



HM Treasury

Simplifying the Gift Aid donor benefits rules:

consultation

February 2016



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Foreword

Gift Aid helps charities to carry out their goals and provide vital support to their communities. The government recognises the importance of Gift Aid for the charitable sector and is looking at ways to improve and simplify processes for charities and to encourage more giving. Recent improvements to the system include the introduction of online filing for charities, and the introduction of a simpler, shorter Gift Aid declaration form.

The conditions that govern the benefits that charitable donors can receive as a consequence of a Gift Aid-eligible donation (or, as they are more commonly known, the Donor Benefit rules) are an important element of the UK's charity tax regime. It is important for donors, charities and the government alike that a robust, clear set of rules are in place. These rules should fairly incentivise charitable giving while at the same time ensuring that Gift Aid is only claimed on genuine donations.

It is in this context that, at Autumn Statement 2014, the government announced that it would consider whether the existing rules could be simplified. The government began this review process last year, through ongoing dialogue with representatives of the charity sector and a formal Call for Evidence that ran until October. This consultation, which has been informed by the engagement with the sector to date, forms the next stage of the review process.

The government is fully committed to working with representatives of charities and the charity sector to conduct a fair and robust review of the existing Donor Benefits rules. I encourage everyone with a stake in the review to engage with this consultation. Your help will put the government in a better position to support the valuable work of the charity sector and the generosity of the UK's many donors.

The government looks forward to receiving your responses.



Damian Hinds MP
Exchequer Secretary to the Treasury

Gift Aid Donor Benefits: the current situation

1

1.1 The government recognises that the current Donor Benefit rules can be complex, and understands that some charities have difficulty understanding them. Therefore, at Autumn Statement 2014 the government announced its intention to review the Donor Benefit rules with the intention of simplifying them.

1.2 This consultation sets out specific proposals for how this simplification could be achieved. It has been informed by conversations with representatives of the charity sector as well as the responses to the Call for Evidence which the government ran over the summer.

Background: Gift Aid

1.3 The UK has a hugely generous population, with 75% of us donating to a charity in any given month¹. The government recognises the important role that the charities sector plays in our society, and provides support to charities and their donors through tax reliefs worth over £4.5 billion per year².

1.4 Gift Aid is one of the largest reliefs available to the charitable sector. The scheme, which was originally introduced in 1990³, allows charities to reclaim from HMRC the basic rate of income tax deducted from donations by UK taxpayers. This means that, where a basic rate taxpayer claims Gift Aid on a £10 donation, the charity can reclaim from HMRC the £2.50 of tax paid on that donation.

1.5 To be eligible to Gift Aid a donation, a donor is required to pay income tax or capital gains tax that is at least equal to the amount of Gift Aid that the charity will reclaim in that tax year. Box 1.A provides an illustrative example of how Gift Aid is claimed on an eligible donation by a basic rate taxpayer.

¹ UK Giving 2014: An overview of charitable giving in the UK during 2014. Charities Aid Foundation. April 2015. Available at: <https://www.cafonline.org/docs/default-source/about-us-publications/caf-ukgiving2014>

² Charitable donations and tax relief statistics. August 2015. Available at: <https://www.gov.uk/government/collections/charitable-donations-and-tax-reliefs-statistics>

³ Finance Act 1990 available at: <http://www.legislation.gov.uk/ukpga/1990/29/contents>

Box 1.A: Illustrative example of how Gift Aid can be claimed on an eligible donation by a basic rate taxpayer

- Jonny donates £10 to Charity A and signs a declaration saying that Charity A can claim Gift Aid on his donation.
- That £10 is treated as the net amount after basic rate income tax has been deducted. As the basic rate of income tax in the UK is currently 20%, a £10 donation equates to a gross amount of £12.50 (that is, £12.50 taxed at 20% would result in tax payable of £2.50, leaving a net amount of £10.)
- Charity A therefore claims £2.50 in Gift Aid from HMRC in addition to the £10 donation.
- Charity A receives £12.50 at a cost of £10 to Jonny.

1.6 Charities can only reclaim tax paid on donations at the basic rate (currently 20%). Higher rate or additional rate taxpayers can reclaim the difference between the higher rate or additional rate and the basic rate of tax on the gross value of the donation, to ensure that all charitable donations made by eligible UK taxpayers can be made tax free.

1.7 Box 1.B provides an illustrative example of how tax relief can be claimed by a charity and a higher rate taxpayer when Gift Aid is claimed on an eligible donation.

