

Did you know...

Gift Aid, the change in Basic Rate Tax and Transitional Relief

The basic rate tax change and the announcement of Transitional Relief to the third sector in the budget on 12th March 2008 has thrown up a number of questions around how charities should communicate these changes to their donors.

This briefing is intended to assist charities and other bodies in administering these changes as efficiently as possible.

For more information call the Tax-Effective Giving Helpline: 0845 458 4586, visit: www.tax-effective-giving.org.uk, or email: taxback@institute-of-fundraising.org.uk.

Rules of thumb about Tax Rate changes and Transitional Relief

- ✓ The rate at which charities can *claim* Gift Aid will change from 28p to 25p on the pound on the 6th April 2008
- ✓ This change applies to donations received by the charity on and after 6th April 2008
- ✓ Charities are not required to communicate either of these rates to their donors, but can use either rate (25p or 28p) if they choose to do so.

The Basic Rate Tax Change – what is happening

Gift Aid is a mechanism by which charities can reclaim tax paid on the donation. Therefore the amount you can claim is *directly linked* to the basic rate of tax. As the basic rate of tax is going down, the amount that can be claimed by charities in Gift Aid is dropping from 28p to 25p on the pound.

However...

The Government has decided to provide a Transitional Relief to help charities adjust to the drop in their Gift Aid income. This means that although the amount of money that can be reclaimed by charities has fallen, the actual amount they receive will remain the same until the end of the 2010/2011-tax year.

Impact on Charities

Rules of thumb about Gift Aid claims and Transitional Relief

- ✓ The amount of money claimed by charities will change in accordance with the change to basic rate tax
- ✓ The difference will be made up in Transitional Relief
- ✓ The Transitional Relief is not connected to Gift Aid or tax rates
- ✓ This relief gives charities time to adjust to the projected fall in income from lower rates of basic rate tax.

Impact on Donors

Rules of thumb about Gift Aid and Taxpayers

- ✓ Gift Aid is calculated using basic rate tax
- ✓ Individuals who pay the higher rate tax can still claim the difference between basic rate tax and the higher rate tax they pay. While the higher rate tax has not changed, the change to basic rate tax means that higher rate taxpayers can claim back more for themselves
- ✓ The impact on donors is unchanged by the Transitional Relief.

What happens now?

Charities can claim Gift Aid from HMRC on eligible donations received on, and after 6th April 2008 at the new rate of 25p on the pound.

Transitional Relief can't be paid until the Budget receives Royal Assent in July. After that date, HMRC will review all claims which include donations received on or after 6th April 2008 and make any additional payments.

After Royal Assent, Gift Aid claims will continue to be made at 25p but HMRC will calculate and pay the Transitional Relief at the same time as the Gift Aid claim.

Charities can inform donors that they will claim 25p (true), or receive 28p (also true) - which means that existing declarations and those printed at the new rate will be applicable.

Charities can find out more by contacting HMRC Charities Helpline on: 0845 302 0203.

Other ***Did You Know*** briefings are available at the tax-effective giving website: www.tax-effective-giving.org.uk/downloads.html. More information is available by calling the Tax-Effective Giving Helpline on: 0845 458 4586.

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