

# HOW GIFT AID WORKS

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## Tax relief for charities

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Gift Aid is an easy way to help your charity or CASC maximise the value of its donations. You can reclaim tax from HM Revenue & Customs (HMRC) on the 'gross' equivalent of donations, their value before tax was deducted at the basic rate, currently 20 per cent. You can work out the amount of tax you can reclaim by dividing the amount donated by four. This means that for every £1 donated, you can claim an extra 25 pence.

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## Tax relief for donors

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If a donor is a higher or additional rate taxpayer, they too can benefit from tax relief as they can claim relief equal to the difference between the higher rate of tax at 40 per cent or 45 per cent and the basic rate of tax at 20 per cent on the total value of the donation - a total of 20 per cent and/or 25 per cent. So if £1 was donated, the 'grossed up' donation would be £1.25 and a donor liable at the 40 per cent tax rate could claim relief of 25 pence (20 per cent of £1.25).

The donor must pay at least as much UK tax (Income Tax and/or Capital Gains Tax) as the amount of Income Tax that you're reclaiming. If a donor makes a number of Gift Aid donations, including to other charities and CASCs, they must pay a sufficient amount of UK tax on the total amount of those donations and they may be required to pay any shortfall in tax paid to HMRC. You must advise the donor of their tax requirement and keep a record of your notification along with the donor's confirmation - known as a Gift Aid declaration.

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## Example

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John is a 40 per cent higher rate taxpayer and donates £100 to charity. As he pays regular Income Tax on his earnings, the basic rate of tax on his donation has already been covered by his tax payments and the charity claims back the basic rate tax of 20 per cent from HMRC. So the charity is able to make a repayment claim of £25 (£100 divided by 4). As a higher rate taxpayer, John can claim the difference between the higher rate of tax at 40 per cent and the basic rate of tax at 20 per cent on the total value of his donation, so he can claim 20 per cent of £125, a total of £25.