

# NATIONAL STEWARDSHIP COMMITTEE OF THE ARCHBISHOPS' COUNCIL

## RESPONSE TO H.M. TREASURY'S CONSULTATION ON GIFT AID

This response is made by the National Stewardship Committee of the Archbishops' Council on behalf of the Church of England. We represent over 13,000 local parishes covering every part of England. Each parish is an independent charity, and administers its own Gift Aid (GA), usually by unpaid volunteers. In 2005 parishes claimed over £68m Gift Aid refunds from HMRC, representing about 9% of the total repaid to all charities across the entire UK.

Every part of England is part of a Church of England parish, and charitable giving to these parishes enables us to play a key role in today's communities. This is achieved through a wide range of activities such as the provision of regular services of worship, the pastoral visiting of the sick and bereaved, involvement in education and youth work, and seeking to aid the poor and disadvantaged. The money we receive in Gift Aid refunds plays a crucial part in sustaining this work, meeting about a ninth of parishes' regular expenditure.

A cross-reference to the specific questions asked by the consultation is given in Annex 1.

### **A: BACKGROUND AND KEY STATISTICS**

- 1) The Church of England has decades of experience in promoting tax-effective giving, starting with covenants. We maintain a network of diocesan stewardship advisers whose main role is to promote voluntary committed giving by our church members. A Biblical basis for this is found in 1 Corinthians 16, verse 2 "*On the first day of every week, each one of you should set aside a sum of money in proportion to his income*". General Synod has consistently challenged every Church member to give proportionately 5% of their take-home income to and through the Church, and to give generously to other charities. Many churches teach the principle of tithing – giving 10% of one's income to charitable causes.
- 2) As a result Church members are much more generous than ordinary members of the public. HMRC surveys show the typical person makes on average gifts to all charities of £145 annually (median only £50), whereas the average Church of England member's committed giving just to their local church is about £430.
- 3) The significant simplification of GA in 2000 has had a huge and beneficial impact on giving to the Church. It has helped us to increase the number of tax-effective donors from 412,000 in 1999 to 523,000 in 2005 (+27%). Their giving has risen from £156m to £242m, and the tax refunded from £44m to £68m (+55% or +33% in real terms). Overall 61% of our income from individual donors is given under GA (these figures exclude fundraising events, grants, trading, lettings etc).
- 4) We estimate that over 80% of our regular donated income is given under GA, (standing orders and weekly envelopes) but that only a small fraction of one-off gifts attracts Gift Aid, as it is practically very difficult to persuade donors to fill in Gift Aid declarations (GAD) for cash collections. Church of England parishes receive over 25 million such ad-hoc cash donations each year, mostly through collections at services, or donations from visitors. We estimate that over 80% of these donations are under £2.
- 5) The overall tax-effective share has been increasing slowly but steadily (it was only 53% in 1999), but the scope for further expansion is limited by the large number of small one-off gifts. Even if

donors were willing, the recording of millions of GADs would be a nightmare for small local charities dependent on volunteers to administer – and for HMRC. We estimate that we already spend over 300,000 hours a year of mainly volunteer time recording and processing GA, time that could be more effectively used in pursuing activities which fulfil our charitable objects. A few dioceses offer their parishes a central GA claims process.

- 6) GA is vital to our charitable work, and the amount equates to over half of all the maintenance and restoration on the historic buildings entrusted to our care, or nearly a quarter of the cost of ministry provided by our clergy. The reduction in basic rate income tax to 20% in 2008 will cost the Church about £8m annually, if giving levels remain constant.
- 7) We are aware that currently around 20% of the errors on Gift Aid claims come from C of E parishes. In one sense, this is unsurprising as we have about 15,000 volunteers, many of whom are elderly, largely using manual systems. Simplification would greatly help us – and HMRC.
- 8) Except for churches, most small charities have steered clear of the GA incentive offered by the government. In 2006-07 70% of the GA repaid was to 1637 large charities that each claimed more than £50,000. Only 63,808 charities reclaimed any GA at all, and over 10,000 of these were Church of England parishes. As there are over 200,000 charities in total (registered, excepted and exempt), it would suggest that two-thirds do not consider GA is worthwhile for them.
- 9) We would suggest that a major reason for this is that small local charities are generally very dependent on small one-off donations, and are put off by the sheer administrative workload and systems required to process and verify GADs. HMRC's *Gift Aid Guide* runs to over 50 pages, and that complexity needs to be mastered by the charity, whether it claims £50,000 or £1,000.

