

Gift Aid & Payroll Giving

A reference guide for school charities



Introduction

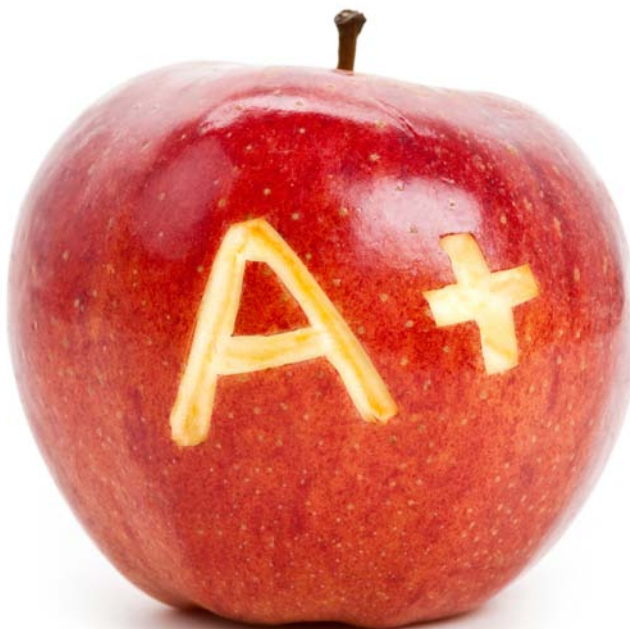
Gift Aid can be a simple and effective way for charities to boost funding, and school charities are no different.

While many donations made to school charities are eligible for Gift Aid it often goes unclaimed as school charities are unaware of what they can claim or feel Gift Aid is too complicated.

Payroll Giving can also be used to donate to school charities and as part of this guide we will look at some of the rules surrounding Payroll Giving.

This reference guide provides information and simple examples that relate specifically to funds received by school charities which will help them to make the most of these donations. The guide tells school charities:

- what Gift Aid and Payroll Giving are
- how to identify what is and is not a charitable donation for Gift Aid purposes,
- how to claim Gift Aid, and
- how to use Payroll Giving.



Did you know...?

...that Gift Aid payments alone were estimated to be worth just over **£1.1 billion** to charities in 2010-11

How to Use this Guide

This Guide is intended for schools run by charities, charities associated with schools and charitable groups that support schools (for example, a charitable Parent Teacher Association).

The Guide provides a brief summary of how Gift Aid and Payroll Giving applies to donations to such charities.

This Guide is not a full in-depth description of the rules and does not replace or supersede the information in the HM Revenue & Customs Detailed Guidance Notes.

Further in-depth guidance is available on the HMRC website. Links can be found at the end of this guide.

This guide applies only to donations received from individuals. Gift Aid cannot be claimed on grants from government departments, local authorities or any other body. Donations made by companies are not eligible for the Gift Aid scheme as the companies may be able to get tax relief themselves. Companies cannot donate through Payroll Giving although they can set up a scheme for their employees.

Comments and feedback

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What is a school charity?

The term 'school charity' has no special meaning and is used in this guide to describe any charity associated with the running of a school.

There must be a school charity if Gift Aid is to be claimed or donations are to be made through Payroll Giving. This is because only charities can claim Gift Aid or benefit from donations through Payroll Giving.



Charities that exist, or are being set up, in the school sector include:

- A charity that owns and runs an independent fee paying school.
- A charity that raises funds for an independent fee paying school but does not own or run the school. For example an Alumni Association or a School Fundraising Charity.
- A charitable Parent Teacher Association (PTA) or Alumni Association that raises funds for a state school (Not all PTAs or Friends or Alumni Associations are charities).
- Certain state schools (often religious schools) that are 'Voluntary Controlled' or 'Voluntary Aided' but have also been established as a charity.
- Some state Academy Schools.
- Some state Free Schools.

What is Gift Aid?

Gift Aid is a tax relief which allows a charity to reclaim from HMRC the basic rate Income Tax a donor has paid on their donation (gift).

To qualify for Gift Aid, donations must be gifts of money made by an individual UK taxpayer to a charity. The donations must be outright gifts and not be a payment for goods or services. Donors must not receive services or benefits outside the limits published by HMRC. More information on donor benefits can be found on the HMRC website, a link is provided at the end of this guide.

