

SMALL CHARITABLE DONATIONS AND CHILDCARE PAYMENTS BILL COMMONS SECOND READING

11 October 2016

Key points

- The intention of the Bill is to simplify the Gift Aid Small Donations Scheme (GASDS), so that it benefits the greatest number of charities and increases access for smaller and newer charities. **The Bill in its current form will struggle to fulfil these objectives.**
- The scheme allows charities to claim up to £2,000 a year of Gift Aid-style top-up on cash donations under £20, without having to collect or process declaration forms or comply with several of the requirements of normal Gift Aid. Small charities in particular are struggling to make use of the scheme due to complex access requirements, as reflected in the scheme's usage statistics. **Only 29% of the number of charities projected to claim in 2014/15 did so.**
- The Scheme's 'matching requirement' requires charities to make a certain volume of Gift Aid claims through the traditional system in order to access the GASDS. In practice, this means a charity needs to claim £1 of Gift Aid (ie with a declaration) to claim £10 via the small donations scheme. **This is more difficult for smaller charities to comply with** as they often have fewer resources to process normal Gift-Aided donations.
- To meaningfully expand access to the GASDS, **it is vital that the matching requirement is changed or removed.**
- Consultation with our members revealed that it is the most significant barrier to access for smaller organisations. Our survey found that **50% of respondents** with an income under £10,000 **wanted a removed or reduced matching requirement.** This means the matching requirement runs counter to the key objective driving the review of the legislation: to operate effectively and flexibly for the greatest number of charities.
- It is vital that schemes like the GASDS have appropriate and effective measures in place to prevent fraud and ensure taxpayers' money is well spent. However, **the government has not presented any evidence during the consultation period to demonstrate the extent to which the matching requirement is a necessary mechanism to prevent fraud and error,** or whether the matching ratio of 1:10 is the minimum necessary to achieve this objective.
- The government made its decision to not address the matching rule on the basis that 8.5% of charities that claimed gift aid in 2013/14 claimed less than the £500 necessary to take full advantage of the scheme (around 5,700 organisations). However, taking into account charities that only claim gift aid intermittently, **the number of registered gift aid claimants the rule prevents from claiming GASDS in any one year is closer to 38,000.**
- While we recognise the need for appropriate mechanisms to prevent fraud we believe there remains considerable scope within the Bill to do so while significantly increasing the number of charities who are able to benefit from the scheme. This could be best achieved by changing the matching requirement.

Background

The Bill takes forward proposals for simplifying the GASDS. These were initially set out in an HMRC call for evidence in December 2015 (which closed in March 2016) and a formal consultation published in April 2016 (which closed in July).

The Bill makes two significant changes to the Small Donations Scheme:

- It removes the two eligibility criteria that charities currently have to meet in order to claim a top-up on small donations:
 - Charities will no longer have to be registered for two tax years before they can claim under the GASDS (the 'two-year' rule).
 - Charities will no longer have to claim traditional Gift Aid (with a declaration) in at least two of the previous four tax years (the 'two-in-four' rule or 'gift aid history requirement').
- It allows donations made by contactless payment to be eligible for a top-up via the GASDS.

While these are helpful simplifications, the matching requirement remains unchanged. This requires charities to make a certain volume of Gift Aid claims through the traditional system in order to access the GASDS, in a ratio of 1:10. This means a charity needs to claim £1 of Gift Aid (ie with a declaration) to claim £10 via the Small Donations Scheme.

The matching requirement is the most burdensome and problematic element of the scheme. It is especially difficult to meet for smaller charities as they have fewer resources to collect or process Gift Aid declarations. As a result, they may choose to only claim Gift Aid intermittently and so be ineligible for GASDS in years they don't claim, or be unable to claim meaningful amounts under the GASDS if their Gift Aid claims are relatively small.

Our position

We broadly support the intention behind the Bill: to simplify the scheme so as to increase the number of charities and donations it supports. However, without addressing the matching requirement, the proposed changes will not substantially improve charities' access to the scheme. The Bill presents an ideal opportunity to meaningfully improve the Scheme and make it more accessible to smaller charities.

Charities access to the scheme

The scheme has real potential to complement the current Gift Aid system, and provide charities with an opportunity to diversify their income by supporting low-cost fundraising methods like bucket collections. However, in its current form, the GASDS is not fulfilling its potential. Using the government's projected costings, the number of charities HMRC anticipated would be using the scheme each year can be inferred. In 2014/15 (the last year for which there is data), the scheme was used by 19,300 charities, compared to the 68,000 that were expected to by the government's impact assessment.

This indicates that many charities are experiencing difficulty in complying with the requirements to access the scheme, a conclusion that was reflected in our consultation with members, which revealed that the matching requirement is the most significant barrier to access. Our survey found

that 50% of respondents with an income under £10,000 wanted the matching requirement to be removed or considerably reduced.

We believe the matching requirement runs counter to the key objective driving the review of the legislation: to enable the greatest number of eligible charities have access to the scheme.

Eligibility and matching requirements

The removal of the eligibility requirements are a welcome step. Abolishing the 'two-year' rule, will allow newer organisations to access the scheme, and use it to support early fundraising efforts. Equally, the removal of the Gift Aid history requirement ('two-in-four' rule) enables charities that infrequently make gift aid claims to access the scheme more readily. This will particularly benefit smaller organisations that do not have the resources necessary to process declarations as regularly.

However, it is essential that the matching requirement is removed for these changes to significantly improve access to the scheme for smaller organisations. Its interaction with the eligibility requirements is important. Even with the removal of the 'two-in-four rule', the matching requirement means that a charity would still have to make significant Gift Aid claims in every year they wished to use the scheme. Moreover, it is likely that those charities that are excluded by the rule are smaller organisations, as they have the most difficulty raising consistently high levels of Gift-Aided donations.

Preventing fraud

We recognise the importance of appropriate measures to detect and prevent fraud. However, the government has not published any assessment of how necessary each of the claiming requirements are towards achieving this objective. While we would not expect detailed data on fraud to be published, the government's consultation document and summary of responses make no mention of fraud, and no assessments of the necessity of each requirement. There is also no data publicly available that estimates the number of charities that would be enabled to access the scheme by the change or removal of the various eligibility requirements, although such data should be discernible from existing gift aid claim records. Such estimates could be used to compare the relative impact of removing particular requirements against their contribution to fraud prevention.

With the proposed removal of some eligibility criteria, we acknowledge that there must be some measures in place to sustain an audit trail, but we would like to the government to engage in further analysis and debate on the extent to which the matching requirement in its present form is an absolute necessity in achieving this.

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