

## FINAL REGULATORY IMPACT ASSESSMENT

### *GETTING BRITAIN GIVING IN THE 21<sup>ST</sup> CENTURY*

#### **Purpose and intended effect of *Getting Britain Giving* measures**

1. The Chancellor, Gordon Brown, announced in his Pre-Budget Report on 9 November 1999 and in his Budget of 21 March 2000 a package of measures to help charities, called *Getting Britain Giving in the 21<sup>st</sup> Century*. The measures will:
  - encourage more people to give more to charity, and
  - modernise and simplify the tax system for charities.
2. The measures are the outcome of the Government's review of charity taxation. The review involved two extensive rounds of consultation with charities and other interested parties. Draft legislation was also exposed for comment.
3. The main *Getting Britain Giving* measures will:
  - widen the Gift Aid scheme to give tax relief for all donations, large or small, regular or one-off
  - modernise and simplify the Gift Aid scheme to enable donors to join it by phone or through the Internet and reduce the amount of information they have to provide
  - remove the ceiling on donations under the Payroll Giving scheme and add a time-limited 10 per cent supplement to donations
  - introduce a new tax relief for gifts of shares and securities
  - extend and simplify the direct tax and VAT reliefs for charities.

Details of these measures are given in Annex A. They will all come into effect in April 2000.

4. There will also be new and better co-ordinated guidance for charities, including a new joint Inland Revenue and Customs & Excise telephone help-line offering charities a single point of contact for advice on all aspects of tax.

#### **Benefits and compliance costs**

5. Charities will benefit financially from the improved tax incentives to encourage more charitable giving, although obviously this will mean dealing with more donors and donations. The *Getting Britain Giving* measures will be worth at least £400 million in additional tax relief in a full year. The National Council for Voluntary Organisations (NCVO) has estimated that the changes to the Gift Aid scheme alone have the potential

to generate approximately £350 million for charities. (The NCVO estimate excludes religious and educational charities.)

6. The *Getting Britain Giving* measures will offer many de-regulatory advantages and these should far outweigh any additional administrative costs.
7. This Regulatory Impact Assessment sets out the benefits and compliance costs of the various *Getting Britain Giving* measures on the various sectors of the community affected by them.

## **CHARITIES**

8. Fund-raising charities will benefit from the administrative simplifications. While they will incur some setting up costs to get the new arrangements in place, the improved incentives will result in additional funds for charities and the simplifications will mean that their ongoing costs will be a reduced proportion of their income from fund raising. This will ultimately benefit the many groups in society for whom they work. During the course of the consultation on the *Getting Britain Giving* measures, charities were asked to quantify the costs and benefits to them. Their view was that they would only be in a position to do so once the new measures take effect.

## **Gift Aid**

9. By bringing donations under Deeds of Covenant within the Gift Aid scheme, charities will no longer have to use two different tax schemes with different rules. The rules for the Deed of Covenant scheme were complex, and the removal of the need to operate that scheme will reduce the regulatory burden on charities. For example, churches have indicated that this change will generate cost savings for them.
10. The simpler and more flexible requirements for Gift Aid declarations by individuals will reduce the costs involved in using the scheme compared with the old rules. And the facility for donors to make declarations over the phone or through the Internet for the first time will support modern fund-raising methods. In particular, charities that undertake major telethons and emergency fund-raising appeals – who often found the old rules impracticable - should find it easier to use the Gift Aid scheme in future.
11. We expect that they will set their own minimum levels of donation at which it will be cost-effective for them to use the scheme. This level is likely to vary according to the size of the charity's fund-raising operation, the nature and efficiency of its financial systems and the type of the donation. Large fund-raising charities will benefit from economies of scale and so are likely to set a low minimum level. Many small charities will benefit from the free services of volunteer workers and so are also likely to set a low minimum level. Medium-sized charities are likely to adopt a higher minimum level.
12. Several leading fund-raising charities have told us that they expect to use the Gift Aid scheme for all regular donations in future. Many charities are still considering where they

will pitch the level for occasional one-off donations. Feedback from a wide range of charities since the measures were announced suggests that many will use the Gift Aid scheme for fund-raising appeals such as door-to-door collections and sponsored walks in which giving is often casual and low-level.

