**Simplifying the Gift Aid donor benefits rules – Further consultation**

**Response by the Charity Tax Group**

**3 February 2017**

**Overview**

1. The Charity Tax Group (CTG) has over 500 members of all sizes representing all types of charitable activity. It was set up in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue.
2. CTG welcomes the opportunity to respond to this consultation, as well as the chance to participate in recent round-table events with HMRC and HM Treasury. Our response follows consultation with our members, including our Gift Aid working group, which consists of Gift Aid managers from thirty leading charities. We would be happy to meet officials again, to provide additional feedback, as required.
3. In summary, **CTG members have expressed a preference for a move to a spliced two-threshold approach, with a 5% rate on parts of donations in excess of £100 and no low value disregard**.

**The Consultation**

**A) Would any, or all, of the three relevant value reforms above represent a useful simplification of the current thresholds? If so, which one(s)? &**

**B) Which of these relevant value reforms do you consider would be simplest for the charity sector overall?**

1. As we highlighted in our earlier consultation responses, the current three-threshold system, made up of a mixture of percentages and whole amounts, can confuse charities trying to apply it properly. A change would therefore represent a useful simplification of the current thresholds.
2. Following consultation, **CTG members have expressed a preference for a move to a spliced two-threshold approach, with a 5% rate on parts of donations in excess of £100 and no low value disregard**. In financial terms, this option remains comparable to the current system and to the proposed three thresholds approach. It allows for a similar level of benefit to be provided, with a little more ‘generosity’ available in medium levels of giving, which is unlikely to have any impact on costs to the Exchequer. The use of two thresholds is cleaner than three thresholds, and it is helpful to simply apply a percentage test. Feedback from charities indicates that it should be relatively simple to administer and explain to donors (who in most circumstances rely on the charity to administer the donor benefit rules and do not usually mind how this is done unless a barrier is presented to them). We are very supportive of the “splicing” mechanism envisaged as this will avoid the problems of the cliff-edge effect that many charities currently face (and which can lead them to not claim Gift Aid at all).
3. We are aware that some charities would favour the introduction of a single-threshold at 15%, particularly those that receive larger donations, as they would be able to give larger benefits[[1]](#footnote-1) (although the £2,500 cap on benefits would be reached more quickly,[[2]](#footnote-2) making this system only more beneficial for donations between £200 and £17,000).
4. However, conversely, this means that the single threshold approach allows reduced reciprocity than the current system for donations less than £100[[3]](#footnote-3) (an approach which is mirrored in the two-threshold and three threshold proposals).
5. According to the latest research[[4]](#footnote-4) the typical median monthly amount given by a donor in 2015 was £14 and the mean donation was £37. It is therefore important that the benefits allowed for the majority of donations are not lower than the current system. The charity Historic Royal Palaces, for example, has calculated that a single-tiered approach would reduce the maximum benefit it would be able to provide to its members by as much as 40%. One way of protecting these smallest donations would be to introduce a low value disregard, but as we explain in response to Question C/D there is little appetite for this among the charities we have spoken to.
6. Our support for the two-threshold system is contingent on the use of the indicative figure of 5% on any additional amount donated over £100, as proposed in the consultation document. We believe that this is an appropriate figure, that retains continuity, and that it should not be any lower.

**C) Would you consider a low value disregard a welcome simplification? &**

**D) What is the minimum level at which a low value disregard would be useful to charities?**

1. We do not believe that the introduction of a low value disregard would present simplification for charities. The idea was originally attractive when more radical proposals to remove the relevant value test entirely were proposed, but the retention of the thresholds mean it is no longer helpful. While it may appear to be a simple idea in theory, it would be largely superfluous given that the two and three threshold models have an allowance of 25% on donations up to £100 (and this is a system that charities are used to and think works well). In practice the only donations that would benefit if the low value disregard was set at £3 are those under £12). In effect, it could become an unnecessary and confusing element of the policy, and would create the same problem that we have already highlighted in the current system, having three tiers using a mixture of percentages and whole amounts.
2. Understandably the Government has indicated that, if a low-value disregard were introduced, the percentage applicable to parts of donations in excess of £100 would inevitably be lower. Given that the low value disregard is not solving an active “problem”, there would be insufficient benefit to warrant support for this, as it would provide less latitude to the charity than if there were no low value disregard.
3. Discussion with our charity members also highlighted that any low value disregard might disproportionately favour larger charities – economies of scale mean that larger charities with strong business relationships may well be able to provide more for their £3 than would a much smaller charity. Even if the value were based on open market value there is a concern that the ability of such charities to source lower cost items up to the value limit would make the disregard a source of potential financial advantage to such charities. Equally, it is unclear how the disregard amount would be increased to reflect inflation without the need for regular work by HM Treasury and/or complicated percentage increases if updated automatically each year. Additionally, we believe that the alternative approach, being a list of low value items to be disregarded, would be difficult to select and to keep under review, and could create unnecessary additional work and uncertainty for both charities and HMRC. Furthermore, the requirement that the low value disregard apply to individual donations could lead to anomalous situations where a donor could give, say, £3 a month and receive £3 worth of benefits in return each time.
4. CTG is very supportive of the existing disregard for literature, currently permitted by concession, but due to be introduced into legislation as part of this consultation process. Given the inexorable move towards digital productions and the increasing conversion of charity literature to electronic forms, we think that it is only practical for the legislation to clarify that this applies to e-literature too. Longer-term, we think that legislation is the correct model for disregards. We would welcome the opportunity to propose other specific disregards for benefits directly supporting the charity’s aims.
5. **Summary Recommendation:** To summarise, CTG supports a two threshold spliced arrangement with 25% benefit value applicable to the first £100, and 5% applicable to any value above £100 (to the current benefit value overall cap), with no disregard for low value items, but preserving current disregards, and clarifying the literature disregard.

