

## **Gift Aid Donor Benefits Consultation Response**



**Charity Finance Group, Institute of Fundraising, National Council  
for Voluntary Organisations and Small Charities Coalition**

## Introduction

We welcome this review into the Gift Aid Donor Benefits system. Over many years consulting with our members, we know that this system provides a considerable amount of complexity and difficulty for charities – especially small charities – that wish to claim Gift Aid. Despite the generous tax benefits on offer, most small charities do not register for Gift Aid – while that is not specific necessarily to administering the donor benefit rules, we believe that across the piece the more that the complexities can be reviewed and amended, the more accessible Gift Aid can be for the whole sector. This will work towards achieving the Government’s stated aim of maximising Gift Aid claimed on eligible donations.

We understand, and support, the aim of the Gift Aid Donor Benefits system. We believe that charities should be able to choose to provide proportionate benefits – most typically a ‘thank you’ for supporters – where they are confident that this will go towards building a strong relationship with that supporter to the cause. It is right that the Gift Aid system recognises and allows for these benefits. However, we also agree that there must be safeguards to prevent these rules from being abused and to protect the reputation and trust in the charity sector.

That being said, a balance needs to be struck between safeguards which maintain the integrity of Gift Aid and regulations which create unnecessary burdens for charities and lead to fewer organisations from claiming Gift Aid.

These reviews take place rarely, so we urge the government to make the most of this chance to reform the rules and put in place a simpler and more effective regime. It should be the aspiration of this review that we have both a system which protects Gift Aid from being abused and reduces the amount of ‘red tape’ which charities need to comply with in order to make Gift Aid claims on donations. One large charity spoke for many organisations when in a survey response it said:

*“It [the donor benefit rules] is so complicated that I feel we are spending more time calculating what we can and can't do, that it ends up costing more than it gains us. It also causes stress for employees who worry that they are doing it wrong.”*

We must change the rules to stop this situation continuing.

It is in this spirit that we make the following recommendations:

- We recommend reducing the number of thresholds from three thresholds to two thresholds to simplify the donor benefits system.
- We endorse the introduction of a disregard for low value benefits to help small charities.
- We agree with the proposal to put the ‘split payments rule’ into legislation.
- We recommend that charities should have a requirement to inform donors about the amount of Gift Aid claimed on their donations only upon request.
- We support the proposal to legislate for the inclusion of the averaging method in legislation.

- We support the proposal to legislate for the inclusion of the rule that literature being considered of inconsequential value for the purposes of the donor benefits system in legislation.
- However, we also believe that the government should consider widening the scope of this benefit to include other forms of benefits, such as apps, toolkits and other materials that may be used to help the charity advance its charitable objects.
- We recommend that the government changes the valuation process from the value to the donor to cost to the charity.

These have been formed with the following principles in mind:

- **Supporting smallest organisations** – Gift Aid is used by a range of charities – from small organisations dealing with donations of hundreds of pounds, to large charities handling tens of millions of pounds. They also carry out a huge variety of activities. However, the Gift Aid Donor Benefits rules are likely to be most discouraging for smaller organisations, so changes should be primarily focused on helping the smallest organisations, where administrative tasks are often carried out by volunteers.
- **Practical** – The Gift Aid system involves significant administration for charities, as does the Gift Aid Donor Benefits rules. Any reforms to the rules must be workable given the administrative capacities of charities. Every penny spent on extra administration reduces the funds available to meet charitable objectives.
- **Pragmatic** – Reforms must correspond to the world of fundraising as it is and be, rather than idealised view of fundraising.

For the rules to work better going forward, the government will need to continue to engage with the sector on improving the quality of guidance, particularly for smaller organisations. Easier to read and variety of formats of guidance will help the government to reach out to smaller charities flexibility in how they build relationships with their donors..

Before any changes are finalised, we would also urge the government to make a full impact assessment to ensure that the rules do not disadvantage certain types of organisations. At present, the rules are highly complex, and there are concerns that this could hinder charities which come from disadvantaged backgrounds.

## Evidence

Our organisations collectively have over 20,000 charity members and we regularly engage with charities on issues related to Gift Aid and the impact of regulation on their organisations. Our response has been informed by this on-going dialogue and engagement.

Charity Finance Group also carried out a survey of members over the spring and summer 2015 on the future of Gift Aid Donor Benefits. The survey received 47 responses. Their survey was primarily responded to by larger organisations.<sup>1</sup>

This has also informed this consultation response. NCVO's Financial Sustainability Review of the Voluntary Sector and more recently, its *Navigating Change* report have highlighted how smaller charities have experienced disproportionately difficult financial circumstances in recent years and many are having severe capacity issues. Furthermore, around 80% of charities with an income under £100,000 have a purely local focus (NCVO Almanac data), and will be run primarily by volunteers. The capacity of these organisations to engage with central government consultation exercises can therefore understandably be quite limited. Where the rules are particularly complex or do not support organisations of this size, charities may not engage with them altogether, making them also unlikely to express views. This underscores the need to make Gift Aid and its surrounding rules as accessible as possible.

