online filing system would eradicate this risk, as any problems with the system would be easily identifiable by HMRC as with the current self-assessment system.

*"Please make claiming back tax an on-line claim process just like self assessment for tax."*



**Table 2.2 Organisation support for an online filing system**

Unsurprisingly, many of those who said that they would not realistically be able to use an online filing system also stated that they would not prefer to use a downloadable Gift Aid database. Looking more closely at the responses from this group of organisations, predominantly made up of smaller charities, IT resources appear to be a dominant issue. 84% of this group expressed concern about IT facilities and skills. Keeping the systems simple and providing good quality and readily-comprehensible resources are therefore going to be essential elements in maximising the potential for these measures to work effectively.

## Summary of findings so far

Overall the survey has shown that computer and web-based systems are generally very popular across the sector and are seen as a positive way of moving forward in the process of simplifying Gift Aid. By maintaining the audit trail but also improving continuity and information management there are likely to be cost savings in storage and administration time for both claiming organisations, and HMRC.

If implemented, care needs to be taken to ensure that computer-based systems are kept simple and user friendly and have strong guidelines that do not involve excessive administration associated with information transfer. For organisations that have limited or no access to computer facilities, a usable paper-based process is likely to continue to be necessary, and a reasonable transition period with support mechanisms would also strengthen effective use.

### **2.3 Benefits**

A complex set of rules is currently in place regarding Gift Aid claims on donations where benefits have been given back to the donor. Whether or not the donation is eligible for Gift Aid is dependent on the proportional value of the benefit - and this can be calculated in two different ways, which adds to complexity.

At the same time donations can be split between the 'benefit' aspect and the 'donation' in order to extract an amount on which Gift Aid can be claimed. This rule is related to other areas of fundraising where payments are required to be split such as with proceeds of charity auctions (where goods are received for the donation) and membership fees or entrance to attractions. All of these are discussed in Part 3 of this report.

With respect to the rules on benefits **84%** of responding charities supported a simplification under which the value of all benefits given be deducted from the amount of the donation available for Gift Aid.

Those that did not support this proposal were mostly concerned that they would lose revenue as their benefits are usually below the threshold at the moment, meaning they are able to claim on the whole amount. Some suggested a *de minimis* level below which this rule would not need to be applied, however this is relatively similar to the current system. A change in this area would simplify the system, and would be supported by a majority of organisations; however, some revenue may be lost by a few charities that do well out of the current system.

## Part 3

# Fundraising and Events

Gift Aid can currently be claimed on income derived from a wide variety of fundraising types. This has given rise to complex rules and regulations associated with making Gift Aid claims in specific areas which are often difficult to understand. This in turn increases the administrative costs to organisations that make use of them.

As we have seen in the results of this survey, organisations are already deterred from making Gift Aid claims on many smaller donations. The problems associated with negotiating the rules for specific fundraising events are likely to act as a deterrent for claiming Gift Aid or for holding events in the first place. This may especially be the case if events are organised by individuals who are not usually responsible for making Gift Aid claims with the result that the event itself will not be designed in such a way as to allow for the claiming of Gift Aid. This was highlighted by one respondent when commenting on Gift Aid on charity auction income:

*“Often the fundraisers involved in running an event are not the same fundraisers responsible for individual giving and are less familiar with the gift aid rules. The rules on gift aid on auction income need to be made much simpler.”*

There is also a high administrative burden associated with the claims process on fundraising events, because separate claims have to be made for each event. As one participant commented:

*“Recently HMRC changed their procedures so that we have to provide a separate claim for each event. This has meant the whole process is now much more time-consuming for us, generates more paperwork and you would have thought it would be more time-consuming for HMRC too. We would prefer to revert to the previous procedure which allowed a claim form to include several events.”*

The next section looks at some specific circumstances where Gift Aid is available as a tax relief.

### 3.1 Charity Auctions

Participants were asked whether Gift Aid on charity auctions represented a significant proportion of their income. 98.6% of charities said that this was not the case. However, it can be seen from questions earlier in the survey that charities do make use of auctions as a source of income even if this is not proportionally significant.

