

# Taxes & Gift Aid



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In this  
session we  
will  
consider

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Should we register our charity with HMRC

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Corporation tax and how it can apply to a charity

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VAT – what are the essentials to know

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Employment taxes – what to look out for

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Gift Aid – what you can claim for, how to do it and record keeping

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# Question 1: Should we register our charity with HMRC?

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**Yes – all  
charities  
should  
register  
with HMRC**

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Pre OSCR – all charities were registered with HMRC

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HMRC needs to recognise a charity for tax purposes even if a registered charity with OSCR

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Can register on set up of a charity or at a later date

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Once registered with HMRC you receive an HMRC Charities reference number

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This is needed to submit tax returns and more importantly to claim Gift Aid

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## Recognition from HMRC for a charity

<https://www.gov.uk/charity-recognition-hmrc>. You will need:

Bank account details and latest financial accounts if applicable

Official's details (address, DoB, NI number) for 2-3 Trustees and senior staff

Description of charitable objects

Charity registration number and Governing document

A Government Gateway account for your charity – can create this as part of process

There are questions to answer, and documents to send in the post

Once accepted, HMRC will send a letter confirming the charity's HMRC reference number (two letters and up to 5 numbers)

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## Question 2: Does a charity need to consider corporation tax?

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## Corporation tax – what we need to know

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It's a myth that charities are not subject to corporation tax – like any other organisation, they are, but exemptions mean small charities rarely pay it

Corporation tax is paid on profits/surplus (following some possibly complex calculations) – currently at 19% (small company rate)

A charity may have to complete a corporation tax return, even if no tax is payable – particularly a charitable company or SCIO

If there is any possibility that corporation tax may be applicable, take **professional advice**

Corporation tax returns relate to the charity's financial year and are submitted digitally within 12 months of the year end – any tax due must be paid within 9 months

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## Exemptions from corporation tax – for profits from:

Income **donated** that is used to **advance the charitable purposes** (e.g. grants and donations)

**Primary purpose trading** – income from any activities that clearly fall under the charity's purposes

Trading carried out mainly by the **beneficiaries** of the charity (service or goods to raise money for the charity) – involvement of charity staff should be minor

**Ancillary trading** – not expressly primary purpose, but supplementary to charitable purpose (e.g. café/bar at a theatre for theatre goers, creche at a college)

Sales of **donated goods**, even if cleaned and repaired (minor) through regular activity at a charity shop or one-off jumble sale

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## Exemptions from corporation tax – for profits from:

**Fundraising events** – provided supporters know the event is for a charity and the event falls into:

- small events provided total takings from such events across whole charity are less than £1,000 per week; or
- events taking over £1,000, provided that the charity holds no more than 15 events of the same type in the same location

**Small scale trading and fundraising activities** – any kind of trading activity that falls under an annual turnover limit

Charity's gross annual income	Maximum permitted small trading turnover
Under £32,000	£8,000
£32,001 to £320,000	25% of your charity's total annual turnover
Over £320,000	£80,000

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## Corporation tax:

If a charity's income only falls into those categories, there will be no corporation tax due on surplus and therefore no need to make calculations

If required to complete a return, can do so currently using HMRC online, the questions are minimal and relate to where the income comes from

Where any of the charity's income falls out of these areas it will be worthwhile to take professional advice

Note, for CICs, there are no exemptions from corporation tax and calculating the tax payable should form part of the annual accounts process (with tax planning through the year to avoid surprises)

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## Question 3: VAT – the essentials

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### Value added Tax (VAT) – what we need to know

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It's a myth that charities can pay less VAT – in fact in general charities pay much more VAT than a business does

Only charities that are considered to be trading can become VAT registered – includes primary purpose trading and trading for fundraising purposes

If a charity's 'trading' income is over £90,000 in a rolling 12-month period, it is compulsory to be registered for VAT (threshold subject to change)

Can register for VAT voluntarily – often encouraged as assume this will mean can claim back VAT – advice can be misguided as complex partial exemption calculations needed, and it is unlikely will reclaim all VAT

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# VAT – do we need to register?