For the charity to claim Gift Aid it is vital that the donor has supplied a Gift Aid Declaration. This is their confirmation that they have paid, or will pay, enough income or capital gains tax to cover the amount of Gift Aid the charity will reclaim from HMRC.

In order to do this, the donor will need to know how much tax the charity will reclaim. If the donor has not paid enough tax HMRC will recover the tax from the donor and a penalty may also be due.

You can find more detailed information on declarations, including model forms, here: http://www.hmrc.gov.uk/charities/gift_aid/declarations.htm

There are also some further help sheets on Gift Aid generally and fundraising which you may find useful. Links to these can be found at the end of this guide.

For example:

If a charity has received a donation that qualifies for Gift Aid of £1000, the charity can reclaim £250 from HMRC bringing the total amount received by the charity to £1250

Signing up for Gift Aid

Before a charity can claim Gift Aid repayments it must apply to HMRC for recognition as a charity entitled to UK charity tax reliefs. It may also need to register with the relevant charity regulator beforehand.

If HMRC agrees that the charity is entitled to UK charity tax reliefs, HMRC will provide the charity with a special charity reference number and a note of the date that entitlement to those reliefs began. This may be before the date of the application to HMRC and could, therefore, enable the charity to claim Gift Aid on donations received before the application was made.

A charity doesn't need to apply to HMRC before it can start to gather donations. However it cannot claim Gift Aid repayments until after HMRC has issued a charity reference number. Nor can it be claimed on any donations received before the entitlement date mentioned in the previous paragraph.

Further guidance on applying to HMRC for recognition as a charity, and registering with charity regulators, can be found here: www.hmrc.gov.uk/charities/guidance-notes/chapter2/chapter_2.htm



How to claim Gift Aid?

When a charity has been recognised by HMRC as being entitled to UK charity tax reliefs, and started receiving qualifying donations, it may then submit claims for Gift Aid repayments to HMRC.

Claims can be submitted at any time up to four years after the end of the accounting period, or tax year for charitable trusts, in which the donations were made. So, for donations made during an accounting period ended 31 December 2010, the final date on which a Gift Aid repayment claim can be made to HMRC is 31 December 2014.

The claim form

The form, called the **R68(i)**, asks for information such as names of donors and amounts they have donated.

You will need to record much of this information in tables (known as 'schedules') which you can create easily on the form itself. Donations from sponsored events should be added separately from other donations on the schedule. While it is not necessary to send original sponsorship forms, or declarations, to HMRC with a claim form these you should keep these as HMRC may, from time to time, audit claims submitted.

The claim form, and further guidance for completion, can be found on the HMRC website: <http://search2.hmrc.gov.uk/kb5/hmrc/forms/view.page?formid=832&record=KGHTf0Jb0jE>

Processing your claim

Once HMRC receives your claim you can normally expect payment within four weeks, but it will take longer at busy times. If you make any mistakes or leave gaps on your form, HMRC will contact you or return the claim form for you to correct which will mean you'll wait longer for your payment.

Common Errors

- Form not signed and dated by an authorised official or nominee
- ChV1 Variations form not submitted at least 30 days before a claim if the authorised official or nominee has changed since the last claim
- Not enclosing the necessary supporting schedules with the form
- Not restricting claims for sponsored events to donations where the sponsorship form has been correctly completed.

HM Revenue & Customs
Gift Aid and tax repayment claims

About this form
 This form is designed to be downloaded and saved on your computer and completed on screen. When you have completed the form you need to print it and then sign and date it. You will be able to print the form after you have:
 • answered all the questions marked with an asterisk (*)
 • entered one or more payments in the schedules.
 Please note that any amendments made to the form after you have printed it will not be accepted.
 If you need to make any changes, you will need to amend the form on your computer and then print off a new version.
 Send the completed form to: **HMRC Charities, Repayments, St John's House, Merton Road, Liverpool, L75 1BB.**

When to use this form
 This claim form can only be used by charities, Community Amateur Sports Clubs (CASCs) and other organisations entitled to UK charity tax reliefs (all referred to as 'charities' on this form). Use this form to claim tax repayments on Gift Aid donations or to reclaim UK tax deducted from other income, such as bank interest.
 Please refer to the guidance on the HMRC website to help you complete this form.

