

Charity Tax Group Gift Aid practical issues working group

Subgroup on the “Future of Gift Aid”

Note of a meeting on 15 May 2019

Attendance

The following organisations were represented at the meeting: Age UK, Alzheimer’s Society, British Red Cross, Chester Zoo, Cancer Research UK, Charity Tax Group (CTG), Data Developments, Deloitte, Dogs Trust, Manchester Diocesan Board of Finance, MSF UK, National Trust, Oxfam, RNLI, Royal British Legion, Save the Children UK, SCVO, Stewardship, Sue Ryder Care, SwiftAid.

Sub-group on the “Future of Gift Aid”

1. It was noted that while the primary focus of the Gift Aid working group was understandably about dealing with live Gift Aid issues, it was important that the future of Gift Aid was considered too.
2. CTG had therefore convened a subgroup of charities interested in reviewing the future of Gift Aid, from both a practical and strategic perspective. The various roles and views of HMRC, charities, donors, software developers and intermediaries would all be important.
3. The subgroup would complement and inform an existing HMRC-led Gift Aid working group and HMRC officials had tasked CTG with preparing a paper on this issue.

Areas of focus

4. Members of the subgroup identified the following issues which would be worthy of review and consideration:
 - a. **Scale of change required:** This would include an assessment as to whether Gift Aid can continue in its current form and remain fit for purpose, or whether more radical changes are needed. This may also cover promotion of Gift Aid in future to new generations of donors, including whether the branding and messaging remains appropriate. A further point to consider will be whether it is preferable and/or practical to ensure that Gift Aid rules and processes are consistent across all types of donations. The future treatment and viability of enduring declarations will inevitably be an important consideration.
 - b. **Principles of Gift Aid:** Gift Aid is predicated on the principle that donors should not be taxed on money that they have given away, but there is some disagreement about whether the Gift Aid paid out is simply a redirection of Government funds (which some may argue should not be

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hypothecated to specific causes preferred by donors) or inextricably linked to income foregone by donors and therefore not within the Government's gift to give away.

- c. **Tax to cover:** Related to this is the importance of the link between tax paid by donors and Gift Aid. If this link is undermined the relief could risk being re-classified as public expenditure. Potential challenges include devolution of tax rate setting powers in Scotland and Wales leading to a divergence in the operation of Gift Aid and other ideas such as the potential redistribution of Gift Aid (both basic rate and higher rate) and the introduction of a composite rate, which could potentially break this link. Given that there is sometimes uncertainty about whether a donor will have paid sufficient tax during the year to cover their Gift Aid claim could alternative solutions be explored such as franking Gift Aid and linking it to the tax paid by a donor in the previous tax year?
- d. **Reducing the "tax gap":** The need to protect the integrity of Gift Aid claims and help reduce the estimated "tax gap" of up to £180m of ineligible Gift Aid claims made each year (which is approx. 15% of the £1.2bn total Gift Aid claim). Understanding why ineligible claims are being made by donors or processed by charities (in most cases in genuine error) is important as part of this process. If HMRC has greater resources to tackle ineligible Gift Aid, it will be important to protect donors and maintain donor confidence in Gift Aid, particularly where donors are asked to make repayments. Donor education about Gift Aid is very important as well as the use of technology to reduce human error.
- e. **Unlocking unclaimed Gift Aid:** While concerns about the tax gap need to be addressed, HMRC sponsored research estimates that £560m of Gift Aid is left unclaimed each year. A major focus for the subgroup will be unlocking this income (and understanding the reasons why it is not currently claimed). Related to this will be the additional higher rate relief that is not currently claimed.
- f. **Automation and use of new technology:** Automation of Gift Aid claims is likely to become easier improving the resources available to track donor eligibility for Gift Aid by checking whether they have paid sufficient tax to cover their claims. The subgroup will review the possibilities presented by Open Banking, Blockchain technology, Personal Tax Accounts, a Universal Gift Aid Declaration database, tracking real time transactions etc. Automation may lead to a situation where a donation and Gift Aid declaration do not need to be captured at the same time, or every time a donation is made, but donors need to be reassured by this process and personal identifiers need to be robust but also practical (e.g. some form of bank identifier may be more attractive than an NI number).
- g. **Digital gifts and new payments types:** The subgroup will consider options for capturing Gift Aid on digital donations, looking at existing technology including SMS and contactless payments, but also how we adapt to new emerging payment types and those still to be invented, ensuring that Gift Aid is future proofed.
- h. **Outsourcing Gift Aid:** The subgroup will review the opportunities and risks of charities outsourcing Gift Aid processing to intermediaries including potential cost savings but also potential difficulties in establishing an ongoing relationship with donors. It will also be important to consider the implications of the costs charged to process Gift Aid.
- i. **Administration and data:** The practical implications of changing technology and payment processes will have knock-on effects for charities and how they process Gift Aid. Implications of data protection will also be important. The implications for Gift Aid audits and record-keeping/checking will also be important, with guidance updates necessary. Charities will also need

to look at the technology and record keeping resources that may be needed to ensure compliance and maximum uptake of eligible Gift Aid.