## VAT registration based on INCOME

If total income in the last 12-months is **less than £90,000**:

**No requirement to register**

*No further action needed but monitor income levels regularly*

*Do not charge VAT on sales but also cannot reclaim VAT on purchases*

If total income in the last 12-months is **more than £90,000**:

**May need to register** – look at breakdown of income and split into donated & trading

**Donated income** (grants / donations), **investment income** – outside the scope of VAT

**Trading income** – charging a fee for services, selling goods:

**Under £90,000**, no need to register.

**Over £90,000** – consider what type of VATable supply it is...

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## VAT – do we need to register? Grant v Contract?

**One tricky area:** Is a funding agreement a **grant** or a **contract for services**? – consider the terms of the agreement – especially local authority funding

If the funding is awarded with conditions attached, such as what it can be spent on and by when, but the funder is not buying anything specific, it is likely to be a **grant**

If the funding is awarded to purchase a specific number of places for a fee, then it is procuring services, it is a contract and therefore **trading income**

**Service level agreements** can be unclear – pages of conditions, but no clear indication of whether it is a grant or contract...funder may not even know – but essential to get this right for VAT purposes – take advice if unsure

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## VAT – do we need to register? What is our trading supply?

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**Standard rate** – currently 20%: most supplies unless covered by the following 3 categories:

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**Reduced rate** – a lesser rate, generally 5%, for example energy supplies for non-business premises

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**Zero-rated** – subject to VAT at 0%, such as books and publications, children’s clothes, cold food, clothing through charity shops

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**VAT exempt** – sales do not have to include VAT or count towards the trading income threshold – tend to be related to education, health, sports training, fundraising events exempt from corporation tax

Comprehensive list of zero-rated and VAT exempt items on HMRC website

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## VAT – do we need to register?

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If the trading income from standard, reduced or zero-rated supply of good and services is over £90,000 in a rolling 12-month period – need to register for VAT

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If trading supplies are all considered VAT exempt – cannot register for VAT

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If there are trading supplies that are standard, reduced or zero-rated but they are under £90,000, can voluntarily register but consider if its worth the additional work involved, additional cost that you will charge to customers/beneficiaries, or absorb into the charity. It is very unlikely the VAT reclaimed on purchases will outweigh this.

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## Can we reclaim VAT on purchases?

Only if the charity is VAT registered

Most VAT registered charities have 'partial exemption' – as not all their income is trading for VAT purposes

This means they can only reclaim VAT on supplies (input VAT) directly attributable to VATable trading

For supplies that form general overheads, need to carry out complex calculations to reclaim part of the VAT – the remainder is called irrecoverable VAT

VAT returns are submitted to HMRC electronically via software on a monthly or quarterly basis

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## Some VAT concessions on spending for charities

Rental of space – landlords have option to charge VAT, a charity can ask for them to override that option (example commercial rent on a charity shop)

Advertising – normally at 20%, but charities can have this zero-rated

Fuel and power – gas and electricity for premises for charity use can be reduced rate at 5%

Goods for people with disabilities, such as specialist equipment can be supplied at zero-rated, but the charity will generally need to supply an exemption certificate

Complex VAT rules exist around buildings – new buildings for charitable purposes can be zero-rated, but extensions, alterations generally have VAT at 20% – take advice

Schemes available to specific charities – palliative care, search and rescue – take advice

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## Question 4: Employment taxes – what to look out for

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### Employing staff / workers

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If Trustees employ one or more person to carry out the work of the charity, and its not carried out on a 'freelance basis', they must register as an employer with HMRC

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If take on paid help in the form of freelancers – can use HMRC's CEST tool (check employment status for tax) to ensure genuinely freelance

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If have employees, the charity must run an in-house payroll, or take on the services of a payroll bureau to report to HMRC each time employees are paid, and to pay over any PAYE, national insurance, student loan deductions etc.