13. Gift Aid declarations are required to ensure that the tax relief is given only on donations by taxpayers. We have reduced the amount of information that donors have to provide to the minimum consistent with the proper administration of the tax relief. Thus, for example, we have removed the requirement for donors to provide their National Insurance number, tax reference and signature. In future donors will simply have to provide their name and address. And charities will be able to get declarations over the phone or through the Internet if they wish.
14. During the consultation some charities asked for the requirement for a donor declaration to be removed altogether, on the basis that all donors can be assumed to be taxpayers. Others asked for the note advising donors that they must pay tax to be removed. On the other hand, research by the NCVO shows that some 40 per cent of charity donors in the UK are non-taxpayers. And bodies such as the Low Incomes Tax Reform Group were anxious that the implications for non-taxpayers should be clearly spelt out to them. We weighed the arguments carefully and concluded that a declaration and note remain necessary in order to protect the interests of low-income donors.
15. Charities will no longer have to operate two different sets of donor benefit rules following the ending of the separate Deed of Covenant scheme. Some charities that give benefits to their donors may have to make a one-off adjustment to their systems in order to monitor their compliance with the new rules. However, this change will have little or no impact on the majority of charities that provide no more than token benefits of minimal value.
16. Charities will no longer have to make tax reclaims in respect of donations by companies. Abolition of the requirement for companies to deduct and account for tax on their donations will in particular reduce the regulatory burden for the 4,000 or so charities that currently have to operate a cumbersome procedure to get tax relief on profit-shedding donations by their subsidiary trading companies.

## **Payroll Giving**

17. There will be no additional regulatory burden on charities as a result of the changes to the Payroll Giving scheme. (Annex B describes how the scheme works.)
18. The ten per cent supplement on all Payroll Giving donations for three years will be distributed by the Payroll Giving agencies (approved by the Inland Revenue to distribute donations). This way, neither the employers who deduct donations nor the charities that ultimately receive them will have to do anything to administer the supplement, and the overall regulatory impact will be kept to a minimum.

19. The Inland Revenue has consulted with the sixteen Payroll Giving agencies on the arrangements for claiming and distributing the supplement. They have confirmed that they will be able to administer the supplement without levying any additional charges for this service. Indeed, the largest Payroll Giving agency has announced a reduction in its charges in conjunction with the new measures.
20. Clearly, the new, tighter rules for how quickly Payroll Giving agencies must distribute donations are designed to impose a stricter regulatory regime on the agencies. But the rules were formulated in consultation with charities and the agencies and should not result in a significant increase in compliance costs for most agencies.

### **Gifts of shares**

21. There will be no additional regulatory burden on charities as a result of the introduction new tax relief for gifts of shares and securities.

### **Other measures**

22. The new exemption from direct tax for the profits of small fund-raising trades will reduce the regulatory burden on charities – particularly small charities – compared with the old rules. In practice, the exemption will mean that many charities will no longer have to operate subsidiary trading companies to carry on these activities. The Charity Commission estimate that over 10,000 registered charities in England and Wales could benefit from the exemption.
23. Many unregistered charities in England & Wales, and charities in Scotland and Northern Ireland, will also benefit. Large and small charities will benefit from reduced compliance costs as a result of the widening of the exemptions for fund-raising events and the alignment of the VAT and direct tax rules. In future, they will have to deal with only one set of rules, and one Government department, when determining whether their events qualify for exemption. (Although the need to operate a subsidiary company for tax purposes will be removed in some cases, charities must still consider their position under charity law in deciding whether such events should be undertaken through a wholly-owned trading company.)
24. The extension of the VAT relief for charity advertising will reduce the overheads for large and small charities. Charities have particularly welcomed VAT free staff recruitment adverts. Other VAT changes will also reduce charities' expenditure on VAT, thus freeing more money to carry out their charitable purposes. For example, more donated goods will be able to be sold or hired VAT free, and charities running day centres or residential accommodation for disabled people will benefit from the VAT zero rate on new, extended or adapted bathrooms.
25. Compliance costs for charities will be minimal for all the VAT changes. Their compliance costs will be reduced as a result of the increase in the level below which they do not have to account for VAT when they de-register. The higher limit is expected to provide extra VAT relief estimated at £15 million a year.

## **INDIVIDUALS**

26. The *Getting Britain Giving* measures will be essentially deregulatory for individuals, with thousands of people no longer having to execute Deeds of Covenant and instead being able to use the much simpler Gift Aid scheme.

