

Budget 2011 - A summary of the key tax announcements and implications for the charity sector

Charities featured heavily in Budget 2011, which contained a number of measures that will affect charities immediately and with effect from future dates.

Summarised below are the key tax announcements that will be of particular relevance to charities, and the timing of their proposed introduction¹

Changes with effect from April 2011

Increase in the maximum Gift Aid benefit limit

The maximum value of benefits that individuals and companies may receive as a result of making a donation to a charity is to be increased from £500 to £2,500. This will apply to gifts made on or after 6 April 2011 by individuals, and 1 April 2011 for companies.

The condition that any benefits provided to donors must be less than 5% of the amount of the gift continues to apply. Therefore, the benefits that may be provided to a person that makes a gift of £20,000 will be limited to £1,000, for example, and the benefits that may be provided to a person that makes a gift of £50,000 or more are limited to £2,500.

Replacement of 'substantial donor' rules

The much maligned 'substantial donor' rules are to be replaced with effect from 1 April 2011 by new 'Tainted Charity Donations' rules. The 'substantial donor' rules were intended to prevent tax avoidance arrangements involving charities, but were so widely drafted that genuine charity transactions often risked being caught.

The new rules are much more targeted than the 'substantial donor' rules. In broad terms, the 'Tainted Charity Donations' rules will only apply to donations that are linked to 'arrangements' which have as their aim the provision of benefits by the charity back to the donor or a person connected to him / her.

In addition, it is the donor that will be denied tax relief in respect of any donations that are caught by the new rules. This represents a significant difference compared to the 'substantial donor' rules, which imposed a tax charge on the charity rather than the donor.

Changes with effect from April 2012

IHT reduction where 10% of estate left to charity

Where at least 10% of an estate is left to charity, the remainder of that estate will be subject to Inheritance Tax (IHT) at a reduced rate of 36%, as opposed to the full rate of 40%.

This measure was heralded as the introduction of a 10% reduction in the rate of Inheritance Tax. Many therefore expected the reduced rate of IHT to be 30% - however this is not the case.

The reduced rate will be available where death occurs on or after 6 April 2012.

Changes with effect from April 2013

Gift Aid on small donations

It is proposed that, from April 2013, donations of £10 or less received by charities can effectively be treated as having been paid under Gift Aid, even if no Gift Aid declaration is obtained. This will effectively bring street collections, for example, into the Gift Aid regime – at least to a limited extent.

The total amount of small donations on which Gift Aid can be claimed in this way will be limited to £5,000 per year, per charity. In addition, the charity will need to have been registered for Gift Aid purposes for at least three years, have been operating Gift Aid successfully throughout that time and have a good tax compliance record.

Gift Aid administration – an on-going project

Following extensive consultation, it would appear that HM Revenue and Customs is proposing to seek to improve the administration and operation of the existing Gift Aid scheme, rather than introduce a complete reform. Possible initiatives over the forthcoming months and years include:

- the introduction of 'intelligent' Gift Aid repayment forms and improved guidance. To this end, a new Gift Aid 'Tool Kit' is now available from HM Revenue and Customs' website.
- the ability for charities to register on-line, and to make their Gift Aid repayment claims electronically. It is intended that this will be introduced during 2012/13.
- the introduction of a central database of individuals who are registered donors under the Gift Aid Scheme.
- the amendment / relaxation of the Gift Aid rules as they apply in certain circumstances, such as in relation to sponsorship forms and auctions.

Who should I contact for assistance?

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¹ This Fact Sheet is based on announcements within Budget 2011 and the Finance (No 3) Bill, neither of which have yet become law. Therefore, the above measures may yet be repealed or modified.