

GIFT AID AND PAYROLL GIVING

One of the advantages of charitable status is that you can reclaim the income tax on donations made to your charity. If you take the time to set-up an efficient system for collecting donations, keeping records, and claiming back the tax, it can be worth a lot of money to your charity for years to come. It is well worth investing the effort now to reap the fullest rewards, and to make sure you are running your tax-claim system and effectively as you can.

Most FWBO Centres will already be doing at least most of this. So, much of what is below may already be familiar to you. However, there may be some information, especially in sections 5 to 8, which is new.

Vajragupta, July 07

CONTENTS:

Introduction

PAYROLL GIVING

GIFT AID

- 1) Setting up a Gift Aid scheme**
- 2) The Gift Aid Declaration**
- 3) Keeping records of Gift Aid donations**
- 4) What donations can be included in the scheme?**
- 5) Standing Orders or Direct Debits?**
- 6) Cash donations and using envelopes**
- 7) Donations to FWBO's beyond the UK**
- 8) Backdating Gift Aid claims**
- 9) Reclaiming the tax from HM Revenue and Customs**
- 10) Further guidance**
- 11) Model Gift Aid Declaration Form**

Introduction:

The HM Revenue and Customs website has a comprehensive section dedicated to helping charities take advantage of tax-reclaim benefits:

www.hmrc.gov.uk/charities/index.htm

There are two main ways - payroll giving and gift aid.

Advantages of payroll giving:

* the FWBO Centre does not have to do the administration task of reclaiming income tax from Revenue and Customs since the gross amount arrives directly from a payroll-giving agency (e.g. Charities Aid Foundation, or CAF).

Advantages of Gift Aid:

* A direct debit or standing order form, plus gift aid declaration is simpler and more immediate to set up. A donor can fill one in at the centre and the treasurer has it in his or her hands straight away.

* Often only really organised people will get around to negotiating with their payroll departments at work to set up a regular payroll gift (assuming their firm even offers the scheme).

* People change their bank accounts less regularly than their job - as soon as someone moves firm, the payroll donation must be set up again.

PAYROLL GIVING

Payroll Giving is a simple, tax effective way for donors to give to charity from their pay. It offers charities a unique way to combine fund-raising with building relationships with their donors as well as with the corporate community.

It is a very simple system. An employee simply asks their payroll department to deduct regular charitable donations from gross pay before tax. The company then passes that money to their chosen Payroll Giving Agency, who send off the donations to the appropriate charities.

You (the FWBO charity) don't have to reclaim tax as the donation goes straight from the donor's pay before tax is deducted, and into your bank account.

The website mentioned above has more information on the scheme.

GIFT AID

The Gift Aid scheme allows registered charities to reclaim the tax a donor (an individual or a company) will have paid on a donation they give to charity.

The following notes deal mainly with setting up a gift aid scheme so that it falls within the Revenue and Customs requirements – i.e. with the whole business of administering the scheme. You also need to give consideration of how best to publicise the scheme to your donors and fundraise most effectively. See the “How to Fundraise” article at <http://www.fwbo-centre-support.org> for more ideas and information. There are also various fundraising ideas in the “bright ideas” section of the website, for example information on the “Just Giving” website used recently by the LBC.

1) Setting up a Gift Aid scheme:

If you are registered as a charity by the Charity Commission, you can write to Revenue and Customs (address below) stating the full address, including postcode, to which they should send all communications and your Charity Commission registration number. Revenue and Customs will confirm your status as a charity and issue a reference number that you must state on all future correspondence with them. They will also send you repayment claim forms R68(2000) and R68 (Gift Aid) and a form (ChN1) asking for the name and signature of authorised signatory who will sign your repayment claims.

2) The Gift Aid Declaration

In order to be able to claim tax, you need to be able to show that the donor has made a Gift Aid Declaration – i.e. they have stated that they would like their donations to be treated as gift aid donations and give you permission to reclaim the tax. Although you won't need to send in this paperwork when you make a claim, you do need to keep it on file, plus any correspondence relating to it.

A model Gift Aid Declaration is included below, but each declaration must contain: the donor's name, the donor's address, the charity's name, a description of the donations to which the declaration relates, a declaration that the donations are to be treated as Gift Aid donations.

The Gift Aid Declaration can be made before, during, or after a donation is made.

3) Keeping records of Gift Aid donations

As well as needing to show the donor has made a Gift Aid Declaration, your charity will need to keep records of individual gift aid donations that have been made. The Revenue and Customs website give more details of what records you need to keep and how long you need to keep them for. In essence, your charity needs to show an audit trail from the donation to a donor who has given a Gift Aid declaration that covers that donation. In other words, you are able to demonstrate that you have claimed the correct amount of tax.

The records might include things like: envelopes in which cash donations were made, or entries on your bank statement where standing order donations were given, or entries on the stub of your bank paying-in book and the subsequent entry on your bank statement etc. Although this might sound onerous, it is easy once you have a good system set-up and the money you can reclaim can make it well worth the administrative effort.

4) What donations can be included in the scheme?

A donation can be included in a gift aid scheme:

- * As long as someone has paid income or capital gains tax equal or more than the amount of tax you'll be reclaiming.
- * However large or small the donation, or whether it is a regular donation or one-off.
- * As long as it is a *donation* – i.e. there is no benefit to the donor *in consequence* of making the donation.
- * Whether the donation is made by cash, cheque, credit card, or direct debit/standing order.