About your organisation

Name of charity, Community Amateur Sports Club (CASC) or other organisation entitled to UK charity tax reliefs *

Correspondence address *

HMRC Charities reference *

This is the reference that you should use when contacting HMRC.

Did you know...?

...most claims are dealt with within four weeks of HMRC receiving them. However some take longer so you should allow at least seven weeks before following up on your claim

Gift Aid Audit

HMRC selects a number of Gift Aid claims from charities for audit to ensure that the Gift Aid scheme is being used properly and that any repayment claims made are accurate.

HMRC is keen to help you to get things right and will help your charity to make further repayment claims if it is found that less tax has been claimed than was due.

How does HMRC decide which charity to audit?

Each year HMRC chooses a number of charities to audit, selected on a risk or random basis - some of these charities will be school charities. It is important to remember that if your school charity has been selected this does not necessarily mean that HMRC believes the claim is wrong or that there is any suspicion about anything to do with the claim or your school charity.

What happens in an audit?

Normally, the auditor visits the place where the charity's records are kept. The auditor makes checks

such as ensuring that tax repayment forms (R68i) have been properly completed from the charity's records and the auditor will ask to look at the Gift Aid declarations, and the banking of the donation for a number of donors included in your repayment claim.

What happens once the audit is finished?

On the day the audit ends, the auditor will talk to you about exactly what has been reviewed and the results of that review. The same information will be included in a letter to the charity summarising the audit findings and what action the charity may need to consider.

If the auditor cannot find evidence to substantiate a tax repayment claim and, as a result, HMRC has paid you too much, the auditor will:

- explain in detail what the problem appears to be and the formal process HMRC will follow to recover the tax involved;
- provide a summary of the amounts of tax recoverable for all relevant years;
- provide a computation of interest due, up to a projected payment date;
- where appropriate, discuss the basis for any penalties HMRC believe are due and explain HMRC policy on mitigation of the maximum penalty payable.

Penalties and charges

By reading this reference guide and following the guidance in the HMRC detailed guidance notes you can ensure your claims are correct and avoid the situation where HMRC asks you or your donors to repay tax where Gift Aid has been paid incorrectly.

More information about how HMRC charges penalties can be found on the HMRC website: www.hmrc.gov.uk/about/new-penalties/

Did you know...?

...that HMRC is happy to work with charities to improve systems for processing donations, maintaining records and to make sure that they are using valid declaration forms.



What is Payroll Giving?

Payroll Giving is an easy way for employees to make regular donations to charities of their choice directly from their pay or pension.

Because Payroll Giving donations are made from income before Income Tax is calculated, donors are given full tax relief on their donation immediately - and at their highest rate of tax.

How Payroll Giving Works

If an employer offers a Payroll Giving Scheme, an employee can ask their payroll department to deduct charitable donations from their gross pay (before tax is deducted). The employer then passes that money to a Payroll Giving Agency (PGA). The employee tells the PGA which charities they wish

their donations to be sent to and the PGA sends the donations to the appropriate charities. PGAs usually deduct a small administration fee for each donation. However, sometimes the employer pays this on the donor's behalf.

The money donated can only be used by the charity for charitable purposes and the donor cannot receive any benefit in return for the donation. To receive donations through Payroll Giving a school charity does not have to register its details with HMRC. However the PGA will ask for evidence that their school is a charity.

Scenarios

A charitable Parent Teacher Association (PTA) may ask for voluntary contributions to support its activities. It may suggest a level of voluntary contribution but not enforce a minimum donation and this could be done through Payroll Giving.



However if a PTA provided music lessons for which it charged £25 a week then the parents cannot use Payroll Giving to pay for those lessons because there is no donation, just a payment for services.



Making the most of Gift Aid and Payroll Giving

What qualifies for Gift Aid or Payroll Giving

For payments to be made through Payroll Giving or to qualify for Gift Aid those payments must be voluntary charitable donations.

That means wholly voluntary gifts. It is not enough for a payment to be described as 'voluntary' or a 'donation' if, in reality, access to some services or facilities depends on the donation being made.