5. It was agreed that while the future of the Gift Aid Small Donations Scheme (GASDS) was very important, it would be addressed more effectively separately.

How the sub-group will function

6. It was agreed that “Terms of Reference” for the sub-group should be drafted and agreed. A provisional draft is included in Annex I for review.
7. There was agreement that the subgroup should seek feedback from a wide range of stakeholders including charities (including representatives of smaller charities and other representative bodies), donors, HMRC, software developers, payment specialists and intermediaries. This would help to identify feasible options and ensure the proposals made to HMRC are evidence based.
8. While the sub-group should seek to find practical and deliverable solutions, it was agreed that its proposals should not necessarily be limited to solutions that are fiscally neutral or possible using current technology. However, it would be important to ensure that any changes that would be required were staggered and did not create an unrealistic cost or administrative burden for charities, donors or HMRC. In addition, while the subgroup would look for long term solutions, it would be important to identify a roadmap and transition processes, as well as any quick wins that could be achieved.
9. It was intended that smaller meetings would be organised to seek feedback from different stakeholders (see para 7) on the various issues relating to the future of Gift Aid (see para 4) with the outcomes reported back to the wider subgroup and Gift Aid working group. Meetings would be co-ordinated in the months to come and would likely include:
 - a. Meeting with HMRC officials (to test our assumptions about the accessibility of data being collected by HMRC and the progress of processes relating to Personal Tax Accounts etc).
 - b. Meeting with digital/IT experts in charities and from software companies, payment processors and intermediaries (to assess the opportunities that technology could bring to automate the Gift Aid process).
 - c. Meeting with fundraisers (to discuss the best ways to promote Gift Aid and improve donor educations and a meeting with charities to ensure proposals are practical and effective and lead to increases in eligible Gift Aid uptake).
 - d. A donor focus group.
10. The subgroup would aim to submit a paper, outlining the conclusions of the subgroup’s discussions and recommendations for the “Future of Gift Aid”, to HMRC, by the end of 2019.

[Draft] Terms of Reference: Charity Tax Group Subgroup on the “Future of Gift Aid”

Aims

- A. The aims of the subgroup on the Future of Gift Aid will include (but not be limited to):
- I. To work with HMRC, charities, donors and other experts to ensure a sustainable and effective Gift Aid system, across the UK, in the future.
 - II. To protect the reputation of Gift Aid and to promote education about how Gift Aid works and can be claimed correctly
 - III. To maximise the value of existing eligible Gift Aid claims and to identify opportunities to promote giving by donors and capture Gift Aid where eligible claims are not currently being made.
 - IV. To maintain the principle that money that is donated to charities should not be taxed.
 - V. To maximise the opportunities that new technology provides for accurate, timely and efficient Gift Aid Declarations and claims.

Meetings and Membership

- B. Communications with the subgroup will be by e-mail and meetings will be organised with stakeholders as required. Wherever possible remote access to meetings will be offered.
- C. Membership of the sub-group will be open to all interested charities. Attendance at meetings will be limited, as required, with priority given to active members of the Gift Aid practical issues working group.
- D. HMRC will be invited to attend certain meetings and provide feedback in an observer capacity.
- E. Professional advisers, intermediaries, software developers and other corporates are invited to provide feedback and attend sub-group meetings on invitation. The subgroup should not be used by any third party to market or promote any other unsolicited services.
- F. The Charity Tax Group (CTG) will provide the secretariat for the sub-group.
- G. Meetings will operate according to [Chatham House rules](#). Any public comment in respect of the work and findings of the working group should be agreed with CTG in advance. Where appropriate updates about the progress of the group (including meeting agendas and minutes) will be published online.

Developing recommendations

- H. Notes of all meetings relating to this subgroup will be shared with the subgroup mailing list. Reports will also be shared with the wider Gift aid practical issues working group, CTG Management Committee, Observer Member meetings and through the CTG newsletter, as appropriate.
- I. The final report of the subgroup will be based on feedback from members of the subgroup. Draft proposals and recommendations will be shared with the subgroup for review. Final editorial control over the recommendations presented to HMRC will rest with CTG.
- J. The subgroup will aim to provide an interim report to HMRC by the end of 2019, but this timeline may be subject to change.