### **Gift Aid**

27. The abolition of the minimum limit for Gift Aid donations will make tax-effective giving accessible to far more people, without the need for them to execute a Deed of Covenant binding them for three years. Although thousands of Deeds of Covenant have been established each year, many of which were for modest amounts, they are legal documents and are subject to considerable regulatory formality. Thus, they have to be carefully drafted and signed and witnessed by a third party. The Gift Aid scheme is considerably simpler and more informal to use.

28. The simplification of the Gift Aid declaration will mean that individuals will now be able to join the scheme:

- without having to give their National Insurance number and tax reference number
- without having to make a detailed declaration relating to a series of conditions
- without having to provide a signature
- over the phone or through the Internet (without having to complete a paper declaration and send it to the charity)
- with a single declaration covering any number of donations already made or to be made in the future.

### **Payroll Giving**

29. People will be able to give as much as they wish through the pay packet without any additional regulatory burden.

### **Gifts of shares**

30. People will also be able to get income tax relief for the first time for gifts of shares and securities on the full market value of their gifts. Those who receive a tax return will simply make the claim in their return; others will have to write to their tax office. The new relief has been designed to apply to categories of shares and securities the value of which is generally readily ascertainable from published prices in newspapers, etc. So, there will generally be no need for donors to incur costs to obtain a professional valuation of the shares in order to claim the relief.

### **Other measures**

31. People who are disabled or receiving means-tested benefits will also gain from a progressive measure to extend zero-rating for charitable sales of donated goods, and to the hire of donated goods where they would be zero rated if sold.

### **BUSINESSES**

32. The overall effect of the *Getting Britain Giving* measures is deregulatory for businesses. Changes to the Gift Aid rules will reduce companies' compliance costs while the Payroll Giving scheme will remain easy and inexpensive to use.

### **Gift Aid**

33. Companies making tax-effective donations to charity will no longer have to deduct and account for income tax on their donations or to make Gift Aid declarations. This will reduce the compliance costs involved, especially for small companies who will no longer have to make a quarterly return to the Inland Revenue if there are no other payments from which they have deducted income tax.

### **Payroll Giving**

34. Payroll Giving was introduced in 1986 and none of the changes now being made to the scheme will add to the regulatory burden on employers. In fact, the removal of the ceiling on donations means that employers will no longer have to monitor the level of their employees' donations, although the benefit of this will be negligible.

35. The Government wants many more employers, especially large employers, to offer Payroll Giving schemes to their employees. The promotional campaign will explain the business benefits from offering a Payroll Giving scheme and provide the support employers need to get started and to operate the scheme successfully. Offering a scheme is not compulsory and this will remain the case.

36. Research carried out last year jointly by the Inland Revenue, the NCVO and the Charities Aid Foundation showed that employers who offer a Payroll Giving scheme to their employees generally find it easy and inexpensive to operate. The functionality is already present in payroll systems. Employers simply need to keep records of their employees' authorisations and deductions, and retain a copy of the contract with the agency and the agency's receipts.

37. One of the points for consideration during consultation was whether employers should be permitted to distribute employees' donations directly to charities, without having to use a Payroll Giving agency. The Government decided not to pursue this because most respondents said it would place an unwelcome administrative burden on employers.

## **Other measures**

38. By increasing the supplies to charities which are zero-rated, the VAT measures will result in more businesses having to keep separate records of the supplies they make to charities. For example, businesses supplying design and production services for TV and other advertisements will in future have to distinguish these supplies in their records. However, businesses will benefit from the extension and clarification of the VAT relief for charity advertising, which will make it much easier for them to decide whether an advertisement qualifies for relief. Small businesses will benefit from the four-fold increase in the value of assets on hand when they de-register, before accounting for VAT.

## **Consultation and the results of consultation.**

39. The *Getting Britain Giving* measures are the outcome of the Government's extensive review of charity taxation.

40. Charities and other interested parties were invited to submit their views and suggestions for change to the review by 1 December 1997. Nearly 3,000 responses were received from charities, representative groups, businesses and individuals during this first period of open consultation. The Government then drew up a consultation document, which was published in March 1999, setting out points for further consideration. Some 500 further responses were received in this second phase of consultation to 31 August 1999.

41. Concluding the review, the Chancellor, Gordon Brown, announced proposed new measures in his Pre-Budget Report in November 1999, which went far beyond the earlier proposals. Earlier this year the Inland Revenue and Customs & Excise published draft legislation for the proposed measures and invited comments. This final round of consultation resulted in some improvements and simplifications to the measures, which the Chancellor announced in his Budget on 21 March 2000.