Those that do make a significant amount from Gift Aid on charity auction income estimated its value as mostly within the range of £500 to £8000; however, one organisation valued this at around £200,000.

The complexity of the rules surrounding Gift Aid on charity auctions means that a large number of potential Gift Aid claims are simply not being made. 41.2% of responding charities with an interest in this area said that they find current rules restrictive and that this often means Gift Aid is not claimed at all. If the rules were simpler, Gift Aid associated with auction income could therefore potentially be increased in the future.

18.2% of charities that responded to this section said that they were deterred from running this type of event because of the rules. A further 14.1% noted that there were additional administrative costs.

At the same time 26.5% of respondents to the same question stated that they do not have any issues with the current system; however, many had not identified auctions as a significant aspect of their income, suggesting that the events are on a relatively small scale or do not raise a particularly large volume of income for them.

The comments also revealed that many organisations are not aware that Gift Aid can be claimed on auction income, despite the fact that they have held auctions. Smaller charities that receive small or second hand donations for auction also highlighted particular problems:

*"There needs to be something approaching a de minimis ruling for smaller charities where, eg. house contents are donated and the aggregate amounts raised at auction are small."*

### **Possible simplification measures**

There was a general consensus that more clarity is required on the distinction between the proportions of proceeds to be regarded as benefit, or as a donation within the overall bid, with 74.7% of responding organisations agreeing with this.

The results indicate that Gift Aid on auction income is important to those that are currently able to make use of it. However the potential for this stream of income is not being maximised and it is apparent from the results in this survey that many organisations that are benefitting from auctions are not claiming much of the additional funds available from Gift Aid.

## **3.2 Self-Assessment Donate**

Individuals are currently able to donate tax effectively using their self assessment form. This also allows the option to donate their high rate relief back to the charity alongside the basic rate Gift Aid. This is often regarded as a complex and confusing process and requires the individual to write in a specific charity reference number for the purposes of making the donation. Comments also reveal that this scheme is not well known, many respondents querying what SA Donate actually was and stating that they were not aware of it. Amongst others one participant commented:

*"This is a very little-known scheme, and needs to be better publicised and easier to use."*

2.8% of the survey respondents regarded Gift Aid on SA Donate as a significant proportion of their income; this figure represents 21 charities.

Over 50% of the charities receiving funds through SA Donate are organisations with less than £99,000 per year in income. There are also much larger charities that value this source of income. The average (mean) estimated value of the Gift Aid on SA Donate is £4851. When we consider that this is mostly being used by smaller charities this could potentially be a very large proportion of their income. One respondent also commented that SA Donate was a good way for self-employed

individuals to donate to a chosen charity and that it provided the respondent's charity with a significant income stream.

There is concern that this process is not effective for the donor and the comments below reflect this:

*"Please don't look at this purely from the charity viewpoint. I would say the present system is not working for the taxpayer."*

*"We do not find SA Donate works in enabling higher rate taxpayers who wish to give all of the tax reclaimed to charity to do so. There needs to be a better way."*

### **Possible simplification measures**

Much of the difficulty associated with SA Donate is relates to the requirement for the donor to write in a special reference number for the charity they wish to donate to. 72% of those that responded on SA Donate felt that taxpayers should be able to donate by writing the name of the charity on their self-assessment form. Around 70% also felt that taxpayers should be able to give to more than one charity in this way. These changes could potentially make this a good way of giving to charity in a tax-effectively.

### **3.3 Entrance to Attractions**

Claiming Gift Aid on entrance to attractions is a well-established and important scheme. 28 (4%) of the charities that answered the survey receive Gift Aid through entrance to attractions, many of which are in the Education and Training sector or the Culture, Recreation and Arts sector. These organisations differed dramatically in size. Most stated that they do not make Gift Aid claims for donations under £5, meaning that entrance fees below this threshold are unlikely to be Gift Aided under the current system.

