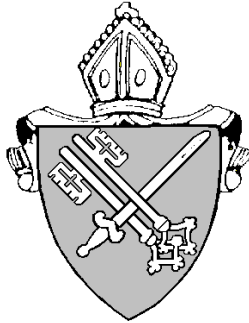


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a guide to processing
New Gift Aid

September 2002

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NEW GIFT AID

1. Introduction

This booklet has been designed to help Gift Aid Secretaries and Church Treasurers to understand and make the most of the new Gift Aid system. It is a basic document to take you step-by-step through the various administrative processes that will ensure that the Gift Aid system is of benefit to your Church. If more detailed information is required, there are references to tell you where this can be found.

Gift Aid tax claims can be substantial, and so any fear of increased paperwork and tighter record-keeping should not prevent you from making the most of the Government's wish to help charities – and your PCC is one - boost their finances. Indeed, if you get the system right from the start, it need not be too complicated or time consuming. And there is the opportunity to encourage regular members and visitors to give as much as they are able for the work of the Church.

The booklet does not assume that you use a computer but there is information about software at the end. The main focus is new Gift Aid and information about Covenants can be found in Appendix 1.

2. What is New Gift Aid?

The New Gift Aid scheme was introduced on **6 April 2000**. It is an arrangement that donors can make with the Church (or any charity) so that tax can be recovered at the basic rate on their donations, for the benefit of the intended recipient of the gift (the PCC or other church fund). The donors complete a simple Declaration saying that they are UK taxpayers and pay sufficient tax to cover the tax reclaimable on the donation, and that they want the church to recover the tax. They can also make a declaration over the telephone or on email.

3. How does a payment qualify for Gift Aid?

The donor must:

- Pay sufficient tax to cover the tax reclaimed on the donation by the charity;
- Make a Declaration to the charity that he/she wants the gift to be treated as a Gift Aid donation;
- Not receive excessive benefits in return for their gift.

The charity must be able to:

- prove from whom the money was received; and
- show when it was paid into the bank account.

4. Methods of making a donation

Donations can be made by:

- Cash (as part of a regular giving envelope scheme or one-off envelope);
- Cheque;
- Standing order;
- Direct debit;
- Credit card;
- Debit card; or
- Postal order.

Whichever method of payment is used, it must be possible to trace the donation back to the donor and be covered by a declaration.

5. Donations are excluded from Gift Aid if the ...

- payment is received in the form of a charity voucher, such as a CAF voucher, as tax will have already been reclaimed on the gift;
- payment comes from a Payroll Giving Agency, as the payment has been made from the gross pay of the donor before tax was applied;
- payment is for an auction of personal promises; or
- the donor receives services, rights or goods in return for his gift. The amount varies and is unlikely to affect ordinary donations made to the Church. If you are concerned about this, do check with the Inland Revenue.

6. Am I a tax payer?

From the introduction of Gift Aid on 6 April 2000, a donor must simply pay sufficient income tax, capital gains tax or interest on savings to cover the tax retrieved on all their Gift Aid donations in that tax year. Income tax may be paid by the donor on:

- A wage or salary;
- Self employment earnings;
- An occupational pension; and/or
- Investment income from a bank or building society, or dividends received.

Income tax may be paid at the starting rate (10%), basic rate (22%) or higher rate (40%). Tax may be paid directly to the Inland Revenue, deducted at source under PAYE or in any other recognisable way.

People paying at the **starting rate** of 10% may complete a declaration but should ensure that they have paid at least as much tax as will be reclaimed, remembering that the Church reclaims tax at the basic rate.

For **higher rate taxpayers**, the Church still only reclaims tax at the basic rate. However, the donor can personally claim additional tax relief on the difference between the basic and the higher rates of tax. They may wish to pass this benefit on to the Church by increasing the amount they give.

There is no advantage in **non-taxpayers** completing a declaration as they will be liable to pay basic rate tax to the Inland Revenue if money is wrongly claimed on their behalf.

If a person **stops paying tax**, it is their responsibility to inform the Gift Aid Secretary that their circumstances have changed. If they fail to do this, and tax is reclaimed on donations they make after they have stopped paying tax and insufficient tax has been paid in that financial year to cover the amount reclaimed, the donor is liable to repay the tax to the Inland Revenue.

7. Keeping records for Gift Aid

There are two key elements to Gift Aid records:

- (i) A Declaration which is made by the donor, and kept by the Church's responsible officer - the Gift Aid Secretary or Treasurer; and
- (ii) An 'audit trail' – the ability to check that the donations being claimed for by the Church, have actually been made by the giver.

With these in place the way is clear to add 28 pence to every £1.00 donated to your Church by reclaiming the tax from the Inland Revenue.