## **Summary**

42. The *Getting Britain Giving* measures have been warmly welcomed. Their impact will now depend essentially upon the extent to which charities and their donors take advantage of them.

43. All fund-raising charities will benefit from the administrative simplifications. While they will incur some setting up costs to get the new arrangements in place, their ongoing costs will be a reduced proportion of the additional funds that the measures will generate. This will ultimately benefit the many groups in society for whom charities work.

44. For individuals, the measures are also deregulatory with thousands of people being able to use the much simpler Gift Aid scheme without having to execute formal deeds of covenant.

45. The overall effect of the measures on businesses will be deregulatory. Changes to the Gift Aid rules will reduce compliance costs while the Payroll Giving scheme will remain easy and inexpensive to use.

## **Monitoring**

46. The impact of the new measures, and in particular the administrative costs for charities, will be fully monitored and evaluated once they are up and running. The Inland Revenue is already planning a further research programme to build on the earlier research into charitable giving carried out during the course of consultation on the review of charity taxation.

## **Contact point**

47. Any comments on this Final Regulatory Impact Assessment should be sent to:

Penny Hood  
Room 130 New Wing  
Somerset House  
Strand  
London WC2R 1LB

Fax: 0171 438 7134

E Mail address: [Penny.Hood@ir.gsi.gov.uk](mailto:Penny.Hood@ir.gsi.gov.uk)

**21 March 2000**

## **Details of the *Getting Britain Giving* measures**

### **Gift Aid**

- abolition of the £250 minimum limit for donations
- abolition of the separate Deed of Covenant scheme, with tax relief for covenanted donations in future being given under the Gift Aid scheme
- abolition of the requirement for companies to deduct and account for tax on their donations and make a Gift Aid declaration
- simplification of the information that individuals are required to give on Gift Aid declarations
- provision for individuals to make Gift Aid declarations electronically or orally (for example, through the Internet or over the phone)
- provision for Gift Aid declarations to be made in advance or in arrear, and to apply to one or more donations
- extension of the tax relief for individuals to include capital gains tax
- relaxation of the requirement that individuals pay income tax at the basic rate equal to the tax that the charity reclaims on their donations – in future donors will merely have to pay an amount of income tax and capital gains tax, at whatever rate, equal to the tax that the charity reclaims

### **Payroll Giving**

- abolition of the £1,200 annual ceiling for donations under the Payroll Giving scheme
- alongside a promotional campaign to boost Payroll Giving, introduction of a ten per cent supplement on all donations under the Payroll Giving scheme in the three years from 6 April 2000 to 5 April 2003
- tightening of the rules for how quickly Payroll Giving agencies must distribute donations

### **Shares and securities**

- introduction of a new relief from income tax and corporation tax for the value of certain shares and securities donated to charity

### **Other measures**

- introduction of a new exemption from direct tax for the profits of small fund-raising trades carried on by charities

- extension of the VAT and direct tax exemptions for fund-raising events to cover more events and align the two sets of rules
- extension of zero-rating for the supply to a charity of advertisements, including recruitment advertisements, and in any media
- extension of an existing relief for supplies of the provision, adaptation or extension of bathrooms for disabled people in day care centres and certain other charity buildings
- extension of zero-rating to
  - the sale by a charity of donated goods to disabled people and people receiving means-tested benefits, and
  - the hire of donated goods in circumstances where sales would qualify for relief
- an increase in the threshold below which charities and other businesses do not have to account for VAT when they de-register, to £1,000.

### **How the Payroll Giving scheme works**

Employers who wish to offer a Payroll Giving scheme enter into a contract with one of the sixteen Payroll Giving agencies approved by the Inland Revenue. When an employee asks the employer to deduct regular charitable donations from their pay, the employer makes the deductions from before tax pay i.e. after calculation of National Insurance Contributions but before deduction of tax. The employer then pays the money over to the agency for distribution to the charities nominated by the employee.

Most of the cost of administration is incurred by the agencies. They normally make a small charge of up to five per cent of the donation or 35p per donation, whichever is the greater, which is deducted from employees' donations.

The employer has to keep:

- a copy of the contract with the Payroll Giving agency
- the forms completed by the employees authorising him to make the deductions from their pay
- a record of the deductions made from each employee's pay
- receipts from the Payroll Giving Agency