Box 1.B: Illustrative example of how Gift Aid can be claimed on an eligible donation by a higher rate taxpayer

- Kathleen, a higher rate taxpayer, donates £100 to Charity B, and gives her consent for Charity B to claim Gift Aid on her donation.
- Charity B therefore claims £25 in Gift Aid from HMRC, making the gross donation £125.
- Kathleen is able to claim higher rate income tax relief (at 40%) on this gross donation of £125, less the basic rate relief that the charity has effectively been paid.
- So, Kathleen is entitled to tax relief of £125 @ 40% (£50) less the £25 that the charity has claimed back, which is £25. In other words Kathleen is entitled to tax relief of £125 @ (40 – 20)% = £25.
- Charity B gets £125 at a cost of £75 to Kathleen.

1.8 Gift Aid may also be claimed by Community Amateur Sports Clubs (CASCs), which are not charities but which receive certain tax advantages comparable to those of charities. No special factors apply in relation to CASCs, and they are not referred to separately in the remainder of this document.

Background: Donor Benefits

1.9 A fundamental principle of Gift Aid is that relief can only be claimed on money that is freely donated – a genuine gift. As Gift Aid evolved, rules were introduced allowing certain benefits to be given to donors as a ‘thank you’. Provided that these benefits fall within prescribed limits (set out below), Gift Aid can be claimed on the full amount of a donation.

1.10 The following limits determine the value of benefits that charities may give to donors and still claim Gift Aid on the full amount of a donation. This is usually known as the relevant value test. For donations

- up to £100, the value of the benefit can equate to a total of 25% of the donation;
- between £100 and £1,000, the value of the benefit is capped at £25;
- over £1,000, the value of the benefit can equate to a total of 5% of the donation, up to a maximum annual benefit value of £2,500.

1.11 An 'admissions disregard' is available to certain heritage charities. If a donor pays an additional 10% ('the 10% rule') on a standard admission ticket, or the charity provides access to the building for the full year ('the 12 month rule'), the charity can claim Gift Aid on the full amount paid. This disregard is limited to buildings, grounds or other land, plants or animals, works of art or artefacts, and buildings of a scientific nature.

1.12 The disregard explicitly excludes live performances. It also excludes admission rights to the use of sporting or other facilities to charities and CASCs.

1.13 Additionally, while not included in legislation, HMRC currently permits a select number of Extra Statutory Concessions that give charities certain prescribed flexibilities to provide benefits above and beyond the strict limits set out above. These are:

- **The split payment rule:** If the charity can accurately establish a benefit's market value and that product is sold separately and offered to the general public, the charity can deduct its market value from the gross donation and claim Gift Aid on the rest of the money donated.
- **Averaging method:** The charity can average the cost of a benefit over a number of donors (for example, if the benefit is a dinner the charity would divide the overall cost by the number of guests attending the meal).
- **10 year rule for a 'lifetime' benefit:** The total cost of a benefit is valued over a 10 year period.
- **Literature is of inconsequential value:** Broadly, literature that describes or promotes the work or objectives of the charity is assigned no financial value.

1.14 Extra Statutory Concessions are published easements not provided by statute but consistently allowed by HMRC. Following a legal ruling the government is required to withdraw or legislate Extra Statutory Concessions. This issue is being considered as part of this consultation.

1.15 Illustrative examples of how Extra Statutory Concessions may be applied are set out in Box 1.C.

Box 1.C: Illustrative examples of how the existing Extra Statutory Concessions may be applied

The split payment rule

Sam, a UK taxpayer, donates £100 to Charity C and gives his consent for Gift Aid to be claimed on his donation.

In return, Sam receives a free concert ticket, which is worth £60. Concert tickets are sold separately and are available to the general public.

Charity C can deduct the cost of the ticket from Sam's donation (£100 - £60) and claim Gift Aid on the remainder of Sam's donation (£40).

The averaging method

Charity D hosts a fundraising dinner, at which David (a UK taxpayer) donates £100 and provides his consent for Gift Aid to be claimed on his donation.

Charity D does not know the exact cost of the benefit David received at the fundraising dinner, in return for his donation, but it does know that there were 10 attendees and the total cost of hosting the dinner was £200.

Using the averaging method Charity D can calculate that the cost per attendee (of which David was one) was £20 (£200 divided by 10).

As a £20 benefit in return for a £100 donation is permissible under the current rules, *i.e.* it does not exceed 25% of the value of the donation, Charity D can claim Gift Aid on all of David's £100 donation.

The 10-year rule for a 'lifetime' benefit

Sreha, a UK taxpayer, pays a £100 membership fee to Charity E. She has been a member for 25 years and, as a long-serving member, receives benefits worth £20 each year.