## **B: TWO PROPOSALS FOR FUNDAMENTAL CHANGE**

### ***I Optional alternative of accounts based claims***

- 10) We propose that charities should be able to elect to calculate their GA claims on the basis of their annual accounts, rather than as at present, volumes of individual declarations. In their accounts charities would have to record GA eligible donations separately from ineligible ones (eg grants, raffles, auctions, CAF vouchers, corporate donations etc).
- 11) A composite tax rate would be applied to all GA eligible donations from individual donors. HMRC would determine the composite rate to reflect the average of the tax rates applicable to donated income across the charitable sector as a whole, thus it would take into account the estimated level of gifts from non-taxpayers. So instead of a recovery rate of 25% on net donations (from April 08), the new composite-rate might be say 22%. The composite rate would change over time to reflect changes in the levels of income tax, and periodic surveys of donations and donors.
- 12) If, for some reason, the ability to make accounts-based claims was limited to smaller charities, such as those with incomes under the audit threshold, we would not resist this.
- 13) The purpose of this fundamental change is both to simplify the administration of charities and to give significantly better effect to the intention of the existing law. The law intends that UK donations by taxpayers attract tax relief. This intention is frustrated by the administrative complexities and time required to operate the existing declaration based system. Our proposal radically simplifies the system and enables the intention of the law to be achieved.
- 14) An analogous scheme is the approach developed by HM Customs and Excise (HMCE) in implementing the Flat-Rate VAT Scheme for small businesses. This scheme was deliberately

designed to save small traders from having to account for VAT on every single input and output transaction. Instead they can elect to use a composite rate that is based on the average inputs and outputs of their business sector, and the business's own level of gross income. The composite rates were set by HMCE to be tax neutral overall, to ensure that the Treasury's income was not affected. Although some small businesses "lost out" by having to pay slightly more VAT to the Exchequer, they gained overall because of much lower administrative costs. There were significant cost savings to HMCE as less calculation-checking and auditing was needed. Small charities and HMRC would gain similar benefits from a similar type of scheme for GA.

- 15) We recognise that such a scheme may need primary legislation and that it could not be implemented immediately. We also recognise that some changes to the charities' SORP would be required in order to maintain a proper distinction in the accounts between donations which are eligible for GA and those which are not. We therefore do not propose that small charities should be able to claim retrospective accounts-based GA tax refunds under the new scheme as their accounts would not comply with the new SORP requirements. We also suggest that any charity's first claim under the new GA accounts election should be delayed until a copy of their independently-examined annual report and accounts has been sent to HMRC as well as the Charity Commission. This would of course need a line in the income statement "Donations eligible for GA".
- 16) Once HMRC has verified the initial accounts-based annual claim, charities would be free to put in interim claims as now, based on their interim eligible income as per management accounts. We recognise that slightly different arrangements will be needed if HMRC continue to require trusts to claim GA in tax years that differ from their accounting years.

## ***II Extension to higher rate relief.***

- 17) Parliament appears to have decided that gifts to charities should not be taxed. Thus, almost all forms of charitable tax relief (eg Payroll Giving, legacies, shares and land) are based on gross income, with the value of the gift exempted in the tax calculations. Personal Gift Aid is unique in the relief being split between the donor and the charity in the case of a donation from a higher-rate tax payer (HRT). It appears that the majority of HRT appear not to appreciate that the relief is available, or certainly at least do not bother to claim that relief.
- 18) We assume that in principle the Government would prefer charities to receive GA at the donor's marginal rate of tax, and that the restriction to basic rate tax is due to practical constraints.
- 19) As HRT pay over half of all income tax, and tend to make larger absolute gifts, charities are "losing out" on a significant stream of potential income that they, and we assume the Government, would wish them to receive.
- 20) We therefore urge the Government to take a fresh look at the entire basis of the Gift Aid scheme to ensure that all income tax paid on gifts can be recovered. A number of possible mechanisms to implement this are available, including:
  - i) HRT donors make special HR declarations, and then charities make HR claims in a separate R68 schedule
  - ii) Much greater publicity for a broadened SA-Donate scheme, with HRT donors urged to list all donations, and HMRC refunding each charity directly with the HR element. Receipts from charities could include reminders to HRT about the extra benefit to the charity if they attach the receipt to their Self Assessment form.
  - iii) Including the HR element in the "composite rate" for smaller charities mentioned above.