Payments made in return for goods and services, such as fees paid to an independent school, amounts paid for a school skiing trip, or admission to a school play or fund-raising event, do not qualify as charitable donations and therefore do not qualify for Gift Aid and must not be made through Payroll Giving.



Payments are not 'voluntary', and therefore are not charitable donations, where the charity requests amounts which are linked directly to particular services provided,

or requests for payment are made in a similar way to invoicing of fees. Payments are also not 'voluntary' and therefore are not charitable donations if parents are approached to make payments of 'voluntary contributions' to a school to secure a place for their child at that school.

Donations made in response to a general appeal for donations, or for a specific charitable purpose, are likely to qualify as long as there is no suggestion that an obligation exists to make the donation or access to services or facilities depends on making it.

When Gift Aid applies to day to day scenarios

Below are a selection of scenarios that a school may come across. There are more details of these in the next pages.

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Scenarios

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Appeals to fund extra lessons

A school charity may launch an appeal to raise funds for extra lessons. Schools, other than independent schools, are not allowed by law to charge for lessons undertaken as part of the National Curriculum and during school hours. They may, however, charge for certain extra lessons provided outside school hours. So long as there is no connection between the students who receive the extra lessons and the parents who make the donations then the payments will probably be charitable donations.

Some schools run by religious bodies arrange lessons in the teaching of that faith outside school hours. The school may ask for voluntary contributions and may suggest a level of voluntary contribution but cannot enforce a minimum donation.



If there is any link between what parents give, or how much they give, and which children get extra lessons then the donations are not charitable. For example, if parents are told their child will only be allowed to attend the extra lesson if they 'donate' a minimum of £50 a week then this is not a donation but a payment for services.



Non-uniform days

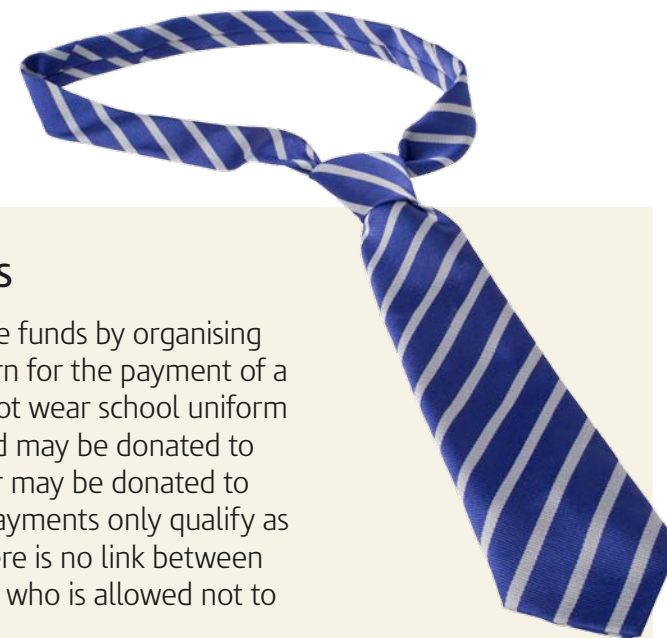
School charities often raise funds by organising non-uniform days. In return for the payment of a small fee the child does not wear school uniform to school. The funds raised may be donated to an unconnected charity or may be donated to the school charity. Such payments only qualify as charitable donations if there is no link between who pays and the student who is allowed not to wear school uniform.

In this example all pupils would need to be allowed not to wear school uniform, whether or not they have made a donation, in order for the payments received to be charitable donations.



If the pupil has to pay to be allowed not to wear school uniform then this is not a charitable donation.

As non-uniform days are normally organised so that pupils must make a donation to be allowed not to wear school uniform then payments made for such non-uniform days will not qualify for Gift Aid or Payroll Giving.



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School Fees

Some school charities request donations from parents to cover the costs of lessons or additional school facilities. Such payments may be described as donations but do not qualify as charitable donations if in reality they are simply fees that are called 'donations'. It is not acceptable to try and disguise school fees as donations in order to claim Gift Aid or qualify for Payroll Giving,



A school charges unsustainably low fees and then asks parents to make regular 'voluntary' donations to the school. Without the 'donation' the school could not cover its costs. In reality, these are not donations but school fees dressed up as donations.



