



# efc briefing

## legal and fiscal

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### UK charities extending application of Gift Aid tax relief

#### Outline

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In a bid to maximize the benefit of donations of goods to charity shops, some UK charitable organisations are inviting donors of goods to consent to Gift Aid on the proceeds of their donated items. The Gift Aid system treats donations to charities as if the donor had already deducted the basic rate of tax from the amount. Charities can then reclaim this tax to increase the value of the donation. The tax authority Her Majesty's Revenue and Customs (HMRC) states that Gift Aid applies only to donations of money (cash, cheque, direct debit, credit /debit card, postal order, standing order, or telegraphic transfer).

However, charity shops are able to claim Gift Aid on the amount that donated goods are sold for, if a donor of goods signs a Gift Aid declaration. By offering to act as an agent for the donor, selling the goods on their behalf, the charity is able, for tax purposes, to convert the goods into a cash donation. The donor is given a unique ID number, with which the goods are also tagged. When the items have been sold, the charity must contact the donor to obtain confirmation of consent for the amount raised through the sale of the goods to be donated to the charity. The charity can then claim Gift Aid on this amount, increasing the value of the funds raised through the sale of the items by 28%.

Around 4,000 charity shops in the UK are currently claiming Gift Aid on donated items. This represents approximately half the country's charity retail sector. Sue Ryder Care, the first organisation to adopt a scheme of Gift Aid on donated items, has secured an extra £5 million in this way since it first began the practice in May 2006. Other leading charities to have taken up this practice include Oxfam, Help the Aged, and the British Heart Foundation.

The system is not, however, without its pitfalls. Upon being contacted for their consent to donate the amount raised through the sale of their goods, donors are legally within their rights to refuse and to ask for all or part of the cash to be returned to them. In addition, the donor remains responsible for the goods if the buyer finds them to be faulty. HMRC has also warned that selling goods through charity shops in this way may have tax implications for some individuals.

The complexity of the current system combined with the sector's awareness of the potential of the application of Gift Aid to donated goods to generate significant extra income for charities has led The Association of Charity Shops to lobby the UK government for a simplification of the rules concerning the application of Gift Aid.<sup>1</sup>

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<sup>1</sup> Sources:

Guardian online: <http://www.guardian.co.uk/money/2010/jan/30/gift-aid-hidden-catch>

Sue Ryder Care:

[http://www.suerydercare.org/news.php/405/charities\\_minister\\_encourages\\_people\\_to\\_sign\\_on\\_the\\_line](http://www.suerydercare.org/news.php/405/charities_minister_encourages_people_to_sign_on_the_line)

Her Majesty's Revenue and Customs: [http://www.hmrc.gov.uk/charities/gift\\_aid/basics.htm](http://www.hmrc.gov.uk/charities/gift_aid/basics.htm)

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