## C. WORKING WITHIN THE CURRENT SYSTEM

The ideas presented above are transformational. They would nurture generosity by widening the application of Gift Aid, and greatly simplify the administration required for both charities and HMRC. If H.M. Treasury were not minded to make such significant changes, there are several areas of smaller change within the current system that we would like to propose.

### 21) SA Donate

Whilst parishes have been largely successful in promoting Gift Aid relative to other charities, we have made very little progress with SA Donate. Anecdotally very few donors have donated their higher rate relief to parishes through the Self Assessment form. The search for the SA Donate references is on-line, and searching for a parish is difficult. Searching on "PCC" returns 5031 matches suggesting fewer than half of parishes have joined; and searching for "St Mary's" yields 1574 matches which are not presented in alphabetical order. We would request that HMRC provide a better search system to make it easier for higher-rate tax payers to donate to their local parish.

### 22) Gifts in Kind

Currently only gifts of money or financial instruments are eligible for GA, and HMRC regulations specifically exclude "gifts in kind" (GIK). Many churches and other charities - particularly small local ones - receive a significant volume of GIK. These fall into two broad types, either for operational use in the charity (eg candles or flowers for decorating the church, stationery for the office), or for re-sale (eg charity shops, jumble sales). HMRC has helpfully suggested methods of converting these GIK into donations that are eligible for GA, but these require two contacts and/or transactions with the donor at different points in time. This tends to remove the direct link between the donor's generous philanthropic motivation and the particular GIK donation.

We suggest that HMRC should accept the GIK for operational use as eligible for GA if the donor provides evidence of its commercial value (eg shop receipt, paid invoice). In the case of GIK for re-sale, the charity should not be required to contact the donor after the sale to confirm that they are still willing to donate all of the sale proceeds - the charity should be able to rely on the donor's original declaration together with a voucher registering the actual sale price.

### 23) On line claims

We would encourage the resurrection of the project to allow on-line GA claims, which we understand has been postponed due to lack of funds. With customised software, this would save volunteer treasurers from many hours of transcribing records of donations. It would also eliminate many of the simpler errors (arithmetical or use of the wrong claim rate).

### 24) Simplifying the Process for Smaller Donations

i) We would seek a simplified national standard form for one-off donations that simply asked for name, postcode and amount. This would help increase the number of GADs completed for one-off donations. If a tax declaration is required it should be in standard form for all donations, and include an automatic opt-out from future mailings.

ii) Building on the recent HMRC regulations for sponsorship, we would recommend that policy is relaxed to make the claiming of relief for smaller one-off donations simpler. We recommend that the R69 claim form consolidate ad-hoc donations under a certain limit, say £20, for any event/collection, into a single line. Whilst the relevant GADs would still be stored by the charity, the work of transcribing them onto the claim form would be eliminated.

### 25) Audit and Extrapolation

Fear of significant audit penalties is a major issue in recruiting volunteer Gift Aid administrators for parishes. HMRC studies show that errors from parishes do not lead to a total

over-claim, and this should provide some reassurance that compliance is intended. However the complexity of the 50 page Gift Aid Guide, and the sheer number of donations mean that elderly volunteers will inevitably make mistakes. We would suggest that extrapolating the audit penalty over several years is overly harsh.

26) **Promotion of Gift Aid and Giving**

We would recommend that grants be made available to a wider range of umbrella organisations which could help smaller charities promote Gift Aid and giving effectively, and help them adopt the scheme.

**D. OUR THANKS**

Finally, we would wish to record our appreciation to the Government, the Treasury and HMRC for the Gift Aid initiative, and for this current review. It is a hugely valuable tool that has supported us in growing giving from our donor base considerably over recent years. We appreciate the Gift Aid scheme, and would value any steps that can be taken to enhance it.

**ANNEX 1**

**Cross Reference between Paragraph numbers to Specific Questions**

<b>Section</b>	<b>Relevant Paragraphs.</b>
1	Intro, 3,4,5,8,9,10,11,12,13,14,25
2	3, 21, 25
3	15,16,17,18,19,20
4	
5	4,10,11,12,13,14,22,23,24