

GIFT AID PRESENTATION

Hello my name is John Caladine and welcome to this Webinar on Gift Aid.

Just as a background I am a Practising Accountant from Eastbourne where I run my own firm Caladine Ltd and we act for many charities and not for profit organisations as well as churches and are involved on a regular basis in dealing with Gift Aid.

Either I am looking at a gift aid claims with respect to auditing or independent examination or indeed for many clients just actually preparing the gift aid claim and submitting. Previously this would have been hand written returns or hand written and computer generated returns, but all has changed as you will hear about this later. So I have first hand experience with these matters and I have also acted for many years as a church treasurer in dealing with gift aid claims or indeed the day to day issues of Deed of Covenant claims as it was also known then.

I have had also the unfortunate experience of dealing with HM Revenue & Customs audits on gift aid, so I look at it from all angles.

Gift Aid claims by charities is big business. If you consider a charity can enhance its income by 25p for every £1 given by utilising the government gift aid system, you can understand its importance. Many charities and churches would be devastated if ever gift aid were withdrawn as it amounts to a not insignificant amount of their income. A charities cash flow could easily depend upon receiving its gift aid monies. If you take your average small charity if we say an income of £100,000 per year it is quite conceivable that as much as £20,000 could be part of the gift aid claim. This amount when claimed in four quarterly claims i.e £5000 per quarter if delayed at HMRC, could have an adverse effect on cash flow and most certainly for the bigger charities with larger sums at stake. Whether any future government would attempt to remove gift aid is perhaps unlikely because of its political ramifications, but the introduction of the new public benefit rules for charities following the Charities Act 2006 does mean that if a charity fell foul of public benefit rules, it could have the gift aid taken away, or indeed they will have to repay it. Unfortunately the culture of our age means that abuse and fraud is prevalent and I am sure that is one of the reasons behind the changes which are now in force for the submission of gift aid claims is to try and eliminate fraudulent claims.

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There have been two significant developments regarding gift aid recently and it is my intention to cover these particular areas in this Webinar.

1. Dealing with the new gift aid rules regarding claims called Charities online.
2. Secondly, to have a look at the new gift aid small donations scheme. This is a new scheme brought in by the government enabling charities to claim extra money each year. Not significant financially, but would help the smaller charities, especially if they receive a lot of cash.
3. Also within this Webinar I want to just take the opportunity to talk about gift aid in general and look at specific areas where matters can go wrong very easily.

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Charities online.

This is the new name being utilised for filing of gift aid claims. In the past it has been purely done by paper claims or utilising excel spreadsheets or handwritten pages typed schedules or bespoke software providing the claims.

The new scheme commenced on the 22 April 2013 replacing R68 claim forms and postal repayment claims and there are three options to consider.

1. To do an online claim, access through the HMRC website.
2. To do an online claim using externally developed software interfacing the HMRC website. This is really for the bigger charity.
3. There is the default or opt out scheme where you can still submit a paper claim. Having looked at this for one of my clients, and you hear my comments later, you may seriously consider whether you should try and go for option 1, - the online claim. This is expected to be the norm for the average sized charity.

Let us look at these in a little bit more detail.

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Option 1

Using HMRC online services.

This is the option HMRC will expect most charities to adopt. A claim can be made for up to 1,000 donors, but there is no limit to the number of claims the charity may submit even each day.

A charity needs to sign up to use the HMRC online services by creating a government gateway account, although this may have already been done, for instance, for submitting VAT returns and corporation tax returns. The charity accountant will obviously have a government gateway account if you want to use their services.

I will talk about authorised officials, responsible officials and nominees later in this webinar.

On completing the online form the HMRC spreadsheet schedule needs to be attached with details of donations. This will need to be downloaded and completed and you should note the charity cannot attach alternative schedules on this scheme.

This gift aid donation schedule is downloaded from the HMRC charities online website in either excel or Libre office format. The earliest donation date needs to be given the donors name, title address and post code needs to be inserted. HMRC are relaxing the rules regarding post codes temporarily and this can be left blank but, needs to be dealt with by April 2014 when it becomes mandatory to complete this box.

Donations by a single donor can be added together on a single row. If that is done i.e aggregated you only have to insert the date of the last donation.

There is also an aggregated donations box used for gift aid donations of £20 or less from different donors, which can be aggregated together up to £1,000 with the total amount put into the amount box and the description such as April donations or Thursday club donations written in the aggregated donations box. For these donations, you do not enter the name and the address of the donors. Do not confuse this with the new gift aid small donations scheme.