Under the existing Donor Benefit Rules this £20 annual benefit to Sreha must be considered in the first 10 years in which she received it. However, this time period has now lapsed, so this benefit is no longer subject to the limits set out in the existing rules.

Therefore, Charity E does not need to include the lifetime benefit in the Donor Benefits calculation.

Literature is of inconsequential value

John, a UK taxpayer, donates £100 to Charity F. In return, he receives memorabilia at a cost to Charity F of £25, as well as booklets and magazines relating to the work of Charity F.

Literature is considered to be of inconsequential value for the purposes of Donor Benefit Rules, therefore it is not considered by HMRC in the calculation of the Donor Benefits provided to John by Charity F in return for his £100 donation.

HMRC considers that John received benefits (£25 of memorabilia) equivalent to 25% of his donation, which is compliant with the existing Donor Benefit Rules.

1.16 Further detail on the current rules can be found in the HMRC guidance, which is available at <https://www.gov.uk/gift-aid-what-donations-charities-and-cascs-can-claim-on>. The

government is committed to updating and improving this guidance, notwithstanding any changes to the rules themselves.

This consultation

1.17 Chapter 2 of this document considers the Call for Evidence and the government's engagement with the sector to date. It is followed by a selection of possible options for simplification in Chapter 3.

2 Call for Evidence

The approach

2.1 In July 2015 the government published a Call for Evidence¹. The consultation invited evidence relating to the clarity and accessibility of the current Donor Benefit rules; to how and why charities provide Donor Benefits; to membership benefits; to the current status of Extra Statutory Concessions; and to the current admissions disregards. The Call for Evidence concluded on 9 October.

2.2 The government received a total of 46 responses to its Call for Evidence. Responses were received from a wide range of organisations, including various charities (in areas such as the arts, heritage, religious groups and healthcare), representative bodies, as well as tax professionals and accountants. A list of those organisations that responded is provided at Annex A. The government is grateful to all individuals and organisations that engaged with this process.

2.3 Furthermore, since this review was announced the government has met with sector representatives, through various events and forums, to discuss the effectiveness of the existing Donor Benefit rules and consider possible means of simplification. The government is grateful to everyone who met with its representatives, and is particularly grateful to those organisations that arranged or hosted events.

Summary of responses

2.4 The government has considered all written and verbal representations it has received. Responses suggested that there is scope and appetite to simplify the current rules. For example, a number of respondents noted the complexity of the current relevant value test and were keen to reduce the administrative cost of compliance for smaller charities, in particular. The evidence submitted to the government has directly informed the possible simplification options that are set out in Chapter 3 of this document.

2.5 The remainder of the chapter provides a summary of the representations made to the government. It focuses on those issues that were put to the government most frequently, rather than providing a full list of all of the points made.

Factual understanding of the current rules

2.6 The majority of the respondents to the Call for Evidence said that they had a good factual understanding of the current Donor Benefit rules. However, the government recognises that the respondents to the Call for Evidence may not have provided a true indication of the level of understanding among the charity sector as a whole: after all, the number of responses was small, and respondents were disproportionately larger organisations, some of which had already engaged with the government on this topic.

2.7 Despite this good understanding of the existing rules the vast majority of respondents said that there was scope to simplify the current system. Consequently, this review was broadly welcomed.

¹ Simplifying the Gift Aid Donor Benefit Rules: a call for evidence. July 2015. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/446089/Donor_Benefits_call_for_evidence_web_v4.pdf

2.8 Some respondents expressed dissatisfaction with the quality of guidance available on gov.uk, and asked for a greater number of worked-through examples of how the rules would be applied in practice. Various stakeholders raised specific aspects of the guidance that they felt could be made clearer, for example the interpretation of the 'in consequence of' rule when connecting a benefit to a particular donation. The government keeps its guidance under constant review, and the government will of course consider whether specific changes should be made as a result of the responses to the Call for Evidence and this consultation.

2.9 Furthermore, some respondents raised concerns about the ease with which guidance can be accessed on gov.uk, particularly directly via the website's search function. The functionality of gov.uk is kept under constant review, and the government will consider carefully all representations made on this topic.

General usage and rationale

2.10 Some respondents told the government that they do not provide donor benefits. Those charities that do provide benefits to their donors said that they were typically used to thank donors for their generosity and to try to develop an ongoing relationship with them. Some respondents felt that the ability to give benefits was an important part of the fundraising process and helped to incentivise new and/or larger donations. Others felt that branded gifts were helpful in raising and/or maintaining awareness of a charity and its aims.