(i) The Gift Aid Declaration

The Declaration gives the Church authority to reclaim tax and there are standard forms of words available. The Declaration must include:

- ❖ the name of the recipient charitable organisation (the Church or Fund);
- ❖ the donor's name, address and post code;
- ❖ a statement that the donor intends his or her money to be regarded as Gift Aid donations; and
- ❖ a note explaining that the donor must have paid an amount of tax – income tax or capital gains tax - equivalent to the tax being reclaimed on Gift Aided money.

Although there is no statutory requirement to sign and date the Declaration, it is recommended that there is space for this to be done, especially where pre-printed forms are used.

The Declaration does not have to specify an amount – it is totally flexible. Nor is it ‘from this day forward’; a donor can backdate their Declaration to 6th April 2000 (when the scheme began) if they wish. This means that tax can be claimed back on ‘old’ donations as long as the records link the donation with the donor.

Declarations can be cancelled at any time – although this must be in writing and a record kept. Any donations received before the cancellation date, still qualify as Gift Aid donations and any tax claimed can be retained.

If you take an oral declaration over the telephone, you must send the donor a written record showing:

- all of the details they have provided;
- a note explaining that, to qualify for Gift Aid, what they pay in income tax or capital gains tax must at least equal the amount you claim in the tax year;
- a note that the donor can cancel the declaration retrospectively within 30 days;
- the date the declaration was taken; and
- the date the written confirmation was sent to the donor.

One copy of the written confirmation of the declaration should be sent to the donor and one copy should be kept with your records. You may want to wait until the 30 days have passed before processing the donation just to make sure that the donor doesn’t change their mind.

(ii) The Audit Trail

The ‘audit trail’ means that proper records of all individual gifts must be kept. These records will normally be confidential so that only the donor and the relevant church officer know who gives what sums of money.

The four main ways for Gift Aid donations to be made to churches are:

1. traditional freewill offering/stewardship numbered envelopes (for cash or cheque payments);
2. payments direct from the donors bank by standing order or direct debit;
3. payments by cheque.

These three all need to be supplemented by a Gift Aid Declaration.

4. Signed special Gift Aid envelopes with their own Declaration and space for the required information.

To qualify for a tax claim, there must be evidence that a donation has been received, and it must be possible to trace it back to a donor who has completed a valid declaration. Payments by standing order and direct debit can be identified on bank statements, payments by cheque and postal order are identified on the paying-in slip and cash payments must be recorded on an envelope and identified by either a name or unique donor reference number (which may be their envelope number).

8. Where can the money go?

Usually, donors will be giving to the general funds of the PCC but there may be occasions when they also want to give to special funds or appeals, identified in the accounts as Restricted Funds. For the purposes of Gift Aid, it is necessary to be able to identify the amount given so that the tax reclaimed can be allocated accurately. Reclaimed tax must go where the original donation went.

9. Records and forms

As everything hinges on well kept-records, it is worth spending time establishing a good system at the start. This will reduce the amount of time you need to spend keeping the records up-to-date as well as ensuring that you have all the information needed by the Inland Revenue should they pay a visit. Records can be kept on paper or on a computer and there are now a number of different software packages specifically designed for Gift Aid and churches, or you can design your own as long as you are confident that you are meeting the legal requirements for recording information.

If using a paper system, the best way is to have one loose-leaf record sheet for each donor, sheets recording gifts made in envelopes, sheets to record the standing order payments and a separate summary sheet for totalling up the claims. Software packages will automatically expect you to have one record for each donor and will usually include summary sheets and claim forms.

Each donor's 'page' should include their envelope number (if they have weekly envelopes), a note saying whether or not they have completed a Gift Aid Declaration and the date from which it took effect.

On the donor's sheets you should record:

- ❖ All donations from that person, the date and the amount;
- ❖ The method of giving on each occasion; and
- ❖ The purpose of the gift.

The summary sheet enables you to total up the tax to be claimed for each donor and to analyse the purpose of their gift to ensure that the tax reclaimed goes to the right fund.

10. Claiming the money

The two forms you need from the Inland Revenue are:

- (i) Form R68(2000) Charity Repayment Claim; and
- (ii) FormR68(New Gift Aid) Schedule of Charity Repayment Claim

As long as you have good records, the forms should be straightforward to complete. And you do not need to send the declarations. The Inland Revenue expects you to keep all the paperwork. You

can claim as often as you like, as long the amount you are claiming is £100 or more and is within the same tax year. Deciding how often you submit a claim will depend on cash flow and the need to get money into the church accounts.

11. How to calculate the tax recoverable

The calculation is applied to the total sum of donations and not to individual donations and the formula to use is:

$$\text{Total donations} \quad \times \quad \frac{22}{78}$$

This may initially appear that 28% of tax is being retrieved, but it is actually 22% applied to the gross amount of the gift. In other words, if you begin with £128.21 of gross income, a 22% tax rate will remove £28.21 from your total.

