

Changes ahead for charities

Almost two years after George Osborne announced that he was going to introduce a new scheme to enable charities to obtain a top-up payment for cash donations, the new rules came into effect on 6 April 2013. As with so much in recent tax developments, what started out as a good and simple idea has become complex and care needs to be taken when using the new rules!

The Gift Aid Small Donations Scheme

At a basic level, a charity (including Community Amateur Sports Clubs) will be able to claim a top-up payment from HMRC when it receives individual cash donations no greater than £20. The sums do not have to be in sterling but they must be collected in the UK and paid into a UK bank account. The rules will cover items such as church collections, street collecting tins and bucket collections at carnival parades. The top-up payment is calculated like Gift Aid, so on cash donations of £1,000 the charity would receive £250 from HMRC. The annual maximum amount that can be subject to a top-up is the lower of:

- £5,000; or
- 10 times the amount on which Gift Aid was claimed by the charity for the same tax year.

Accordingly, a charity will need to reclaim Gift Aid on at least £500 of donations in order to receive the maximum top-up. If the charity makes no Gift Aid claim it will not be able to benefit at all from the scheme.

How does a charity qualify?

In order to qualify for the scheme, a charity must be what is termed an 'eligible charity'. This means it must have been in existence for at least two complete UK tax years and must be able to show to HMRC that it has a Gift Aid compliance record. It will do this if it has made successful Gift Aid claims in at least two out of the four preceding tax years and there has not been a period of at least two years for which it did not make a claim.

This may mean that a charity may have to wait a year or two before it is eligible to join the scheme but it will be important in the meantime to ensure that Gift Aid claims are made.

Getting relief on more than £5,000?

If a charity runs activities in a local community building such as a church hall, town hall or church and those attending such events make donations in that building (these must not be charges for entering) then the charity may be able to claim a further top-up payment on the 'community building amount'. This can be up to a further £5,000 if the donations made in the building exceed that figure. To qualify, the organisation must be running events on at least six occasions in the year and at least 10 people must attend.

This community building amount can be in addition to the core figure, although if all of the activities are conducted in the same building there will only be a single £5,000 available. The combined figure is still subject to the 10 x Gift Aid limit, so to obtain a top-up payment on £10,000 a charity would need to make a Gift Aid claim on at least £1,000.

The real purpose behind the community building amount is to benefit local branches of national or regional charities which run local activities. In these cases, depending on the precise constitution of the charity, it is likely that the core £5,000 will have to be shared between connected charities which could mean only a very minimal amount going to individual local branches. However, each local branch carrying out its local community activities will be able to claim its own community building amount and this will be unrestricted.

If you are likely to be affected by this rule we would suggest that you contact your parent charity for guidance on how the rules are likely to apply.

The administration of Gift Aid

The mechanism for making top-up claims is similar to normal Gift Aid claims and can be on the new Gift Aid claim form ChR1, which replaced the R68 from April 2013, or via the new online service (see below). In addition, there are a number of other administrative changes which also started in April:

- simpler procedures for the donation of cash proceeds following the sale of donated goods by charities;
- an online repayment process, Charities Online, for Gift Aid claims for fewer than 1,000 donors; and
- changes to the donor information that charities need to provide with their repayment claims.

The online service will also allow charities to aggregate individual Gift Aid donations of £20 or less up to a total of £1,000 per entry and all donations for someone taking part in a sponsored event will be accepted as a single entry under the name of the participant.

There are many changes ahead for charities, so if you would like to discuss any of them please feel free to get in touch.