### **Proposal 1a: Removing the monetary thresholds altogether**

We disagree with the assumption within the consultation response that proposal 1a would be a significant simplification of the Donor Benefit rules. Most charities do not currently calculate the level of benefits that they provide for donors, and the introduction of this proposal would require a significant overhaul of charity systems. It would also be challenging for many charities to calculate the level of benefits that they provide under the current system, which is based on estimating the value of benefits to their donors.

This would significantly disadvantage small charities which do not have the resources to create new processes and procedures to monitor levels of benefits and then take those away from their Gift Aid claims. This would mark an additional level of complication to the Gift Aid claiming process for organisations.

When CFG asked its members about whether the 'split payment rule' – one of the options within Proposal 1a – should be made the mandatory method for all donor benefits, only 33% of respondents agreed. 44% said that they did not want to make this system mandatory, and 22% did not know.

There are also concerns about the impact this proposal could have on the integrity of the Gift Aid system. If taken on an aggregate level, Proposal 1a would erode the relationship between the Gift Aid received by a charity and individual donors. The 'split payments rule' is least likely to have this impact on the Gift Aid system, but would have a negative impact on many charities due to the reasons outlined above.

Our view is that the 'split payments rule' provides an acceptable route for those charities

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<sup>1</sup> Micro (income less than £10,000) – 1 Small (£10,001-£100,000) – 3 Medium (£101,000-£1,000,000) – 12 Large (£1,000,001-£10,000,000) - 24 Major (income greater than £10m) – 7

which have the ability and systems to 'net' individual donations, but it would be a mistake to introduce this as the only system for all charities that use donor benefits.

**We do not support this proposal but do support the continuation of the 'split payments rule' extra statutory concession.**

### **Proposal 1b: Reducing the number of thresholds**

**We support the proposal to reduce the number of thresholds in the Gift Aid Donor Benefits rule, but we believe that there should be two thresholds instead of one.**

This would recognise two factors. Firstly that there is a cliff-edge when it comes to providing benefits to donors (regardless of donation size, a benefit costs x amount). Secondly, that providing a benefit is generally considered to be an investment in a long term relationship with the donor, with the benefits accrued over a long period of time.

This could be resolved through introducing one threshold of a significant size, however, the consultation document indicated a level of 10% across the board. This would be unlikely to reflect the factors outlined above. We also do not wish to open avenues of abuse of the Gift Aid system for higher value donations. We propose, therefore, two thresholds:

Threshold A would be 25% for donations under £250. Threshold B would be 10% for donations of £250 or over.

This would ensure that no donations under £100 would be any worse off under the new system. Donations between £101 and £250 would benefit from this new system. Donations over £250 would be no different under this proposal than under Proposal 1b.

Although this would create a cliff-edge at the £250 mark, this is unavoidable in any system where there are two thresholds. This would be outweighed by the benefits for smaller organisations which are seeking to use the rules to build relationships with donors on smaller levels of gifts. This principle is currently recognised within the donor benefit rules and this proposal would keep this principle in place, whilst genuinely simplifying the rules by moving from three thresholds to two.

In its survey, CFG asked members whether having one threshold (e.g. 5%) across all donation sizes would make the system better for charities. Obviously this is lower than the level put forward in the current consultation document, however, only a minority of respondents believed that this would improve the system.

Only 25% believed that this would improve the system. A plurality of respondents (44%) believed that it would not make the system better, and almost a third (31%) did not know whether it would improve the system.

When we asked those that wanted one threshold what would the rate should be, responses varied between 5% and 20%. This indicates that moving towards one threshold would create

significant risks for charities, particularly the lower the threshold, and may not genuinely support the sector.

**In conclusion, we support movement towards simplifying the number of thresholds but towards two thresholds rather than one.**

### **Proposal 2a: Disregard for low value benefits**

**We fully endorse the introduction of a disregard for low value benefits and believe it would be beneficial for charities, particularly small organisations.**

As referenced in the consultation document, monitoring any benefits creates administrative burdens for organisations. These can be difficult to bear for smaller organisations, making them less able to use benefits to build donor relationships. The introduction of a disregard for low level benefits would ensure that for most charities, the donor benefit rules would not be something with which they had to interact. However, the utility of this proposal depends upon the level at which that the disregard is set.

We agree that the level would need to be low in order to protect the integrity of the Gift Aid system. But it would also need to be high enough to ensure that it is genuine simplification and removes most charities from the system. It would also need to be future proofed, either by being at a high enough level initial level or having a mechanism for regular uplifting the disregard level.

We believe that the ultimate level and process for uplifting would need to be agreed after full consultation with the charity sector. There would also need to be a consultation on which method (per donor or per donation) was most efficient and least bureaucratic for charities.

That being said, the threshold would need to be between £8-10 in order to have the improvements in terms of simplification and utility that the government wishes to achieve in this consultation.