Fees paid by a grandparent or other relative also cannot be claimed under Gift Aid, as the donation is not to the school but effectively to the child (or the child's parents).

Schools that enter into such unacceptable arrangements risk losing entitlement to all charity tax reliefs, not just Gift Aid or Payroll Giving.

Appeals towards school running costs

A school charity may launch an appeal to raise funds for specific running costs of a school. For example, it may want to buy some extra books, or provide extra lessons in addition to the National Curriculum. So long as there is no connection between who gets access to the books or free lessons and which parents donate, the amounts parents give will probably be charitable donations. However if there is any link between how much parents give and which children get access to the free books or free lessons then the payments are not charitable and must not be paid under Gift Aid or Payroll Giving.

For donations to be considered charitable all children would need to have free access to the books or lessons that were made available as a result of this appeal, regardless of whether the parents donated.



If parents are told their child will only be allowed to use one of the new books if they 'donate' a minimum of say £20 then that is not a charitable donation, it is a payment for services.



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Appeals to fund scholarships

A fee-paying school may offer scholarships to children. These may be offered to parents who cannot afford the full fees or may simply be offered to certain pupils, for example, pupils who are particularly gifted at a subject. To fund these scholarships, school charities may seek donations from current and former pupils and their parents. Such payments will probably qualify as charitable donations. However, if there is any link between what an individual gives, how much they give and which children get scholarships then the payments are not charitable.

So long as there is no link between who makes a donation and who gets a scholarship then the donations will probably qualify as charitable donations.



If parents are told their child will only get a scholarship if they have 'donated' a minimum amount to the scholarship fund then that is not a charitable donation.



Appeals to a general reserve fund

A school charity may raise money for a general school fund and not for a specific purpose.

For example, the fund may be used to pay for particular items of equipment when they are needed. So long as there is no connection between who gets access to anything purchased by the fund and which parents donate then the amounts parents give will probably be charitable donations.



If there is any link then the payments are not charitable.

For example, if parents are told their child will only be allowed to use the new athletics equipment purchased by the reserve fund if they have donated a minimum of £200 to the fund then that is not a charitable donation, it is a payment for services.



A building appeal

A school charity may launch an appeal to raise funds for a new building, say a new sports hall. So long as there is no connection between who gets access to the sports hall and which parents donate then the amounts parents give will probably be charitable donations. However if there is any link then the donations are not charitable.

If parents are told their child will only be allowed to use the new sports hall if they 'donate' a minimum of say £100 then that is not a charitable donation.



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Educational School Trips

Schools, other than independent schools, are not allowed by law to charge for any visits undertaken as part of the National Curriculum and during school hours. They may, however, ask for voluntary contributions and can suggest a level of voluntary contribution but cannot enforce a minimum contribution.

Payroll Giving cannot be used to pay for school trips because the children receive a direct benefit from the payment - they go on the trip.

Gift Aid won't apply either unless the payment made for the trip is considerably more than the actual cost of the trip. It is extremely unusual for Gift Aid to apply to such payments for a trip because usually what are called the "Gift Aid Benefit" rules apply.

'Benefits' typically include the cost of travel, trip insurance, entry charges for attractions, educational materials, food and drink and any other costs associated with the trip.

In practice it is likely that the benefits associated with a school trip contribution will exceed the benefit limits and so the donation will not qualify for Gift Aid.

For example, if the cost of the trip is £20 a head (say a trip to the zoo) then a parent would have to give at least £80 before Gift Aid was even possible under the benefit limits. If the cost of the trip was £200 (say a camping trip) then a parent would have to give at least £4,000 before Gift Aid was even possible.

More information on benefit limits for donations can be found here: www.hmrc.gov.uk/charities/guidance-notes/chapter3/sectiond.htm



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Appeals to buy a minibus or other equipment

A school charity may launch an appeal to raise funds for a new minibus. So long as there is no connection between who gets access to the minibus and which parents donate then the amounts parents give will probably be charitable donations. However if there is any link between what parents give, how much they give and which children get access to the minibus then the donations are not charitable.

Donations to these type of appeals will normally qualify as charitable donations provided that all children are allowed to use the minibus regardless of whether their parents contributed to the appeal.



If parents are told their child will only be allowed to use the minibus if they 'donate' a minimum of say £200 then that is not a charitable donation.