Gift aided donations from a sponsored event, which are individually under £500 can also be totalled under the sponsored event with the name and address of the

participants in the event rather than the donor's details and the totals are entered under the amount column.

Gift aided donations over £500 from a sponsored event need to be treated as normal gift aid donations.

On the same online form a claim can be made for donations under the gift aid small donations scheme, to which I refer later and also claims for tax deducted on other income, such as bank interest, or taxed interest from estates etc.

To claim under the gift aid small donations scheme, you will be asked to enter the total amount and make a declaration. If a charity is connected to other charities by having substantially similar purposes / activities and being controlled by the same persons this may reduce the core gift aid small donations that a charity can claim.

However, if a charity is claiming under the gift aid small donations scheme and wants to claim more because it uses community buildings – I refer to this later in this Webinar, a separate spreadsheet needs to be downloaded and completed. There is of course also the obvious end of form declaration.

I have now submitted a few of these for clients and it has been a relatively straight forward procedure albeit, time consuming. However, once the data is loaded if they are saved in the system they can be recalled for subsequent claims, just changing figures etc.

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Option 2

Claiming through your own database

This option is intended for larger charities who would wish to file gift aid claims for more than 1,000 donors.

I believe it can however be used to make smaller claims and some smaller charities may find this option easier in the longer run. It requires dedicated software, and HMRC has listed commercial suppliers, such as, data developments, and as you will appreciate, your software needs to be able to interface with the HMRC software.

There is a technical pack available from HMRC, the website address being on the slide.

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Option 3

Paper Forms

My first inclination was this may be the way forward for the very smaller charities who do not want to be bothered with I.T and websites. I was told there was a new paper form called ChR1. This can be obtained by telephoning the telephone number as shown on the screen. When doing so, I had a very polite apology to say they had run out of forms as they have been overwhelmed by the number of people telephoning to obtain paper claim forms. Paper claim forms are limited to 90 donors and the forms cannot be photocopied, you have to use original forms every time. Therefore as you can appreciate every claim has to be written out in full and you cannot take shortcuts. In the past having held a gift aid declaration certificate, the information submitted needed only to be a name and amount. Now they want, title, name, address and post code etc. For very small claims, then perhaps paper claim forms will still survive, but one can envisage that HMRC do not want to encourage this and very gradually it will be phased out.

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Gift Aid Small Donations Scheme (GASD)

This new initiative was announced by the government last year, but only comes into effect from 6 April 2013. It is important to note it is separate from the existing gift aid system and is not intended for those who currently give under gift aid declaration certificates.

A charity can claim gift aid on cash donations from individual donations of £20 or less without the need for a donor to complete any paperwork, such as the gift aid declaration certificate but the cash must be received in the UK.

Every registered charity is entitled to a basic core limit of £5000 small cash donations in which they can receive the equivalent gift aid claim of £1250. There is an exception to this rule relating to community buildings, which I will come to in a moment.

Claims under the gift aid small donations scheme can be made alongside the usual gift aid claims in the same form. Normal gift aid and the gift aid small donation scheme will have separate sections and the Small Charitable Donations Act 2012

states that a donation eligible for a gift aid claim may not form part of the gift aid small declaration scheme claim.

Consequently if a person has given a charity gift aid declaration certificate they may not also donate cash under the gift aid small donation scheme.

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Records and qualifications to make a claim.

As you can imagine there is red tape. For a charity to claim under the scheme, the charity must have been registered with HMRC as a charity for two complete tax years and must have made a successful gift aid claim for at least two of the previous four tax years and in the last four years there cannot be a gap in making a gift aid claim of two years or more.

Records must be kept to substantiate the claim. These need to record the date the cash has collected and who collected the money.

If donations are received by running a charitable activity in a community building, records also need to include the event, the place including the post code and an estimate of the number of beneficiaries attending the event.

It is best practice to record how much was collected in each denomination of coins and notes. A note needs to be made of any individual donations over £20 and these may not be included in the claim. The cash must be paid into a bank account held by or on behalf of the charity as soon as possible.

We come onto a dilemma!

What happens if you find in a collection 3 £10 notes? Were these part of a gift of £30 therefore not claimable or are they separate donations of £10 each or a gift of £20 and £10. It is not clear is it and obviously the charity will have to use common sense and wisdom.

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Community Building

Charities using a community building may additionally be entitled to a further £5000 limit in respect of each building they use.

