



Budget 2010: Changes for Charities

This factsheet provides fundraising organisations with updated information following the 2010 Budget. This factsheet was written following initial guidance received from HMRC, so for further information or clarification, HMRC should be contacted directly.

- Existing UK charities should not be greatly affected by changes to cross border donations and HMRC's new definitions and tests. The changes are more applicable to new UK charities, charities registering with HMRC for tax reliefs and non-UK charities.
- Existing UK charities should only be affected if:
 - changes are made to the person claiming the tax-reliefs;
 - the charity receives Payroll Giving donations; and/or
 - funds are spent abroad.

Cross border donations

Following a European Court of Justice ruling in January 2009, UK tax reliefs have now been extended to charities in the EU, Norway and Iceland.

- Charities from the above mentioned areas could benefit from these changes if they meet HMRC's definition of a 'charity' and register as such with HMRC.
- Relief will be available from all relevant taxes, including:
 - Income Tax;
 - Capital Gains Tax;
 - Corporation Tax;
 - Stamp Tax;
 - Inheritance Tax;
 - Gift Aid; and
 - VAT.
- EU, Norwegian and Icelandic organisations can potentially back-date claims (on a case-by-case basis) for these reliefs up to 27 January 2009, as long as they can

prove to HMRC that they would have met the tests overleaf at the time of the donation.

HMRC definition of Charity

Organisations that wish to register with HMRC for tax reliefs or to fill in tax returns need to fill in a new HMRC Charity Application Form (following budget 2010).

- They must:
 - meet the England/Wales definition of charity;
 - be based in the EU, Norway or Iceland;
 - be registered with their home country regulator (if applicable); and
 - be managed by 'fit and proper persons'.
- The definition of 'charity' comes from the Charities Acts 1993 and 2006. (Charity Commission definitions are being used).
- Newly registered UK charities should fit HMRC's definition, as they have already registered with the Charity Commission.
- Organisations registering from abroad, can speed up their application by:
 - completing the form correctly, in English;
 - sending all supporting documentation (in English); and
 - responding promptly to any queries or requests.
- HMRC will publish a list of organisations that have registered with them on their website, so donors can check where the reliefs apply.
- HMRC guidance on how to apply should be forthcoming.

'Fit and Proper' persons test

A new test has been introduced for trustees, directors and anyone controlling finances of charities (treasurer, secretary, chairperson, signatories etc.).

- All new charities/organisations to HMRC need to complete a form for their trustees and other officials.
- Existing organisations only need to tell HMRC if a trustee or officer changes which involves a change to the person dealing with Gift Aid or tax returns. There is no need to tell HMRC about trustees or officers, although they should be able to pass the same test.
- HMRC will look at records to check whether individuals would exploit tax reliefs. The test will vary from simply verifying details to checking criminal convictions.
- HMRC guidance is due to be published following the 2010 budget.

Highest Rate of tax (50% rate)

The introduction of the highest rate of tax (50%) from 6th April 2010 will apply to individuals earning above £150,000 annually. This affects many methods of tax-effective giving.

- For Gift Aid, the individual can potentially claim back the difference between their highest rate of tax (50%) and the basic rate (20%) that has been/is being claimed in Gift Aid by a charity. For example, on a £100 donation, the individual could potentially claim £37.50.
- The claim is made in the same way as a 40% taxpayer would claim their higher rate relief, on the SA100 form.
- For Payroll Giving, any donation would cost 50% less – so a £10 per month gift would only cost the individual £5.
- For Gifts of Shares, the potential income tax relief available will be 50%. For example, on a donation of shares worth £10,000, the potential tax relief is £5,000.

Gift Aid Changes

The Budget introduced a number of changes to Gift Aid.

- When registering for Gift Aid, charities should no longer use a letter and ChN1. Instead, HMRC's new Charity Application Form should be used. This form will follow from the 2010 budget.
- When changing details, charities should no longer write to/phone HMRC to notify it of this. Instead, HMRC's new Charity Variation should be used. This form should be available in April 2010.
- When claiming Gift Aid, charities should no longer use the R68 Schedule and Claim form. Instead, the new 'intelligent' R68(i) which automatically works out the repayments should be used (when it is made available). If internet access is not possible, a paper form can be requested.
- Previously, treatment of donors who did not pay enough tax to cover Gift Aid donations varied, depending on whether or not they were UK residents. This is no longer the case. All donors who have not paid enough tax will be pursued by HMRC to reclaim the specified amount. This change is effective as of April 6th 2010.
- HMRC are looking at changing the Gift Aid claim/repayment process, restricting how often charities can claim and the amounts that can be claimed in each claim. HMRC are also looking at the forms that are used for claims. The sector will be consulted on this and changes are expected later in 2010.
- As announced by HMRC in 2009, the time limit for backdating Gift Aid claims has reduced from 6 years to 4 years, as of April 2010.

Payroll Giving

- From 24th March 2010, money from Payroll Giving that is used for reasons outside of 'charitable purposes' will be taxed. An example of how this may be applied is to prevent charities from using Payroll Giving donations to pay fees.

Inheritance Tax

- The inheritance tax rate has been frozen for 4 years. This means the nil rate band will remain at £325,000 for individuals and £650,000 for married couples and civil partnerships until 2014/2015.

Charities spending funds abroad

- If a charity spends its funds abroad, this money must be used for charitable purposes, or the charity will be taxed on it. This change is immediate from 24th March 2010.
- The charity must prove that they have demonstrated due diligence before sending the money abroad and have monitoring mechanisms to ensure that the money is being spent correctly.

Further Information

For further information, please contact the Tax-Effective Giving Helpline on **0845 458 4586** or the HMRC Charities helpline on **0845 302 0203**. You can also find information:

- www.tax-effectivegiving.org.uk
- www.giftaidhelp.org
- <http://www.hmrc.gov.uk/charities/index.htm>
- www.institute-of-fundraising.org.uk

About the Tax-Effective Giving Initiative

The Tax-Effective Giving Initiative is funded by the Government, facilitated by the Institute of Fundraising to assist small charities in maximising their voluntary income through use of current tax reliefs.

Please bear in mind that the Tax-Effective Giving Initiative and the Institute of Fundraising do not give professional legal or accounting advice, and while care has been taken with this briefing, you should seek advice before taking any actions or incurring costs.