*"We should do it as it would be significant, but it is too time consuming at point of admission so we do not and are losing out significantly."*

Some of the survey's participants expressed discomfort with the current system, in that it meant charging more in entrance fee in order to have a donation:

*"we would like to see all entrance fees eligible for Gift Aid without having to add a further 10% as a donation."*

There was also a suggestion from one respondent that claims from charities operating membership fees could be treated in the same way as the flat rate VAT scheme for small businesses. This would mean that charities who are able to estimate the proportion of taxpayers paying their fees could then claim Gift Aid on that amount. This would save on administrative costs for the charities and for HMRC.

### **3.4 Gift Aid Using Split Payments on Membership Fees**

30.3% of responding charities receive funds through membership schemes. Of these 83% claim Gift Aid on these fees, 78% of these claim Gift Aid on the whole amount.

The remaining 22% that split the payment still represents 45 of the charities that filled in the survey. The estimated value of Gift Aid on membership fees is widely varied across the sector, with some claiming amounts as high as £5million.

This is clearly a very important and widely-used scheme which is working well. However, 54% of charities did state that this area requires further clarification in order to ensure take-up. A further 12% were more concerned with administrative costs rather than clarification. 35% did not feel that this was a problem. Most of these organisations, however, were claiming Gift Aid on the whole amount of their membership fee.

Some of the comments revealed that there are organisations looking to implement systems in the near future in order to claim Gift Aid in this way:

*"We are changing our Membership scheme so that we can claim GA. Most of our members expect us to reclaim GA when we can't. The benefit rules are too strict - particularly for 'larger' fees where the benefit is restricted to £20 not 25%"*

### **Couples making donations**

Many of the respondents also identified problems in claiming donations from couples. This was especially identified by charities receiving membership fees from parents, but is also an issue for churches receiving donations:

*"there can be issues in ensuring that the parent who pays the membership fees is the parent who signs the gift aid form."*

One respondent had called HMRC about this and even HMRC was unsure.

*"the requirement to record the percentage split for donations for couples causes a lot of administrative difficulties. If one member of the couple is a taxpayer we should be able to claim for the couple and not have to split the donations/gift aid."*

In general there is evidence that clearer, simpler rules about Gift Aid on membership fees and split payments would help to support charities and could increase the uptake of Gift Aid. The separate issue of Gift Aid claims from donations made by couples should also be addressed and clarified.

## **3.5 Gift Aid on Charity Shop Proceeds**

5.9% of respondents to this survey benefit from the proceeds of charity shops. This is an income stream of extremely very high value for many organisations; the highest reported amount of Gift Aid from this source is £2.5million. There are also smaller amounts of around £500 and the information gathered from the survey indicates that this is largely due to the difficulties associated with implementing the correct systems.

A large proportion of the charities that currently claim Gift Aid on charity shop proceeds (33 out of 44) would stand to lose a significant proportion of their income if this form of Gift Aid were to be removed. There are quite a few charities that have invested substantially in forming systems that make this effective for them. Others have commented that they would like to implement better systems in the future.

*"We are only just starting to claim gift aid from the shop...We are hoping that it will be substantial in the future. We have recently installed new tills to enable us to do this at a significant cost"*

*"The collection of gift aid on goods has the potential to boost our charity shop income by at least 20% per annum."*

One respondent would like to see a situation where *"we would longer have to hold the goods as 'agents' on behalf of the donor and notify the donor when the goods are subsequently sold, to ask if we may keep the proceeds and recover gift aid on them"*

### **3.6 Gift Aid on Sponsored Events**

A large proportion of charities receive Gift Aid from sponsored events (39% of survey participants). This can be a complicated area, in particular when making use of paper-based sponsorship forms. Individuals and organisations can have difficulties collecting and recording the relevant information to produce the necessary audit trail for this process. It is also likely, bearing in mind a large number of these organisations do not claim for donations under £5, that many Gift Aid claims on sponsorship forms are not being processed.

Additional comments in the survey also highlight the general lack of understanding of Gift Aid amongst those filling in sponsorship forms. This is evidenced by people filing out the forms as *"Dad"* or *"chalky."* More generally there is a perception that enquiring about Gift Aid is *"a bad thing, embarrassing to the enquirer."* There is also *"suspicion over the nature of GA and reluctance to sign up to it in case you're making yourself vulnerable to government power (no seriously)."* This suggests that a nationwide education campaign may be required, and that the sector needs to take a more active role in explaining the system to donors.

