

Gift of a Budget?

How will measures in the Budget affect charities? **Zahra Kanani** reports

In this year's Budget, the Chancellor unveiled a raft of measures aimed at helping voluntary sector organisations in what he claimed were "the most radical and most generous reforms to charitable giving for more than 20 years". The coalition government's overarching concept of the "Big Society" has been the impetus for reform in this area.

New measures were introduced to Gift Aid, inheritance tax (IHT) and the Self Assessment Donate Scheme.

Gift Aid Reform Donor benefit limits

For donations to be eligible for Gift Aid tax relief, limits are placed on the value of benefits that individuals and companies may receive as a result of making those donations. The Finance Bill 2011 will increase the benefit limit for donations of more than £10,000 from £500 to £2,500. The new limit will be subject to the existing rule that the benefit must not exceed 5% of the gift.

The new legislation will affect benefits received as a consequence of donations made on or after 6 April 2011 by individual donors and for donations made in accounting periods ending on or after 1 April 2011 by corporate donors.

The measure has been designed to "encourage wealthy people in our society to give even more" with charities that wish to do so now able to thank their donors in a more generous way without the donations being disqualified for Gift Aid.

Recording small donations

From April 2013, charities and community amateur sports clubs that receive donations of £10 or less will be able to apply for a "Gift Aid style repayment" without needing to obtain Gift Aid declarations. The amount of small donations will be capped at £5,000 per year per charity. This means that Gift Aid can be claimed "on the contents of the collecting tin and the street bucket", with the Chancellor estimating that approximately 100,000 charities will benefit to the tune of £240m.

To qualify for this new repayment, charities should have been recognised by HMRC for Gift Aid purposes for at least three years, during which time they should have been operating Gift Aid successfully and have a good tax compliance record. Charity representatives will be consulted on the details of the new scheme over the summer.

Inheritance tax

A reduced rate of inheritance tax will apply where 10% or more of a deceased's net estate (after deducting IHT exemptions, reliefs and the nil rate band) is left to charity. In such cases, the

current 40% rate will be reduced to 36%. The new rate will apply to the estates of individuals dying on or after 6 April 2012.

In introducing this measure, the Chancellor declared, "Let's be clear, no beneficiaries will be better off. Just the charities. To the tune of £300m."

Self Assessment (SA) Donate

Under the SA Donate scheme which was introduced in 2005, SA taxpayers who are due a repayment of tax from HMRC may direct that the repayment should be made instead to a charity of the taxpayer's choice. Taxpayers may also choose to apply Gift Aid to the donation provided they have paid enough tax to cover the charity's repayment claim, with HMRC paying the basic rate of tax due in respect of the donation to the charity.

In the Budget, the Chancellor announced that SA Donate will be withdrawn for tax returns for 2011-12 onwards as well as for tax returns up to and including 2010-11 where the repayment is made on or after 6 April 2012. The withdrawal is prompted by concerns that the system has not been well used, is not cost-effective and is vulnerable to fraud without extensive upgrading. The resources saved from the withdrawal will be redirected to support the new online Gift Aid System.

The new measures introduced by the Chancellor in this year's budget have been welcomed wholeheartedly by the third sector which, unlike recent years, has been given an unusually high profile. However, although the prominent role the third sector plays has been recognised, charity chiefs and representatives are under no illusion that there is still a long way to go and much more to be done to achieve the aims of the Big Society.

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