There is a reason this additional facility was brought in. Many charities and churches are structured in different ways and registered to the Charity Commission. For example within the Roman Catholic Church all the various individual churches form part of a Diocese, which is the registered charity, but with Baptist Churches they are individually registered charities. Therefore, as you can see if the £5,000 limit was applied to each charity, those where lots of individual churches would be able to claim substantially more than one big Roman Catholic Diocese, which would be limited to one claim. Therefore, the community building provisions were brought in, so that if a charity / church have many different buildings a further £5,000 can be claimed.

A community building is a building or part of a building to which the public or a section of the public have access to some or all of the time.

So a building which is kept locked other than when used or meeting held will qualify providing that the public have access to it when it is open for public use. Equally if a church or charity rents space in a local community centre on a Sunday morning or at another time for the purposes of a meeting, providing that the public have access to it, parts of the centre used exclusively by the charity/church will qualify as a community building.

In order to reduce the scope for abuse of the scheme, certain buildings or parts of the buildings are incapable of qualifying as community buildings.

These are buildings (or parts of the buildings) that are used:

1. Wholly or mainly for
 - a. residential purposes
 - b. Commercial purposes except at times when the charity is carrying out a charitable activity in the relevant part and the charity has exclusive use of that part.
2. Or are used for the sale or supply of goods.

Examples of situations where the use of a commercial building will not qualify as a community building are a coffee shop, taken over by church, a restaurant where a room is booked exclusively for churches or charitable use.

Both of these cases the buildings in question are normally used for the sale or supply of goods, which thereby disqualifies them.

Other commercial buildings that are not used wholly or mainly for the sale or supplied goods can potentially qualify.

Examples:

A cinema is rented by an organisation for a meeting and the cinema operating allows members of the public free access to the rooms when these activities take place. Rooms hired by charity in a Leisure Centre, Hotel or School when used solely for charitable activities and to which the public have free access.

Where the charity holds a freehold or leasehold interest any buildings on that land or on any joining land are treated as a single building for the purposes of the scheme. Therefore, taking the example of a church which has a vicarage on the same site, the church building itself will qualify but the vicarage will not as it is used wholly or mainly for residential purposes. Equally if a church has a church building and church hall on the same site, there will only be one £5000 community building top up allowance, even if small cash donations are generated both in church services and during charitable activities carried out in the church hall.

In contrast if the church hall was on another site and for example mid week worship bible study took place in the hall and the collection is taken each week, the hall may be capable of qualifying as a separate community building.

A charity runs charitable activities in their community building for the purposes of the act, if on 6 or more occasions in the tax year

1. it carries out an activity within its charitable purposes with a group of people of at least 10 of whom are beneficiaries of the charity
2. the activity or activities are not primarily for the purposes of fund raising.
3. The charity makes the activity available to the public or a section of the public.
4. None of the groups are required to pay to access the building or the relevant part of it in which the activity is carried out.
5. Small cash donations are collected whilst the activities have been carried out in the community building.

6. However, there is no requirement that the group of people, at least 10 of whom are beneficiaries are the same group of people on each of the 6 occasions. A small church congregation can still qualify, so long as 10 or more people attend on at least 6 occasions in the year.
7. However, only cash donations collected on the days that there are 10 or more people attending will qualify and this may mean for a small church that careful records are kept of cash offerings relating to the number of people in attendance.
8. If a charity puts on an event for which those attending to purchase a ticket, the whole event will be disqualified within the scheme, even if it includes charitable activities.
9. However, if the same event is put on with free public access but a collection is taken, then the small scheme donation scheme will qualify.

The post code is certainly needed as one can see in theory that HMRC will be checking the existence of the community building. There are a number of helpful suggestions and guidance notes on the HMRC website on these matters, especially about record keeping for gift aid small donations scheme and what they consider to be best practice.

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Returning to the subject of Gift Aid in general, sometimes it is very easy just to meander on from year to year or quarter to quarter making claims and receiving the monies. But suddenly you get hit by an earthquake with a visit from a HMRC Inspector carrying out an audit of your Gift Aid system. This does happen, and when it does rest assured HMRC are meticulous in their examination and can disallow claims and impose penalties. If they carry out a check on the Gift Aid submission and find 10% of errors within the areas checked, they then disallow 10% of the claim.

Potentially it can be far worse, if they find that the charity have been using an out of date or incorrectly worded Gift Aid Declaration Certificate, then the whole lot could be disallowed.

I think it is wise if you are working in the Charity sector to write to your donors from time from time to update your records. With all of the changes and moving onto charities online, this is an ideal opportunity to write to clarify full name, title, address and post code. Do not assume that they remain a UK tax payer, ask them! So let's look at some particular issues:

1. Basic rate tax payers

Every £1 given by a basic rate UK tax payer enables your Charity to claim back 25p in the pound – a well known fact. However, have you considered or have the donors considered the very significant increase in personal allowance tax threshold in recent years? According to the Politicians there are now a considerable number of people who have now been taken out of the tax system all together. These people may have been making small donations to charities over the years and have signed a Gift Aid Declaration Certificates in the past, but these will no longer be valid if they are not paying basic rate tax.