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## In regard to employees, Trustees are responsible for:

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Complying with employment and health & safety laws

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Paying minimum wage (statutory living wage / Real Living Wage), can be complex

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Providing legal holiday entitlement (28 days including public holidays pro rata), sessional workers may receive this as additional pay if unable to take holidays

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Providing workplace pension – minimum employer contribution 3%

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Paying employer's contributions of National insurance and Pension (on top of salary) where applicable

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Claiming (via payroll software) up to £10,500 employment allowance on Employer National Insurance – claim each April

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## Question 5: Gift Aid – what, how and record keeping?

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## What is Gift Aid

Gift Aid is the government scheme whereby charities can claim an extra 25p for every pound gifted to them by eligible donors

Must be registered as a charity with HMRC to claim the tax back on 'Gift Aided' donations

Principle is that a gift from a UK taxpayer is deemed to have been paid out of their gross income – charity is effectively reclaiming the portion of tax the donor paid on the part of their income they gifted (at basic rate tax = 20%)

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## Rules for donations given under the 'Gift Aid' scheme

Recipient must be a charity in UK tax law

Gift must be received after the charity has been recognised with HMRC (although may be able to backdate recognition)

Must be a genuine donation/gift – i.e. donor receives nothing in return (except trivial benefit – see later)

Donation must be from an individual

Donor must be a UK taxpayer, making donation out of post-tax income – ie they must have paid more tax than you are reclaiming

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## Rules for donations given under the 'Gift Aid' scheme

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The donor must make a Gift Aid declaration that they wish the gift to be treated as a Gift Aided donation

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Payment must be actually be made and evidence available

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Charity must keep accurate records of all donations where tax has been reclaimed on Gift Aid donations (including declarations) – at least 6 years

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May be able to reclaim tax on eligible Gift Aid donations up to 4 years previously (as long as registered)

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## Trivial benefit rules

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If donor gets any benefit from their donation, Gift Aid only applies where the benefit to them or any connected person is less than the permitted benefit level:

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Donations up to £100 – maximum permitted benefit is up to 25% of the donation value

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Donations over £100 – maximum permitted benefit is £25 plus 5% of the value of the donation over £100, up to a total benefit value of £2,500

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Example: Donation of £700


Benefit value = £25 plus (5% of £600) = £55

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Value of benefit based on price available to general public, or where not available, cost to charity

Example: Donation £20, received a t-shirt value £10 = Not Gift Aid

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Special  
circumstances

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**Sponsored challenges** – all sponsorship could be eligible for Gift Aid, unless participant has costs of challenge paid for them – then any sponsorship from connected parties is not eligible

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**Sponsored events** – not expected to verify every sponsors eligibility but must take reasonable steps to ensure eligibility set out in accompanying literature and evidence collected

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**Membership fees** – Gift Aid claims where the fee is for membership only and does not give members use of services or facilities – but some exceptions re viewing property, receiving newsletters


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**Viewing charity property** – an entry fee is not a gift, but if you do not charge a fee and ask for a voluntary donation, then it could be eligible – or if fee gives 12-month access

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**Charity events** – admission to jumble sale/ticket for charity dinner – not eligible even where ticket higher significantly higher than cost – this is charity trading. Additional voluntary donations ok, but not if amount stipulated

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Special  
circumstances

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**Charity auctions** – proceeds from the sale of a lot not normally eligible but special rules if intentionally paid more than item's worth

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**Gifting of volunteer expenses** – if a volunteer, including a trustee claims legitimate expenses (eg travel) but then re-gifts it to the charity, Gift Aid may apply

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**Retail Gift Aid** – specific scheme for charity shops – not on the sales of items, but on the donation of goods – complex rules apply, but worth using if run a charity shop

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**Corporate Gift Aid** – if a charity has a wholly owned trading subsidiary to carry out activities to raise money for the charity, the surplus can be given to the charity under a special form of Gift Aid – complex rules apply

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## Gift Aid Small Donations Scheme

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Allows charities to claim 25% back on small donations without the need for declarations, donors to be identified individually or be a UK tax-payer