2.11 Reflecting the diverse range of respondents to the Call for Evidence, the government received a wide range of examples of the types of benefits given as a 'thank you' for a donation on which Gift Aid is claimed. This included, but was not limited to, gifts such as stationery and clothing, invitations and free admission to events, and access to facilities or areas not usually open to the general public.

2.12 Smaller charities, in particular, said that the vast majority of the benefits they provide are of low or negligible value. In some cases they felt that the administration costs associated with understanding and complying with the existing Donor Benefit rules prevented them from claiming Gift Aid on some donations. To this end they welcomed efforts to simplify the existing rules.

2.13 Other respondents said that the ability to claim Gift Aid was not a fundamental driver in the decision to provide a particular benefit to a donor. Rather, the choice of benefits was driven by wider fundraising strategies. Consequently, in many cases the current rules did not alter charities' behaviour in terms of incentivising or deterring the provision of one benefit over another. For these respondents the barrier was the administrative cost of ensuring compliance with the rules.

2.14 Respondents put forward a number of ideas of how the current rules could be simplified, for example:

- Reducing the number of monetary thresholds that are used to value a benefit given as a 'thank you' on a donation on which Gift Aid is claimed;
- Expressing all monetary thresholds in the relevant value test as absolute monetary limits, or as a percentage of the donation, rather than as a mixture of the two;
- Moving to a system of valuing Donor Benefits on the basis of the cost of a benefit to a charity rather than a benefit's market value; and
- Developing a list of specific, low-value benefits that can be considered of inconsequential value and thus be disregarded from the Donor Benefit rules.

2.15 In conversations with the sector, the possibility of a more radical simplification of the rules has also been discussed. This would involve the removal of many of the existing rules altogether, including the relevant and aggregate value tests. Charities would instead effectively deduct the provision of donor benefits from their gross donation receipts and claim Gift Aid on the 'net' value of the donation. The next chapter returns to this proposal.

2.16 The majority of respondents to the Call for Evidence said that the existing Donor Benefit rules had not forced them to forego Gift Aid on donations. The few organisations that said that they had foregone claiming Gift Aid cited grey areas in the guidance and the low value of the donations in question as their reasons for doing so.

2.17 The vast majority of respondents said that they did not offer third party benefits to their donors. Nevertheless, it was suggested that unsolicited third party benefits should be disregarded for the purposes of the Donor Benefit rules.

2.18 A number of respondents raised concerns about the discrepancies between VAT and Gift Aid. The government understands that this relates to their wish for VAT treatment to be aligned with Gift Aid, rather than the other way around. This is therefore primarily a VAT issue and outside the scope of this review.

2.19 Similarly, one respondent suggested that Gift Aid should be re-classified as public expenditure, which would remove the need for individual donations to be traced back to individual taxpayers. The government also considers such reforms of Gift Aid to be outside the scope of this review.

Membership benefits

2.20 For the specific purpose of this review a 'member' is defined as someone who is given particular benefits or subscription rights for a fixed and specified period, e.g. one year, in return for a donation. Membership benefits therefore refer to the specific benefits that are provided in return for that donation.

2.21 Responses to the Call for Evidence showed that the cost of annual memberships varied depending on the charity and the nature of its work. Responses suggested that memberships can vary from less than £10 to in excess of £10,000.

2.22 A large number of respondents said that they operated a membership scheme, the majority of which offered some form of related benefit. The membership benefits cited most frequently by respondents were newsletters and magazines, with many charities also offering priority booking for events, tours or lectures, or discounts for a member's friends or family. Respondents also cited free entry, use of members' rooms, discounts in shops and cafes, and acknowledgement on websites as commonly provided benefits.

Extra Statutory Concessions

2.23 As mentioned in Chapter 1, following a legal ruling the government is required to withdraw or legislate all of the current Extra Statutory Concessions. Therefore, the government needs to determine if and how they should be formally incorporated into the Gift Aid Donor Benefit Rules.

2.24 Many respondents to the Call for Evidence referred explicitly to at least one of the existing Extra Statutory Concessions. The responses the government received suggested that the Concession that considers literature to be of inconsequential value was used by many charities. It was also generally considered to be easy to understand. Some respondents raised the issue of

electronic literature, arguing that this should also be considered to be of inconsequential value in legislation.

2.25 Similarly, many respondents were in favour of legislating for the Extra Statutory Concessions around the averaging method and the split payments rule. The responses the government received suggested that these Concessions were less widely used than the Concession for literature, but that they were nevertheless highly valued by the subset of charities that did make use of them. For example, a number of respondents told the government that they made use of the averaging method when providing catering for large numbers of donors. Evidence suggested that these Concessions were also reasonably well understood, although some respondents provided specific examples of ways in which they felt existing guidance could be improved.