What happens of course if this is found out, it is not the charity that repays the money but the donor. This can have adverse personal effects on an individual's finance especially the lower paid.

I have recently been doing Tax Returns for clients and find that with the small earners, especially the self employed earners, and particularly when profits are divided between husband and wife and that they are both suddenly taken out of the tax system but have given to a charity regularly. They then get hit with a tax bill which they were not expecting.

It is no good going back to your Church treasurer or to the charity concerned saying a mistake has happened because probably by then the charity/Church will probably have already submitted its Gift Aid claim. Therefore, there is much cause to just check from time to time.

Higher rate tax payers

Probably not so well known, but higher rate tax payers get tax benefit from giving to charities. Their basic rate bands are extended whereby Gift Aid donations reduce the amount of higher rate tax they pay. This is really a significant promotional tool which a charity can use to tax payers to encourage them to give more to charities.

Gift Aid Declaration Certificate

As I have mentioned earlier in this webinar, it has now become more important than ever to get correct details on Gift Aid Declaration Certificates: title, full name, full address, post code etc. However, it is also important to make sure that the Gift Aid Declaration Certificate you are using is up-to-date. HMRC have bought out proforma examples which can be downloaded quite easily from their website. I would certainly recommend the one which says “for all past, present and future donations” as this covers everything.

Abuse

I use the word abuse lightly. In my experience often as a treasurer, (not so much charities in general but mostly Churches and religious organisations) you have a member of your congregation or a member of your church come up to you and say “I am giving you £500 today and I want you to send it on to Mrs Smith in Ecuador or Mr Brown who is working in a mission in inner London and I want you to claim the tax relief on it and send that to him as well”.

I am sure many Churches and religious organisations adhere to this and carry out the instructions and claim the Gift Aid. However, is this correct? Is this part of the charitable activities of the organisation? Yes, money given through offertory bags, envelopes and standing orders in the bank for the work and support of the Church/religious organisation that’s fine - that money given to the charitable activities of the trust/charity and Gift Aid can be rightly claimed back. However is this mission in inner London or Ecuador part of the work of the local Church? They may well certainly support missionaries but perhaps a Church of England missionary scheme or Baptist missionary Society or something similar. I am not sure that these one off donations for work are not directly linked to the charity is correct. The treasurer, finance person should resist such claims.

Another consideration to this is the money actually going to charitable work. Are the persons in Ecuador or inner London part of another charity or religious

organisation are they just individuals doing missionary work. Sometimes it is best to use organisations like Stewardship Services who check out missionary workers. Really it is best to give money to the charity religious organisation overseeing this work. All this needs to be considered. Just because someone signs a gift aid declaration certificate and gives you money it does not necessarily mean it is correct to make the payment.

The downside to all of this, it is quite possible that HM Revenue & Customs can assess the charity to Corporation Tax on monies paid out for a non charitable activities. So do your research on where the money is going.

Loans

Many a church and charitable organisation have in the past obtained interest free loans from members and supporters for various capital projects of the charity. These are usually interest free and cause no particular accounting issue. However, I have found very often a person loaning the money to the charity suddenly one day says 'Oh keep the money' and claim gift aid on it so it is no longer a loan and they want to donate this money to the charity. That is fine but it is very specific in the legislation that gift aid can only be claimed on monies actually paid over. Therefore, in this case the loan has to be repaid by the charity to the supporter and then the supporter will write out a separate cheque and give the money back to the charity as a gift upon which gift aid can be claimed.

Part of the change over to the new charities online system is to get your paperwork up to date. Again these are procedures brought in by HM Revenue & Customs to avoid abuse and fraud. Each charity should have at least 2 authorised officials/responsible persons registered with HMRC to make claims. There is a form you can download from HMRC website CHV1 which can update their records – it is a long form needs a lot of information, but like all red tape that is the age in which we live. Also on the form there is opportunity to set out who your agent / nominee is. This could be the charity accountant, who can then submit gift aid claims on behalf of the charity. Quite a useful facility for the small charity who does not want to be bothered and doesn't have the IT resources to deal with claims and does not want to do handwritten returns.

Likewise other organisations, like, Just Giving and Virgin Giving, ask you to nominate them as agents/nominees so they can make claims on your behalf.

I hope this Webinar has been of interest to you.