#### **Possible simplification measures**

In its simplification paper, CTG outlined some measures which could be implemented to help charities improve uptake of Gift Aid on sponsored events. One proposal put forward was for a *de minimis* level under which charities can automatically make a Gift Aid claim. 82% of responding charities supported this proposal that there should be an automatic allowance for Gift Aid donations below a certain level.

One issue which has been identified when taking Gift Aid declarations for sponsorship is that individuals sponsoring at work are often reluctant to give their home addresses. 49% of respondents agreed that individuals should be able to write their work addresses down on a sponsorship form rather than their home addresses if they wish their donations to be Gift Aided.

44% of respondents said that there needed to be clearer and simpler guidelines relating to this area.

Implementing some or all of these simplification measures could potentially go some way to help charities increase the volume of income they can receive from this important source.

General comments also indicated that it would significantly simplify the sponsorship process if donors' National Insurance Numbers could be used as identifiers. This

would also significantly reduce the volume of information needed to complete the audit trail. It would also allow donors to remain anonymous.

*“if the system identified individuals by their NI number and via an online submission system, each individual could be checked against the amount of tax paid for that year and the amount claimed automatically adjusted downwards if necessary.”*

## Part 4

### Other Tax Reliefs

As well as Gift Aid, there are other ways of giving to charity in a tax-effective manner. The survey looked briefly at two of these schemes, Payroll Giving and Gifts of Shares, in order to gather more information on their use and impact.

#### 4.1 Payroll Giving

33% of participating organisations benefit from Payroll Giving. This is a consistent income stream for charities. However there was some indication that the process is not working as well as it could.

*"a payroll giving system which was universal, easy to sign up to, and allowed one off gifts, would remove administrative burden for charities."*

Many charities do not put resources into marketing this scheme and many indicated that the benefits were not widely known. One smaller charity commented:

*"I feel the tax benefits of payroll giving are not well understood by the general public. Marketing is very challenging for an organisation of our size, and this perhaps only really works for the large very well-known charities."*

#### 4.2 Gifts of Shares

Gifts of Shares do not appear to account for a large volume of charity income, with 88.5% of participants stating that they do not benefit from this scheme. For those that are making use of the scheme however, it is clear that this accounts for a significant proportion of their income. Although the scheme is not heavily used, when it *is* used it generally equates to large donations.

There are some problems associated with the marketing of this scheme, with some charities mentioning that they were not aware this was possible at all. Across this survey there are concerns associated with asking too much information from donors regarding their personal finances, or going into too much detail. There are also limits to the levels of advice charities that should be giving relating to these areas.

*"One big problem is that it is very difficult for a charity to have conversations with donors about shares - they tend to expect us to be able to give advice about their personal tax position, which is clearly not realistic or legal!"*

## Part 5

### Further Comments and Issues

The Gift Aid Simplification Survey was designed to give ample opportunity for comment and suggestion. Many of these comments have been put into this report and have helped to form some of the analysis. This section will give an overview of some of the other areas brought up by respondents which were not necessarily directly related to the CTG simplification paper, but that should be brought to light nonetheless.

#### **Composite rate**

The composite rate is one proposal that is being considered within the sector, and is being discussed as a separate work strand to the measures discussed here. The composite rate is not an alternative to the proposals outlined in the CTG paper which are based around the basic administrative processes.

While few respondents specifically mentioned the composite rate as an option that should be considered, those who did thought it would simplify the system and be of benefit to their charity.

However there was a general concern that this would only be a good idea if it meant that *“ALL of the higher rate relief ended up with the charities. But not 23% - that would be derisory.”* Furthermore, there was awareness that a composite rate would not benefit all in the sector.

A few felt strongly enough to mention specifically their objection to the composite rate, *“we would not be in favour of any changes which would reduce our Gift Aid income (e.g. using a lower, composite rate)”*

#### **Higher rate relief**

Some respondents mentioned that they are personally motivated by the higher rate relief, and would like it to remain.