2.26 However, no respondents provided examples – or evidence – of having used of the 10-year rule for lifetime benefits. This may suggest that this Concession is not widely used or valued, or that charities consider it to be too complex. Alternatively, it may be an indication that responses to the Call for Evidence were not perfectly representative of the charity sector as a whole.

Admissions Disregards

2.27 Chapter 1 explained the existing admissions disregards. A small number of respondents found the existing 10% rule confusing. However, a greater number of respondents expressed satisfaction with the disregard and the additional revenue it provides to those charities that make use of it. A number of respondents felt that it ought to be extended to theatres and arts organisations that host live performances.

2.28 The Call for Evidence suggested that the 12 month rule was less well used than the 10% rule, with many respondents expressing a strong preference for the latter. However, those charities that did make use of the 12 month rule said that they were generally satisfied that it was easy to operate and explain.

Conclusion

2.29 The next chapter of this document presents a selection of possible simplification options for the Gift Aid Donor Benefits system. These have been developed with close reference to the Call for Evidence responses. Specifically, the possible simplification options in the next chapter build upon the evidence the government received regarding the scope for the simplification of the current relevant value test, and the appetite for a reduction of the administrative cost of compliance.

3 Possible Simplifications

The approach

3.1 It is important for charities, donors and the government that the Donor Benefit rules are as clear, robust and effective as possible. This will help to ensure that they provide a fair incentive to donors and support charitable giving. It will also help to ensure that Gift Aid is only claimed on genuine charitable donations, rather than on payments for a particular good or service.

3.2 The intention of this review is to consider whether and how the existing Donor Benefit rules can be made simpler, as discussed in Chapter 2. Evidence the government has received, and discussions it has conducted, indicate that there is appetite and scope for such simplification.

3.3 Making it as simple and straightforward as possible to comply with any revised legislation, and not placing disproportionate burdens on charities or donors, are core principles of this review.

3.4 Set out below are suggestions for ways in which the existing Donor Benefits rules could be simplified. These are based on close scrutiny of Call for Evidence responses, discussions with stakeholders, and government analysis.

3.5 Section 1 presents two options for reforming the relevant value test. These are direct alternatives to one another. They could not be introduced simultaneously.

3.6 Section 2 presents three options for additional simplification. These, individually or in combination, could supplement Proposal 1a or 1b to create a package of reforms.

3.7 Section 3 explains that the government will also consider any further proposals put forward by stakeholders that are consistent with the objectives of this review.

3.8 The government recognises that there are a range of issues to consider when assessing each of these possible simplification options, both in terms of how the proposals in Section 1 would operate were either introduced in isolation, and in terms of how they would interact with any or all of the proposals in Section 2. This consultation invites responses on these points.

3.9 Maintaining the existing rules of course remains an option should respondents feel that it is the best way to ensure simplicity.

3.10 Irrespective of the changes that are, or are not, implemented as a result of this review process, the government is committed to continuing to work with the charity sector to clarify and improve the guidance available to charities.

Section 1: Reforming the relevant value test

3.11 A range of stakeholders have stated that the current monetary thresholds that are used to determine the amount of benefit that can be given for a Gift Aided donation (the relevant value test) are confusing. The Call for Evidence suggested that simplification of this aspect of the system would benefit the sector.

Proposal 1a: Removing the monetary thresholds altogether

3.12 As mentioned in Chapter 2, in previous discussions with the sector one possible simplification option that has been put forward is the complete removal of the relevant value test. This proposal would represent significant reform, and would entail calculating the 'net'

amount of donations on which Gift Aid can be claimed by deducting the cost of providing Donor Benefits from a charity's gross donation receipts.

3.13 Box 3.A provides an example of how such a reformed system might operate in practice.

Box 3.A: Illustrative example of how Proposal 1a might operate in practice

- In the course of a year Charity A receives £10,000 in donations, £8,000 of which are accompanied by a Gift Aid declaration by an eligible UK taxpayer.
- Charity A spends £500 on benefits that it gives to donors as a 'thank you' for the donations it receives.
- Charity A would deduct the cost of providing benefits to donors (£500) from their gross 'Gift Aided' donations. $£8,000 - £500 = £7,500$.
- Charity A may claim Gift Aid on £7,500 of 'net' Gift Aided donations.

3.14 This proposal could represent a significant simplification of the existing Donor Benefit rules for charities. Many of the existing rules, including the existing relevant value test and the aggregate value test, could be removed entirely.