5) Standing Orders or Direct Debits?

These days, most larger sized charities collect regular payments from donors by direct debit rather than by standing order. It might be worth some of the larger FWBO's considering the advantages and disadvantages of going over to a direct debit system.

When someone signs a direct debit in favour of your charity, you have the authority to change the payments amounts. Whereas, with a standing order, the donor themselves has to notify the bank of any changes that are made.

So, the major advantage of direct debits from the charities point of view, is that you keep control. If a regular donor who gives £20 per month decides to donate £40 per month, you are not dependent on waiting for them to get round to telling their bank – you can change the amount for them. If they want to make a special one-off donation you can again do this for them, without needing them to notify their bank.

To set up a direct debit scheme, you need authorisation from the Direct Debit Organisation. You do this by talking to your bank, and it will involve sending past accounts and undertaking to comply with certain standards and regulations. Indrajala Trusts Bank told us we needed an annual income of at least £100K and a minimum of 100 direct debits per month before they could proceed. So, it would only be for the larger FWBO's.

The major disadvantages would be the hassle of setting it up, especially transferring current standing order donors onto the new system. You might also find that some

donors have had bad experience of direct debit in the past and are wary of them, though this is much less common these days and more people are familiar with direct debit.

6) Cash donations and using envelopes

Charities may choose to collect cash donations in envelopes so that they can show an audit trail linking the donation to the donor. For one-off donations, charities may choose to pre-print the Gift Aid declaration on the envelope for completion by the donor. If the donor is a regular supporter, the charity may already hold his or her Gift Aid declaration, in which case the envelope need simply contain either:

- * the donor's name, or
- * some other unique identifier, such as a reference number which can be cross-referenced to a donor register.

When the envelope is opened and the contents are counted, an official of the charity should record the sum that it contained both:

- * on the envelope, and
- * in a donor record.

Charities should retain all envelopes on which a Gift Aid declaration is printed, a sample of other envelopes (normally for one month of the year), and the donor record.

It might be worth FWBO's who run a dana economy considering a system like this for claiming tax back on cash given at classes and events. It might be fiddly to administer, but might also be worth it financially. A good volunteer might like this as a job – a fairly self-contained task that makes some extra money for the centre.

7) Gift-Aided Donations to FWBO's beyond the UK

It is possible for a UK FWBO charity to give money to another FWBO in another country – if the trustees can be confident that the non-UK FWBO will be doing work that is in accord with its own charitable objectives.

This makes it possible for someone in the UK who wanted to give, say, £10,000 to FWBO Siberia, to give it to, for example, FWBO Basingstoke, who can then reclaim the gift aid tax, and then pass on the boosted up amount.

If you know someone in the UK is giving regular or substantial donations to non-UK FWBO's it may be worth you and them considering doing this, and it is fine for a UK FWBO charity to help them in this way (providing all the other conditions of Gift Aid are met).

The only issue that the trustees have to consider is whether they are confident the money will be used for purposes thought of as charitable in this country, and in-line with your own charities objectives and constitution. In the case of giving to an FWBO centre abroad this 'risk management' should be satisfied.

One of our UK centres has had this checked out with their auditors, so we are pretty confident that this is sound advice.

8) Backdating Gift Aid Claims

It is possible to backdate Gift Aid tax claims as far as 2000AD. If you have not been claiming in the past, it may well be worth the work of going through old records, making sure you have the necessary paperwork and making a back-dated claim.

9) Reclaiming the tax from HM Revenue and Customs

You simply list on form R68 (Gift Aid) the details of the donations for which you are claiming. You then calculate the tax you are reclaiming on the total amount of donations. The formula is on the bottom of the second page of the form.

The repayment claim form R68(2000) must be signed by the authorised signatory. You then send your completed claim forms R68(2000) and R68 (Gift Aid) to the address below. A few weeks later a cheque should arrive!

10) Further guidance:

Website: <http://www.hmrc.gov.uk/charity/index.htm>

Phone: 08453 020203

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

11) Model Gift Aid Declaration:

GIFT AID DECLARATION

NAME OF CHARITY: _____

DETAILS OF DONOR:

Title: _____ Forenames: _____ Surname: _____

Address: _____

Post Code: _____

I WANT THE CHARITY TO TREAT...

- *the enclosed donation of £
- *the donation(s) of £which I made on/...../.....
- *all donations I make from the date of this declaration until I notify you otherwise
- * all donations I make in the direct debit / standing order below
- *all donations I have made since 6 April 2000, and all donations I make from the

date of this declaration until I notify you otherwise

...AS GIFT AID DONATIONS

(NB. Charities do not have to include all these statements on their declarations, but can choose whichever is appropriate.)

NOTES:

1. You must pay an amount of income tax and/or capital gains tax at least equal to the tax that the charity reclaims on your donations in the tax year (currently 28p for each £1 you give).
2. You can cancel this declaration at any time by notifying the charity.
3. If in the future your circumstances change and you no longer pay tax on your income and capital gains equal to the tax that the charity reclaims, you can cancel your declaration (see note 1).
4. If you pay tax at the higher rate you can claim further tax relief in your Self-Assessment tax return.
5. If you are unsure whether your donations qualify for Gift Aid tax relief, ask the charity, or ask your local tax office for leaflet IR 65, or you can find this leaflet on www.hmrc.gov.uk
6. Please notify the charity if you change your name or address.