**Working group**

1. CTG welcomes the Government’s commitment to set up the donor benefits working group to discuss improvements to the HMRC guidance. This is important to give much needed clarity in respect of the interpretation of the “in consequence” rules and how benefits are valued. We would be pleased to participate in this working group, as well as to recommend the participation of a number of our charity members, with practical Gift Aid experience. We also consider that the group will benefit from those with practical fundraising experience and those working with smaller charities.

**CTG**

**February 2016**

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| **Annex I: Comparison of the different relevant value test proposals** | | | | |
| **Donation size** | **Current limit (£)** | **1 threshold no disregard** | **2 sliced threshold no disregard (5%)** | **3 thresholds** |
| £25.00 | £6.25 | £3.75 | £6.25 | £6.25 |
| £50.00 | £12.50 | £7.50 | £12.50 | £12.50 |
| £75.00 | £18.75 | £11.25 | £18.75 | £18.75 |
| £100.00 | £25.00 | £15.00 | £25.00 | £25.00 |
| £150.00 | £25.00 | £22.50 | £27.50 | £25.00 |
| £166.00 | £25.00 | £24.90 | £28.30 | £25.00 |
| £175.00 | £25.00 | £26.25 | £28.75 | £25.00 |
| £200.00 | £25.00 | £30.00 | £30.00 | £25.00 |
| £250.00 | £25.00 | £37.50 | £32.50 | £25.00 |
| £300.00 | £25.00 | £45.00 | £35.00 | £25.00 |
| £350.00 | £25.00 | £52.50 | £37.50 | £25.00 |
| £400.00 | £25.00 | £60.00 | £40.00 | £25.00 |
| £500.00 | £25.00 | £75.00 | £45.00 | £25.00 |
| £600.00 | £25.00 | £90.00 | £50.00 | £30.00 |
| £700.00 | £25.00 | £105.00 | £55.00 | £35.00 |
| £800.00 | £25.00 | £120.00 | £60.00 | £40.00 |
| £900.00 | £25.00 | £135.00 | £65.00 | £45.00 |
| £1,000.00 | £25.00 | £150.00 | £70.00 | £50.00 |
| £2,000.00 | £100.00 | £300.00 | £120.00 | £100.00 |
| £2,500.00 | £125.00 | £375.00 | £145.00 | £125.00 |
| £3,000.00 | £150.00 | £450.00 | £170.00 | £150.00 |
| £3,500.00 | £175.00 | £525.00 | £195.00 | £175.00 |
| £4,000.00 | £200.00 | £600.00 | £220.00 | £200.00 |
| £5,000.00 | £250.00 | £750.00 | £270.00 | £250.00 |
| £6,000.00 | £300.00 | £900.00 | £320.00 | £300.00 |
| £10,000.00 | £500.00 | £1,500.00 | £520.00 | £500.00 |
| £15,000.00 | £750.00 | £2,250.00 | £770.00 | £750.00 |
| £17,000.00 | £850.00 | £2,500.00 | £870.00 | £850.00 |
| £20,000.00 | £1,000.00 | £2,500.00 | £1,020.00 | £1,000.00 |
| £30,000.00 | £1,500.00 | £2,500.00 | £1,520.00 | £1,500.00 |
| £40,000.00 | £2,000.00 | £2,500.00 | £2,020.00 | £2,000.00 |
| £50,000.00 | £2,500.00 | £2,500.00 | £2,500.00 | £2,500.00 |
|  | **Current limit (%)** | **1 threshold no disregard** | **2 sliced no disregard (5%)** | **3 thresholds** |
|  | 25% on donations up to £100 | 15% rate | 25% on donations up to £100 | 25% on donations >£100 |
|  | £25 on donations £100-£999 |  | 5% on additional amounts donated over £100 | £25 on donations £100-£499 |
|  | 5% on donations of £1,000 and over |  |  | 5% on donations of £500 and over |

1. As per the table in Annex I, a single threshold of 15% would be more generous than the current system for donations above £166 and more generous than the preferred two threshold approach on donations above £200) [↑](#footnote-ref-1)
2. At donations of just under £17,000 for the single threshold, compared to just under £50,000 for the preferred two threshold approach and £50,000 for the current system [↑](#footnote-ref-2)
3. And as per the table in Annex I, in fact, donations less than £166 [↑](#footnote-ref-3)
4. UK Giving 2015, CAF Online <https://www.cafonline.org/docs/default-source/personal-giving/caf_ukgiving2015_1891a_web_230516.pdf?sfvrsn=2> [↑](#footnote-ref-4)