You can also take advantage of a Gift Aid calculator that can be found by visiting the following website address www.itforcharities.co.uk/gaidcalc/simple.htm

If higher rate taxpayers want to know what the effect will be for them of claiming the additional tax relief it can be summarised as follows:

Donor gives to Church	Tax claimed at 22%	Total received by Church	Final cost to donor
£100.00	£28.21	£128.21	£76.92
£130.00	£36.67	£166.67	£100.00

The donor recovers the higher rate relief either through adjustments to PAYE by informing their employer via their tax office of the total amount of annual charitable payments, or by giving this information in their Self Assessment form

12. Who's checking?

The Inland Revenue can visit to inspect the records relating to tax claims. They must give 28 days notice and are likely to check:

- ❖ The signed Declarations
- ❖ The audit trail – envelope records, bank statements, paying-in slips etc; and
- ❖ A sample of used envelopes.

They may also do a 'spot check' by asking for a self-assessment return on the claims to be completed.

13. How long should records be retained?

Gift Aid envelopes should be kept for one year after the tax has been reclaimed and then a sample of one month kept for a further five years.

Gift Aid Declarations should be kept for as long as the donor is making payments and for six years thereafter.

The Inland Revenue expect you to keep records for two years after a claim is made. However, as each PCC is an unincorporated association and treated as a company, the financial records should be kept for six years “after the end of the accounting period to which any tax claim relates”. These may be in the form of paper records or on a computer as long as they are retrievable and easily accessible by auditors.

14. Thank you letters

It is good practice to write to each donor at the end of the financial year. First of all, it enables you to thank them for their commitment and regular donation and secondly to give them the overall amount that they have given, against which tax has been reclaimed from the Inland Revenue. The donor then has the exact figure to hand when they complete their Tax Return and it enables them to check that they have paid sufficient tax to cover the amount reclaimed.

15. Special fundraising events such as auctions, concerts and fetes

It may be possible to reclaim tax on donations received at different events, and the Inland Revenue will provide clear guidance on when you can and cannot reclaim the tax. However, this can be complicated and you may find it simpler to decide to hold the event for reasons other than trying to maximise income by reclaiming tax.

Appendix 1

Envelope Companies

Church Finance Supplies Ltd
Radley Road Industrial Estate
Abingdon
Oxfordshire OX14 3SE

Tel: 01235 524488
Fax: 01235 534760

Lockie Limited
Haydock Cross
Kilbuck Lane
Haydock
St Helens
WA11 9XA

Tel: 01942 402510
Fax: 01942 402519
www.lockie.net

Envelope Systems
Gosforth Close
Sunderland Road Industrial Estate
Sandy
Bedfordshire SG19 1RB

Tel: 01767 681717
Fax: 01767 680260
www.envelopesystems.co.uk

Appendix 2

Software Providers

For the most part, the pack assumes that paper records are used. However, there are several software packages available to help with Gift Aid Administration. The programmes offer record keeping for all Gift Aid donations and will prepare the Inland Revenue forms. They will also allow you to export information to Word or Excel for receipts and ‘thank you’ letters. Here are some examples and others can be found on the internet at www.itforcharities.co.uk/gaidsw.htm.

Gift 2002 from **Data Developments**

Wolverhampton Science Park
Stafford Road
Wolverhampton
WV10 9RU

Sales Tel: 01902 824044

Email: talk2us@data-developments.co.uk

Website: www.data-developments.co.uk

GATS (Gift Aid Tax Software) from **Cleaford Services Ltd.**

46 Hazell Road
Farnham
Surrey
GU9 7BP

Sales Tel: 01252 717166

Email: sales@cleaford.co.uk

Website: www.cleaford.co.uk

Visual Gift Aid from **Westwood-Forster**

13-27 Brunswick Place
London
N1 6DX

Tel: 020 7251 4950

Email: products@westwood-forster.co.uk

Website: www.westwood-forster.com

Stewardship Services offer a simpler spreadsheet programme that you can use with their ‘Give Plus’ envelopes. It will work with Excel 95, Excel 97, Lotus 123 or Corel Quattro Pro.

Details from: **Stewardship Services**

PO Box 99
Loughton
Essex

Tel: 020 8502 5600

Email: info@stewardshipperservices.org

Website: www.stewardshipperservices.org

Appendix 3

Other Useful Addresses

Inland Revenue (Charities)

St John's House
Merton road
Bootle
Merseyside L69 9BB

Gift Aid Helpline : 0151 472 6038/6055/6056

Fax: 0151 472 6060/6268

Web site: www.inlandrevenue.gov.uk/charities

Gift Aid Adviser

Mrs Ann Fryer
The Diocese of Winchester
Church House
9 The Close
Winchester SO21 9LS

Tel: 01962 624762

Fax: 01962 841815

e-mail: ann.fryer@chsewinchester.clara.net

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