3.15 This proposal could have several advantages for charities. For example, charities would no longer need to calculate the market value of benefits provided to donors, since the government would base the non-charitable expenditure adjustment on the cost to the charity of providing the benefits. This would simplify the rules for those charities that tend to provide intangible benefits (e.g. priority booking services), in particular. Other benefits, such as discounts offered to donors, may be considered as being provided at zero cost to the charity.

3.16 An alternative way of abolishing the current monetary thresholds would be to reform the rules such that Gift Aid can only be claimed according to the split payments rule, which is already used (and the Call for Evidence suggested is well liked) by many charities, and is permitted by HMRC as one of four Extra Statutory Concessions.

3.17 In this scenario the charity, in effect, would deduct the market value of a benefit provided to the donor from the gross amount of the donation, and claim Gift Aid only on the 'net' donation. An illustrative example of how the split payments rule operates in practice is set out in Chapter 1.

3.18 These two simplification options could potentially be implemented alongside a disregard for low value benefits. This option, which is discussed in more detail in Section 2 of this chapter, would work to exempt some benefits – and, by extension, potentially some charities – from the rules altogether. It could therefore represent a significant simplification of the current rules.

3.19 The government has discussed these options in previous conversations with representatives of the charity sector. Based on those conversations the government understands that they are regarded as viable, and potentially very welcome, simplification options.

3.20 The government hopes that this consultation will elicit other views, from a range of stakeholders and charity types, so that the government can better understand the practical implications of this proposal for the charity sector.

Question 1: Would calculating the 'net' amount of donations on which Gift Aid can be claimed by deducting the cost of providing Donor Benefits from a charity's gross donation receipts represent genuine simplification for you? Please provide detail to support your response.

Question 2: Would removing the relevant value test and aggregate value test and operating Gift Aid Donor Benefits through an extension of the split payment rule represent genuine simplification for you? Please provide detail to support your response.

Question 3: Do you agree that this proposal would mitigate the administrative burden on charities? Please provide details to explain your response.

Question 4: What negative implications, if any, do you foresee this proposal having on your ability to claim Gift Aid? Please provide details to explain your response.

Proposal 1b: Reducing the number of thresholds

3.21 The government recognises that the complete removal of the relevant value test thresholds that are applied to Donor Benefits, as laid out above, would represent a significant reform of the existing Donor Benefit rules.

3.22 An alternative to this proposal, which would represent a simplifying amendment to the existing rules, would be to retain the principle of monetary thresholds but reduce their number.

3.23 It is recognised that the current thresholds for determining benefits can be confusing for some charities, to the extent that – in some instances – they may even prove to be a deterrent from claiming Gift Aid on eligible donations.

3.24 Furthermore, the government understands that one aspect of this confusion arises from the fact that there are currently three thresholds, and that the current thresholds are currently expressed in terms of a mix of both percentage and absolute monetary values.

3.25 Consequently, the government proposes to reduce the number of thresholds from three to one. The remaining threshold would be expressed in terms of the value of the benefit as a percentage of the associated donation, up to the prescribed maximum aggregate benefit value.

3.26 As long as the value of the benefit given in consequence of a donation did not exceed that percentage threshold, and complied with the aggregate value test, Gift Aid could be claimed on the entire value of that donation.

3.27 For example, a single 10% threshold applied to all benefits up to an annual aggregate value of £2,500 would mean that Gift Aid could be claimed on the entire value of a £100 donation as long as the value of the benefits given in consequence of that donation did not exceed £10. Similarly, Gift Aid could be claimed on the entire value of a donation of £1,000 as long as the value of the benefits given in consequence of that donation did not exceed £100.

3.28 Recalibrating the threshold system, and reducing the amount of thresholds from three to one, would inevitably create particular points at which – for a given donation – the level of permitted benefit differs from that permitted under the existing rules. An illustrative example of this, which compares the current thresholds with a single 10% threshold, is shown in Table 3.A. In this purely illustrative example, compared to the existing Donor Benefit rules a single 10% threshold would permit higher value benefits for all donations above £250 and lower value benefits for all donations below £250.

Table 3.A: Comparison of maximum benefits permitted in consequence of a Gift Aided donation under existing monetary thresholds and an illustrative single 10% threshold, for selected donation levels

Donation	Current Permitted Benefit	Permitted benefit under hypothetical 10% threshold
£50	£12.50	£5
£100	£25	£10
£150	£25	£15
£200	£25	£20
£250	£25	£25
£500	£25	£50
£750	£25	£75
£1000	£25	£100
£1250	£37.50	£125
£1500	£50	£150

3.29 The extent to which the existing and reformed threshold regimes differ, and the particular donation levels at which this occurs, will depend on the precise percentage threshold that is chosen.