*“it encourages and rewards donations.”*

Some respondents mentioned that they would like higher rate donors to have the option to gift their additional tax to the charity. It was mentioned that this system works well in the Republic of Ireland. This approach also has the benefit of retaining tax relief status as it is linked to an individual's tax rate.

#### **Opt-out**

Many of those who responded to the survey consider that an “opt out” system would simplify administration while increasing the uptake of Gift Aid consistent with the Minister's stated objectives.

*“The best simplification for us would be an opt-out rather than an opt-in system.”*

While we appreciate this option was not favoured by the previous Government, we would appreciate it if the sector could be given some indication by the present Government as to whether or not this is an option worth reconsidering.

### **Interaction with VAT**

Some respondents mentioned that it is difficult dealing with the combination of Gift Aid rules and, at the same time, any applicable VAT rules. For example the *"benefit of X is fine for gift aid, but for VAT purposes this could be considered a supply of goods and therefore not a donation."*

### **HMRC Administration**

There were some negative comments regarding the HMRC approach to guidance and audits on Gift Aid, one respondent saying:

*"HMRC inspectors often seem unclear and inconsistent... We pointed out that many of the things they were telling us we had to do were not set out in their own published guidance."*

This comment further highlights the need for better, clearer guidance which is consistent and easily followed. A step-by-step toolkit associated with a simple database with a user-friendly interface could help towards this a great deal.

### **Reporting requirements**

Several respondents commented adversely on the fact that the current reporting requirements mean that Gift Aid claims have to be split by both the tax year and the accounting year. Reform in this area may be a worthwhile simplification.

## Part 6

# Summary of Conclusions

- Organisations across the sector are not maximising their potential income through Gift Aid. The administration involved and the complexity of the rules mean that large volumes of potential Gift Aid claims are being left unmade. This is particularly apparent in specific fundraising situations or for events, where the rules become difficult to negotiate.
- Most charities would like to see a move to a computerised system, with a majority supporting the proposal for a downloadable database and an online filing system for making Gift Aid claims.
- Many charities felt that a downloadable database should be free, and that set-up costs should be minimal.
- For those that expressed reluctance to move to a computerised system, IT facilities and skills were the dominant concern. In order to effectively implement such a system, it is therefore important that the database, and online filing, are not compulsory and are phased in over a period of time.
- HMRC, the Charity Commission and umbrella organisations all have significant roles to play in the provision of information and resources communicating any changes and in guiding on the new processes. A step-by-step toolkit is a popular form of support amongst charities; and there may be the opportunity here for organisations to work together in delivering something which clearly and coherently demonstrates the Gift Aid requirements.
- The benefits rules should be revised and potentially simplified. It needs to be made much clearer how these rules impact on Gift Aid claims in specific areas of fundraising.
- Different forms of fundraising have varied significance for different charities. All of the fundraising activities and events outlined in this report are important to charities that are able to use them well. This often means that organisations have invested in marketing or systems that help them to utilise the fundraising source and make associated Gift Aid claims.
- Clearer rules are required for Gift Aid claims on charity auction income. Many charities have little understanding of where they are able to make claims and on what amount. Some that have been able to implement this have found it to be an effective form of fundraising.
- Self-Assessment Donate is little known to charities and to donors. There is evidence to suggest that it is not user-friendly for the donor. When used effectively it does bring a significant volume of income into smaller charities. Being able to put the charity's name on the self-assessment form, or being able to give to more than one charity via SA Donate may help to improve take up.
- Many charities that are required to make split payments on membership fees would like further clarity on how this should be done in order to ensure take-up.

- Organisations that have invested in systems enabling them to claim Gift Aid from charity shop income have found this to be a very productive exercise. Other charities are likely to be doing this in the near future.
- A *de minimis* level, below which Gift Aid claims on donations to sponsored events can be made automatically, would help to increase uptake in this area and save charities' administrative costs. There is also evidence that being able to provide alternative information, such as the donor's work address or National Insurance number, would also improve uptake of Gift Aid in this area.
- More clarity needs to be given regarding Gift Aid claims on donations or fees and payments from couples.