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Eligible donations – cash, contactless and under £30 per donation (not covered by individual claims or special circumstances)

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Can only claim GASDS if have made a regular Gift Aid claim on other donations

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Limit of £2,000 in tax reclaimed, which means on £8,000 of small donations, but this is further reduced to a maximum of 10 times Gift Aid donations

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Example: If claimed for £300 tax on normal Gift Aid donations, could claim on £3,000 small donations (tax reclaimed £750). On the other hand if claimed for £1,000 tax on normal Gift Aid donations, would not be able to claim on £10,000 small donations as limited to £8,000

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## Gift Aid declarations – example of information to collect.

Can use for a single donation or set up for recurring donations

Charity Gift Aid Declaration – single donation

Boost your donation by 25p of Gift Aid for every £1 you donate

Gift Aid is reclaimed by the charity from the tax you pay for the current tax year. Your address is needed to identify you as a current UK taxpayer.

In order to Gift Aid your donation you must tick the box below:

I want to Gift Aid my donation of £\_\_\_\_\_ to:

Name of Charity \_\_\_\_\_

I am a UK taxpayer and understand that if I pay less Income Tax and/or Capital Gains Tax in the current tax year than the amount of Gift Aid claimed on all my donations it is my responsibility to pay any difference.

My Details

Title \_\_\_\_\_ First name or initial(s) \_\_\_\_\_

Surname \_\_\_\_\_

Full Home address \_\_\_\_\_

Postcode \_\_\_\_\_ Date \_\_\_\_\_

Please notify the charity if you:

- want to cancel this declaration
- change your name or home address
- no longer pay sufficient tax on your income and/or capital gains

If you pay Income Tax at the higher or additional rate and want to receive the additional tax relief due to you, you must include all your Gift Aid donations on your Self-Assessment tax return or ask HM Revenue and Customs to adjust your tax code.

Fig. 10.1 HMRC's template Gift Aid declaration Source: [www.gov.uk/claim-gift-aid/gift-aid-declarations](http://www.gov.uk/claim-gift-aid/gift-aid-declarations).

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## Making a Gift Aid Claim

If your only Gift Aid donations are collected via a fundraising website, they will claim Gift Aid back on your behalf – you will need to ensure they have the correct charity details, including HMRC Charities number

Warning: make sure appropriate information is given to prospective donors. For example, if use the same site to collect ticket fees or take part in a raffle, can turn off the Gift Aid function

Specific software exists to deal with Gift Aid – may be useful if have a lot of eligible donations, but will come at a cost

Can claim using HMRC online services account

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## Making a Gift Aid Claim using HMRC software

Log into HMRC online (Government Gateway)

Click on 'claim tax back on donations' link and answer questions

There is an excel schedule you can download and complete at any time and use:

<https://www.gov.uk/government/publications/gift-aid-schedule-spreadsheets-to-claim-back-tax-on-donations>

Details needed: date, donor name, house number, postcode, amount donated and whether a donation or from sponsored event

Once completed, can upload and submit to HMRC – will receive a letter and payment

HMRC does not verify anything at this point but could carry out a Gift Aid audit at any point

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# Any questions?

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## Further Guidance

Regulation such as Charities and Trustee Investment (Scotland) Act 2005 and Charities Accounts (Scotland) Regulations 2006 – see [www.legislation.gov.uk](http://www.legislation.gov.uk)

Guidance for Trustees from the Regulator – see [www.oscr.org.uk](http://www.oscr.org.uk)

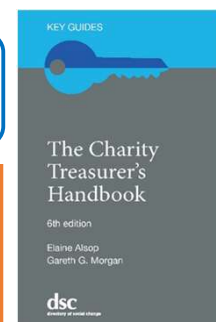
Scottish Council for Voluntary Organisations [www.scvo.org.uk](http://www.scvo.org.uk)

Book available from Directory of Social Change website [www.dsc.org.uk/ctr](http://www.dsc.org.uk/ctr)

**Local third sector interface**  
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