3.30 The government is not consulting on a particular percentage threshold at this stage; rather, it would welcome views on whether such a simplification of the existing Donor Benefit rules would be welcomed by charities in principle.

3.31 It is important to note that this proposal, like Proposal 1a above, could potentially be implemented alongside a disregard for low value benefits, as laid out in Section 2. This may reduce the range of donation amounts for which any reformed scheme permits a lower level of Donor Benefit than the existing rules, by providing an effective exemption for the lowest value benefits. Such a disregard may be of particular benefit to those charities that offer only low value benefits in consequence of donations on which they claim Gift Aid.

Question 5: Would you consider reducing the number of thresholds, from three to one, to be a useful simplification of the current Donor Benefit rules? Please provide details to explain your response.

Question 6: Would you consider expressing this remaining threshold in terms of the value of the benefit as a percentage of the associated donation a useful simplification of the Donor Benefit rules? Please provide details.

Question 7: Do you think that this proposal is preferable to Proposal 1a (above), namely removing the thresholds altogether? If so, please provide details.

Question 8: Would any of the options set out in Section 1 represent a welcome simplification of the existing rules? If so, please identify which and provide details to explain your response.

Section 2: Additional simplifications

3.32 Section 2 presents three additional simplifications that could supplement the broader options outlined in Section 1.

3.33 As explained earlier in this chapter, Proposal 2a, 2b and 2c could, individually or in combination, supplement Proposal 1a or 1b to create a package of reforms.

Proposal 2a: Disregard for low value benefits

3.34 Ensuring compliance with *any* system of Donor Benefits rules will necessarily impose some degree of administrative burden, or cost, on charities.

3.35 The government understands that this cost is a particular barrier to Gift Aid being claimed by small charities, some of which have said that they struggle to justify the administrative cost of compliance to claim Gift Aid on what may sometimes be relatively modest donations. Similarly, the government understands that a large number of small charities only provide donors with benefits that are of low or negligible value, such as badges, pens and other stationery.

3.36 Consequently, the government proposes introducing a disregard for benefits of low value, which could effectively remove many benefits – and, indeed, many charities – from the scope of the Donor Benefit rules.

3.37 Such a low value disregard could enable Gift Aid to be claimed on the gross value of an eligible donation as long as the total benefits provided to the donor in consequence of that donation did not exceed a certain monetary threshold – say, £3. *Any* type of benefit could be given, provided that the stated monetary threshold was not exceeded.

3.38 Any monetary threshold would need to be relatively modest. This is both to minimise any potential State Aid implications and to protect the integrity of the Gift Aid scheme, which is designed to give tax relief on donations that are genuinely charitable. As part of the implementation the government would consider whether this rule is best applied per donor per tax year, or per donation.

3.39 As noted in Section 1, Proposal 2a could be introduced alongside either Proposal 1a or 1b.

Question 9: To what extent would a disregard for low value benefits simplify the Donor Benefit rules for charities? Please explain your answer.

Question 10: To what extent would a specific disregard for benefits below the value of £3 represent a valuable simplification for charities? Please explain your answer.

Question 11: What would be the impact on your organisation of applying a disregard for low value benefits according to an annual ‘per donor’ limit rather than a ‘per donation’ limit? The government would welcome all views on this proposal, and specifically on the potential administrative impacts and any effect it may have on charities’ ability to incentivise their donors.

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

3.40 The Call for Evidence suggested that the split payments, averaging method and literature concessions were widely valued and well understood. Therefore, there appears to be a strong case for legislating for these concessions.

3.41 If the concession related to literature is included in legislation it is possible to align the treatment of printed literature and e-literature for Donor Benefits purposes; it is not, however, possible to align them for VAT purposes. Printed literature is zero rated, while e-literature is not. Were the change for Donor Benefits to be made there would be a disparity between the two regimes. This does not present a problem. It should be stressed, however, that this would not amount to change in the VAT treatment of e-literature. The government will assess such considerations as the review continues.

3.42 If the split payments concession is legislated in some form, the government will need to ensure that there is a robust mechanism for charities to notify their donors of the amount of their donation that qualifies for Gift Aid. This is particularly important for donors who are higher or additional rate taxpayers and need to be aware of the ‘net’ value of their donation, on which Gift Aid has been claimed, so that they can claim the correct amount of higher or additional rate relief.

3.43 The government considers it reasonable that charities should be obliged to tell donors who are higher or additional rate taxpayers that they cannot claim relief on the full amount of their donation if the split payments rule is used. Therefore, this would be a requirement of statutory rules. Responses to the Call for Evidence suggested that the vast majority of charities taking advantage of the split payments concession already have such processes in place.

