



Gift Aid Emergency Relief Package

The charity sector is in the middle of the biggest financial crisis it has ever faced. Huge falls in income, increased levels of demand for services, needing to do more to respond to Covid-19 and care for the most at-risk and marginalised individuals and communities has created a perfect storm. Charities can and are doing more, but without appropriate support many will have to close, or severely reduce their services over the coming months. The initial £750m charity support package, and furlough scheme, will help some charities, but the gap between support provided and the need is vast.

Work is ongoing between charities and HMRC to improve eligible Gift Aid take-up and ensure that Gift Aid is fit for the future, harnessing the opportunities that digital payments and technology can offer, while reducing ineligible claims. However, immediate support for the sector is required due to Covid-19 and the Gift Aid scheme provides a simple way to achieve this. A Gift Aid Emergency Relief Package can go some way to keeping charity services running and enable many charities to get through the crisis who otherwise would have to shut their doors.

What is the Gift Aid Emergency Relief Package?

The package has two elements:

1. The introduction of **Gift Aid Emergency Relief** (modelled on the previous successful Gift Aid Transitional Relief scheme (in Sch 19, Finance Act 2008)). This would get much needed funds to charities across the country by temporarily changing the way that Gift Aid is calculated. The proposal is for this to take effect from the beginning of the 2020-21 tax year and stay in place for two full tax years. By making use of the existing Gift Aid claiming processes that charities already have in place with HMRC this can happen quickly and easily getting cash to charities as effectively as possible.
2. **Changes to Gift Aid Small Donations Scheme** to: remove barriers for entry to ensure wider access across the full charity sector; and increase the amount that can be claimed.

How much would this cost?

Gift Aid claimed by charities was worth £1.35bn in 2018-19. If the effective tax rate at which Gift Aid was paid increased to 25%, this level of donations would secure an additional £450m to support the work of charities¹. It would seem likely that charities will see a fall in donations on which they can claim Gift Aid. If, for example, the level of donations fell by 20%, as some charities are predicting, then the measure would then only cost £360m. This is less than the net amount of eligible Gift Aid that has previously gone unclaimed each year.

Realising the principle of Gift Aid for the first time

There is a long-established principle that donations to charities should not be taxed and this underpins the Gift Aid relief. However, estimates from the National Audit Office indicate that approximately £560m of eligible Gift Aid is not claimed each year - money that could be directly funding charity services. Taking into account that it is estimated that £180m is also claimed each year where it should not be, in net terms charities are losing out on potential Gift Aid claims of £380m each year. This is broadly similar to the amount this temporary Gift Aid Emergency Relief would cost the Government, given donation income is estimated to reduce². Adjusting the Gift Aid mechanism temporarily would help compensate for this long-standing shortfall, at a time of great need, while charity donations stabilise and longer term measures to automate and maximise Gift Aid are progressed.

Key benefits from this change

- It is a 'fundraising' boost for charities which will help to leverage additional giving. Every donation will be worth more to the charity.
- Government can demonstrate its support for individual giving across the UK, by match-funding this boost to all charity donations eligible for Gift Aid
- Being identical to Gift Aid Transitional Relief, this mechanism is tried and tested and there is evidence it works.

¹ To calculate Gift Aid, the net value of the donation is grossed up in line with the basic rate of income tax (20%) [the effective tax rate]. For example, on a net donation of £100 the charity can claim £25 of Gift Aid. The gross value of the gift is therefore £125.

Under the Gift Aid Emergency Relief proposal, if it operated in a similar way to Transitional Relief introduced in 2008, the effective tax rate in the calculation would increase from 20% to 25%. For example, on a net donation of £100 the charity could claim £33.33 of Gift Aid. The gross value of the gift would therefore be £133.33.

The basic tax claimed would stay the same and the difference would be the Emergency Gift Aid Relief.

² Charities who responded to a recent survey conducted by IoF, NCVO and CFG said they expect to see their income reduce on average **24%** lower than previously forecasted. Voluntary income (Income from Regular giving by individuals (e.g, direct debits), Individual giving (cash donations across all channels including text, online, public collections etc), Major donors/philanthropy, and Corporate donations, on average is expected to fall by **42%** per charity based on revised projections Available online here <https://www.institute-of-fundraising.org.uk/news/charities-are-facing-a-124bn-shortfall-in-income-for-the-year/>

- It can be introduced quickly and will respond to the urgency of need that we see right now across the sector.
- There is no increased risk of fraud as claims will be monitored by HMRC in the usual way. Vital public funds will be protected.
- There will be little increase in administration for HMRC or for charities. Additional costs will be minimal.