Sponsored & other fund raising events

Schools charities may organise other sponsored events to raise funds for the school or a charity. Whether or not donations given will qualify as charitable donations depends on the nature of the event, how funds are raised and where the funds go.

Charities often hold events (dinners, concerts, firework displays, etc.) to raise funds. To qualify for Gift Aid a payment must be a gift to the charity, wholly voluntary and not linked to attendance at the event. Payments for tickets cannot be gift-aided, but a voluntary donation on top of a minimum ticket price could itself be Gift-Aided.

There are no special rules for school charities so the normal rules apply. It is not possible to make a donation to an event through Payroll Giving.

There is further detailed guidance on fundraising events and Gift Aid here www.hmrc.gov.uk/charities/gift_aid/rules/events.htm



Auctions

Many schools charities hold fund raising auctions, in particular auctions of pledges, to raise funds. The rules around auctions can be complicated and more guidance can be found here: www.hmrc.gov.uk/charities/gift_aid/rules/auctions.htm

It is not normally possible to make a donation at a charity auction through Payroll Giving.

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Donations to E Learning Foundations

Donations can be made to charitable foundations established to fund a school or a number of schools to provide students with use of a portable computing device, such as a laptop computer, to aid learning.

In order for these donations to qualify for Gift Aid, it is important that there is no link between making donations to the foundation and having the use of the equipment. It must not be suggested, or likely, that donations could lead to the ownership of the equipment. There should also be systems in place to prevent non-educational use of this equipment.

When asking for donations the foundation, or school, should make it clear that the donation is to help develop a pool of computing resources. A student's access to the equipment should not depend upon a donation being made. If old equipment is subsequently given away it must be made equally available to people who were not donors, or connected with donors of the foundation, for example a donor's child. To show that access to

computers is not dependant on donations having been made, and to ensure that the donations qualify for Gift Aid, school charities should be able to demonstrate to HMRC that funding sources available to them for computing resources are not limited to parental donations.

Where these guidelines are followed then it is likely that the donations would qualify for Gift Aid.

If, however, there is any indication that payments would lead to those making a donation, or anyone connected with them such as their child, owning the computing equipment at any point then this would not be a qualifying donation for Gift Aid as it would be a payment for a computer.





The detailed guidance on Gift Aid:

The information in this guide is intended to give a brief summary on how Gift Aid may apply to some of the donations received by school charities. More complete detailed guidance on Gift Aid can be found here:

www.hmrc.gov.uk/charities/guidance-notes/chapter3/index.htm

Further information about Payroll Giving can be found here:

www.hmrc.gov.uk/charities/tax/giving/payroll.htm

If you want to find out more about Gift Aid generally look at our guides here:

Gift Aid: The basics

www.hmrc.gov.uk/charities/gift_aid/basics.htm

How to reclaim Gift Aid

www.hmrc.gov.uk/charities/gift_aid/reclaim.htm

Gift Aid Declarations

www.hmrc.gov.uk/charities/gift_aid/declarations.htm

Record Keeping and Audits

www.hmrc.gov.uk/charities/gift_aid/record-keeping.htm

Providing Benefits to donors

www.hmrc.gov.uk/charities/gift_aid/benefits.htm

Charity auctions

www.hmrc.gov.uk/charities/gift_aid/rules/auctions.htm

Adventure fundraising events

www.hmrc.gov.uk/charities/gift_aid/rules/adventure.htm

Charity events

www.hmrc.gov.uk/charities/gift_aid/rules/events.htm

Gift Aid Toolkit

www.hmrc.gov.uk/charities/gift-aid-toolkit.htm



You may also be interested in our VAT guidance for charities which can be found here:

www.hmrc.gov.uk/charities/vat/index.htm

More information on Penalties

www.hmrc.gov.uk/about/new-penalties/

Contact us

If you can't find what you're looking for in this guide or the further guidance on the HMRC website, or if you need further advice on Gift Aid or Payroll Giving, you can contact us in the following ways:

Telephone the Charities helpline on 0845 302 0203

Email your query to charities@hmrc.gov.uk

By post to:

HM Revenue & Customs Charities
St Johns House
Merton Road
Liverpool
L75 1BB