Question 12: Would you consider the inclusion of a split payments rule in legislation to be a useful clarification of the Donor Benefit rules? Please provide details.

Question 13: Would the requirement to proactively inform donors of the amount of Gift Aid claimed on split payment donations impose significant extra burdens on charities? If so, please provide details.

Question 14: Would you consider the inclusion of the averaging method in legislation to be a useful simplification of the Donor Benefit rules? Please provide details.

Question 15: Would you consider the inclusion in legislation of literature being considered of inconsequential value to be a useful simplification of the Donor Benefit rules? Please provide details.

Proposal 2c: Remove lifetime benefits

3.44 Responses to the Call for Evidence suggested that charities do not use the lifetime Benefits rule, which prescribes that – for the purposes of Gift Aid – the value of lifetime benefits only needs to be included in the total value of benefit given to a donor for the first 10 years.

3.45 Therefore, given this review’s objective of simplicity, the government proposes that the lifetime benefits concession is withdrawn.

Question 16: How, if at all, would the removal of the lifetime benefits rule create problems or complexity for charities? Please provide specific examples to support your answer.

Section 3: Any other considerations

3.46 This chapter has considered a number of specific options for simplification. The government would welcome views on other issues that have not been considered above. The government will continue to consider further representations and evidence as the review continues.

Question 17: Are there any other major aspects of reform that you would like the government to consider? Please provide details.

Conclusion

3.47 This chapter invites the sector’s views on a range of possible simplification options. As mentioned previously, these have been developed in response to the submissions the government received from the Call for Evidence. The government invites respondents to provide information on as much or as little of the above as they would like.

3.48 The next chapter of this document explains the framework to which this consultation adheres, relevant confidentiality information, and details of how to respond.

4 The Consultation Process

4.1 This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

4.2 This consultation is taking place during stages 1 and 2 of the process. The purpose of the consultation is to seek views on some proposals for reform and any suitable possible alternatives in order to determine the best design option.

How to respond

4.3 Responses should be sent by 12 May 2016, by e-mail to:

charitypolicy.taxteam@hmrc.gsi.gov.uk

or by post to:

Donor Benefits Consultation,

Room G45,

100 Parliament Street,

London

SW1A 2BQ

Telephone enquiries: 03000 518538 (Christopher Maudsley); or 03000 584845 (Owen Price).

4.4 When responding please say if you are a business, charity, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people or organisations that the body represents.

Confidentiality

4.5 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 24 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

4.6 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain why you regard the information you have provided as confidential. If the government receives a request for disclosure of the information it will take full account of your explanation, but it cannot give an assurance that confidentially can be

maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

4.7 HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

4.8 If you have any comments or complaints about the consultation process please register them using [gov.uk](https://www.gov.uk).

A Respondents to Call for Evidence

A.1 This Annex provides a list of those organisations that responded to the government’s Call for Evidence on simplifying the Gift Aid Donor Benefit rules. This list does not include individuals.

A.2 The government would like to thank all respondents for the evidence they submitted.

Table 4.A: List of organisations that responded to the government’s Call for Evidence

List of organisations that responded to the government’s Call for Evidence	
Age UK	Heritage Alliance
Alzheimer’s Society	Historic Houses Associations
Anglican Diocese of Liverpool	Historic Royal Palaces
Arts Council England	Institute of Chartered Accountants in England and Wales
Arts Fundraising and Philanthropy Programme	Institute of Fundraising
Association of British Orchestras	The Museums Association
Association of Independent Museums	Museums Galleries Scotland
Association of Leading Visitor Attractions	National Council for Voluntary Organisations
Board of Deputies of British Jews	The National Museum Directors’ Council
British Museum	National Theatre
British Red Cross	National Trust
Cancer Research UK	Natural History Museum
Charity Finance Group	Northern Ireland Museums Council
Charity Tax Group	Opera North
Church Legislation Advisory Service	Partnership for Jewish Schools
City & Cambridge Consultancy	Rochester Cathedral
Dance UK	Roman Catholic Dioceses of England and Wales
English Heritage	Royal Opera House
Epilepsy Action	Sport and Recreation Alliance
The Federation of Museums and Art Galleries of Wales	Theatre Royal
Gate Theatre	Victoria and Albert Museum
Gift Aid Income Now	Virgin Money
Glyndebourne	WWF UK
Hallé Concerts Society	

HM Treasury contacts

This document can be downloaded from
www.gov.uk

If you require this information in an alternative
format or have general enquiries about
HM Treasury and its work, contact:

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London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gsi.gov.uk