### **Proposal 2b: Extra Statutory Concessions – Legislate split payments, averaging method, and literature concessions**

**We agree with the proposal to put the ‘split payments rule’ into legislation as this would create certainty for the charities that use it.**

**We believe that putting the requirement on charities to proactively inform donors of the amount of Gift Aid claimed on split payment donations would impose significant extra burdens on charities and could lead to confusion for donors.**

Research from HMRC in the past has indicated that discussions about Gift Aid are best carried at with donors at the time of their donation. This proposal would separate the Gift Aid process and donations. **We recommend that charities should have a requirement to inform donors, such as higher rate donors, about the amount of Gift Aid claimed on**

**their donations upon request.** This would make sure that the level of bureaucracy was proportionate and that communications are only made to those donors that request it.

**We agree with the proposal to legislate for the inclusion of the averaging method in legislation to be a useful step forward.** As with the 'split payments rule', many charities use this rule and it would be good to have certainty about its availability for the future.

**We also agree that literature being considered of inconsequential value should be enshrined in legislation. However, we also believe that the government should consider widening the scope of this benefit to include other forms of benefits, such as apps, toolkits and other materials that may be used to help the charity advance its charitable objects.** This would also future proof the donor benefit rule.

When CFG surveyed its members if they believed that benefits that further a charity's purposes should not count as a benefit for the purposes of Gift Aid – an overwhelming majority (89%) believed that this should be the case. Only 8% believed that they should be counted.

A rule could be put into legislation that materials, not services, relevant to and distributed in furtherance of the objects of the charity would be considered of inconsequential value.

### **Proposal 2c: Remove lifetime benefits**

We do not believe that the removal of the lifetime benefits rule would mark a simplification for charities. Although no responses made reference to the lifetime benefits rule, this does not mean that it is not used nor does that mean that this is a simplification.

Charities are seeking to develop longer term relationships with their donors and this makes rules such as the lifetime benefits rule more important. Having the rule on the statute book creates no additional bureaucracy for charities and does not create additional work for HMRC.

**We recommend that the rule remains in place.**

### **Any other considerations**

We are disappointed that one major area of reform has not been considered – valuing the cost of benefits.

Our conversations with charities have made clear that calculating the cost of benefits based on their value to the donor is very complicated and particularly difficult where you have unique or bespoke items (e.g. dress rehearsals, patrons' dinner etc.). This is a barrier to smaller organisations that may wish to provide bespoke benefits to their donors in order to build better relationships.

The uncertainty around value also creates complications and uncertainties for HMRC. This makes the system more costly to operate.

Changing the valuation process from value to donors to the cost of providing benefits to charities will be much simpler to calculate and avoid any confusion. It will also be an easier process for HMRC to monitor and as a consequence will create fewer opportunities for abuse.

When CFG surveyed its members, there was a clear consensus that benefits should be calculated on how much they cost charities rather than from the donor's perspective and market value (i.e. how much it would cost donors to purchase in the market). 86% of respondents wanted this change, with only 11% wanting to keep the current system.

Another factor that must be considered is the increasing scrutiny that charities are facing. A simple transparent process that is easy to monitor will support healthier relationships between the public and charities. It will also allow more organisations to engage with activities which can support charitable interests, without the fear of taking on a disproportionate risk to the charity's integrity. Valuing benefits on the basis of cost is less open to subjective interpretation and will, therefore, assist in build confidence.

**We recommend that the government changes the valuation process from the value to the donor to cost to the charity.**

## **About us**

### **Charity Finance Group (CFG)**

Charity Finance Group is a charity and a membership organisation, with around 1,350 members. CFG's members collectively manage over £21.1 billion of the charity sector's income. CFG's goal is to champion best practice in finance management amongst non-profit organisations. For more information visit: <http://www.cfg.org.uk/>

### **Institute for Fundraising**

The Institute of Fundraising is the professional membership body for UK fundraising. Their mission is to support fundraisers, through leadership, representation, standards-setting and education, and champion and promote fundraising as a career choice. The Institute of Fundraising the largest individual representative body in the voluntary sector with over 5,600 individual members and 470 organisational members. For more information visit: <http://www.institute-of-fundraising.org.uk/home/>

### **National Council for Voluntary Organisations (NCVO)**

NCVO champions the voluntary sector and volunteering because they're essential for a better society. NCVO does this by connecting, representing and supporting voluntary organisations. NCVO has 12,000 member organisations – a third of the voluntary sector workforce in England. NCVO helps them thrive in what they do: by providing expert support and advice, by saving them time and money, and by keeping them up to date with the news and developments that affect them. For more information visit: <https://www.ncvo.org.uk/>

### **Small Charities Coalition**

Small Charities Coalition is a national support and networking organisation that helps over 7000 small charities, their staff, volunteers and trustees access the skills, knowledge and resources they need to best serve their causes. For more information visit [www.smallcharities.org.uk](http://www.smallcharities.org.uk)