

AN INTRODUCTION TO GIFT AID – CHARITY BEGINS AT HOME

PRIVATE CLIENT

This note is designed to illustrate simply how HM Revenue & Customs operates the Gift Aid system for the benefit of UK registered charities, as well as how it benefits you.

If you are a UK taxpayer and make a gift to a charity, every £1 of that gift is treated as paid from income that has already been taxed by the time it reaches your pocket. The assumed rate is at least 20 per cent, the basic rate. The Gift Aid system enables any gift to charity made by an individual out of taxed income or capital gains to be topped up by a direct refund by the Revenue to the charity of the tax you paid in the past (before it reached your pocket) on the amount given. If you follow some basic steps, the charity gets more than you lose from your wallet; the tax refund goes straight to the charity.

By way of an example, if you give £100 to a charity collector in the street without taking any further steps, the charity will receive exactly £100; the Revenue keeps the tax you paid to get the £100 in the first place. If however as a basic rate taxpayer you decide to make that £100 donation a Gift Aid donation, your £100 will swell to become £125 in the charity's hands with the £25 uplift representing the refunded tax. If you pay more tax, both you and the charity can benefit. All it costs you is a bit of extra effort in signing a simple form with some basic personal details.

You can calculate the amount of tax the charity will reclaim using the following formula:

Amount of gift x 20/(100-20)

So, the charity reclaims from the Revenue 20/80ths of your gift. Given the minimal administrative effort involved, there is no reason not to make full use of the process if you and the charity qualify and you should make a mental note to volunteer for Gift Aid at every opportunity.

HOW CAN I GIFT AID MY DONATION?

You just need to make a simple Gift Aid declaration, normally in writing, to the charity: the system presupposes you paid tax in the first place, so it only works if the Revenue is sitting on that tax. You therefore need to be sure that you do pay enough tax (for example through your bank, stockbroker or employer) to cover the amount reclaimed from the Revenue.

The declaration should give the charity:

- ◆ your full name;
- ◆ home address;
- ◆ something that identifies which charity you are giving to; and
- ◆ an acknowledgement that you are aware of the requirement to have paid enough tax.

This can be done in writing, over the phone or online. The charity then claims back the basic rate tax you have already paid. You do not have to do anything more. These declarations are often available from the charity on pre-printed forms, tear-off slips or even the back of appeal envelopes.

You have four years from the end of the tax year (if a charitable trust) or from the end of the accounting period (if a charitable company) during which the donation was made in which to make a Gift Aid claim.

WHAT IF I AM A HIGHER RATE OR ADDITIONAL RATE TAXPAYER?

Even if you are a higher rate or additional rate taxpayer, the charity to which you Gift Aid your donation can only ever claim back the basic rate tax attributable to that gift.

You, however, can go on to reclaim from the Revenue the difference between the basic rate tax (20 per cent) and the higher rate tax (40 per cent) or additional rate tax (45 per cent) on your donation. This amounts to 20 per cent (for higher rate tax payers) or 25 per cent (for additional rate tax payers) of the total received by the charity (i.e. what you gave + the basic rate tax refund).

Higher rate and additional rate taxpayers can claim this back via their Self Assessment tax return for the previous year. In the example above of a gift of £100, which means £125 to the charity, you can ask the Revenue to refund you a further £25 (if a higher rate taxpayer) or £31.25 (if an additional rate taxpayer). The gift therefore would have cost you £75 (if a higher rate tax payer) or £68.75 (if an additional rate tax payer) by the end of the process. To recap, for your outlay of £75 (if a higher rate tax payer) or £68.75 (if an additional rate tax payer) net, the charity receives £125.

CONTACT DETAILS

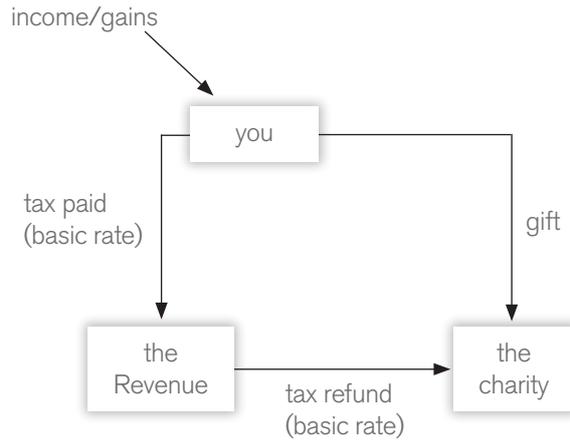
If you would like further information or specific advice please contact:

EDWARD REED

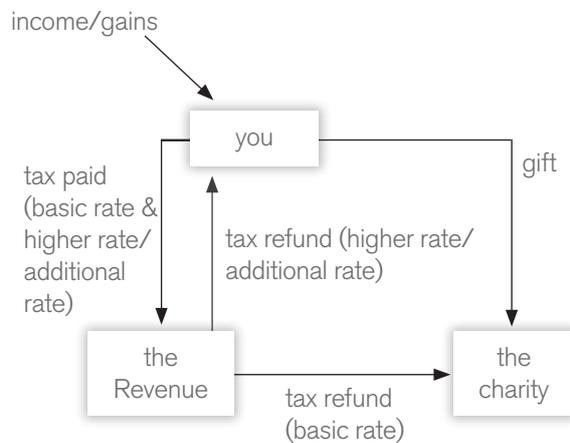
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BASIC RATE TAXPAYER



HIGHER RATE OR ADDITIONAL RATE TAXPAYER



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