Support for small charities through a revised GASDS

We are mindful that not all charities will benefit to the same extent from Gift Aid Emergency Relief. We therefore also propose that the Gift Aid Small Donations Scheme (GASDS) is amended to ensure that all small charities can access the scheme, including community-led organisations, which are typically smaller and underfunded, and less likely to make use of Gift Aid. Our suggestions for reform are:

- To remove the 'matching rule', so that the amount of GASDS top-up smaller charities can claim does not depend on the amount of Gift Aid that they have claimed in that tax year. This would remove an administrative burden for many smaller charities that limits them from accessing GASDS at present. The existing checking requirements, including that charities need to demonstrate that two people have counted the money, and the relevant proof that is required when money is banked, amongst others, would provide a sufficient audit trail to guard against potential fraud. Charities would also need to be registered with HMRC to make a claim and once in the system could be provided with resources and information to help them claim Gift Aid where appropriate.
- To increase the eligible donations that can be claimed under GASDS from £8k to £10k on a permanent basis, to reflect the periodic uprating of the Scheme and to help increase the current value of the scheme (£40m), which is lower than original Government estimates.
- To adopt the same temporary effective tax rate for GASDS as proposed for Gift Aid Emergency Relief. Overall, the cost to the Exchequer would be minimal, but this could provide a much needed lifeline for smaller charities in financial difficulty due to Covid-19.

Ensure every charity can benefit from the changes

The introduction of this emergency relief package would also be an opportunity to ensure that all charities across the sector are able to access the schemes and benefit from these changes, including those broad cross-section of organisations who work with diverse communities and individuals. We will work together across the sector to help charities use Gift Aid and GASDS - we know that this has been a priority for the Treasury and would be happy to work with you on future outreach work, including through Gift Aid Awareness Day.

Support from across the sector

This campaign has support from across the sector, with the following quotes portraying the impact this could have on the UK's charities:

- **Joe Jenkins, Director of Engagement and Income at The Children's Society,** *"The coronavirus lockdown has hit charities like ours hard, with income from shops and supporter events nosediving just when vulnerable children need our help more than ever... This simple change to the rate of Gift Aid would have far-reaching benefits for The Children's Society. It would encourage more supporters to donate by increasing the value of their gifts and enabling us to maintain and extend vital help for children such as those who have been sexually or criminally exploited, those struggling with mental-ill health and young refugees."*
- **Meredith Niles, Executive Director of Fundraising and Engagement at Marie Curie** said: *The coronavirus pandemic has had a devastating impact on Marie Curie's finances, with many of our usual fundraising channels (public collections, events, our charity shops) simultaneously closed at a time when our services are needed more than ever. A temporary increase in the level of Gift Aid we could claim on donations would make a real difference, enabling our donors' contributions to go that much further in a way that is efficient for both us and the government.*
- **Mike Wade Director of Fundraising and Communications at National Deaf Children's Society** said: *"With our fundraising decimated as a result of the Coronavirus, this simple change to gift aid could make the world of difference for deaf children. In the next year alone it could give us an extra £1.3m to help make sure deaf children get the education they need despite the huge disruption. It could help tackle the mental health challenges and chronic levels of isolation and loneliness so many deaf children are facing. For tens of thousands of kids growing up across the country, this support would be priceless."*
- **Margaret Lloyd, Trustee and Gift Aid Officer, Shropshire Cat Rescue** said: *"We are a small local charity, managed exclusively by volunteers and reliant on income from our charity shop and social fundraising events. We have been ineligible for many of the Government grants, so Gift Aid income will be essential to stabilise our budget when the shop re-opens and fundraising events can resume. We are therefore very supportive of the proposal to temporarily increase the value of Gift Aid, which will be a great help for small charities."*

For more information or to sign your charity up as a supporter of this campaign, please contact either campaigns@cafonline.org or DanielF@institute-of-fundraising.org.uk