

## **Tax Credits and Gift Aid – make sure your clients include it in their renewal**

Tax credit claimants may make donations to charity under the Gift Aid scheme, but be unaware of the impact on their tax credit award. Gift Aid donations paid during the tax year may be deducted from income for tax credit purposes – thus increasing a claimant’s tax credit award. As tax credit awards will be renewed between now and the end of July, it is a good time to consider if this applies to your clients.

### **How Gift Aid works**

Gift Aid applies to donations to charities and this can include museum admission fees. Under the Gift Aid scheme you tell the charity that you are a UK tax payer. You then pay the charity a sum of money and the charity reclaims the tax you pay on the income.

If you complete a self-assessment tax return, you should include your Gift Aid payments on the form.

### **Give As You Earn is different**

If you make regular payments to charity under the Give As You Earn scheme, the gross payments you make are deducted from your income at source. This means that the income on your P60 is shown after deduction of your full donations and no further adjustments are needed for tax credits.

### **Example 1 – how Gift Aid works:**

Angela gives £100 to Save the Children in January 2009. This amount is treated as ‘tax paid’. Save the Children then reclaim the tax on the £100 from HM Revenue and Customs, plus a supplement.

	£
Angela’s gift	100.00
Tax reclaimed by Save the Children	25.00
Supplement from the Government (available until April 2011 only)	3.00
Total amount received by charity	<u>£128.00</u>

### **Gift Aid and tax credits**

For tax credit purposes, Angela is treated as having made a gift of £125.00 – the £100 she gave, plus the tax reclaimed by the charity. Angela may deduct this from her total income when she completes her tax credit renewal forms.

### **Example 2 – How Gift Aid reduces income for tax credits:**

Angela is a lone parent with one child. She works as a receptionist at a medical practice. She earned £11,500 in the year to 5 April 2009.

On her tax credit renewal form, Angela can reduce her income by the amount of her Gift Aid donations in the year. Assuming the only donation she made under the Gift Aid scheme was the £100 to Save the Children in January 2009, her income for tax credits for 2008/09 becomes:

	£	
Gross Salary on P60		11,500.00
Less:		
Gift Aid Donation to Save the Children	100.00	
Tax reclaimed by charity $100 \times 0.2/0.80$	<u>25.00</u>	
		125.00
Income to go on tax credit form		<u>£11,375.00</u>

### **Impact of Gift Aid on your tax credit award**

*Most* tax credit awards will be finalised using the previous year's income figures. (Exceptions are where current year income is lower than the previous year's income - when the lower current year income figure is used; and situations where the current year's income is more than £25,000 higher than last year's income – when current year income less £25,000 is used).

This means that the impact of Gift Aid payments on a claimant's tax credit award will normally be deferred one year. Gift Aid payments made in the year to 5 April 2009 will increase a claimant's tax credit award for the year to 5 April 2010.

### **Example 3 – How Gift Aid can increase a tax credit award:**

Angela renews her tax credit award on 31 May 2009. Her income in 2007/08 was £11,250. Her income in 2008/09 was £11,375.00 after adjustment for Gift Aid donations. She expects her income for 2009/10 to be £12,500.

As Angela's income has risen from the previous year, but by less than £25,000, her 2008/09 award will not be adjusted because of income changes. Looking to 2009/10, her award will be based on her 2008/09 income.

Including the Gift Aid adjustment in her 2008/09 figures means that her income is £125 lower. As her award is income sensitive (she earns over the threshold of £6,420) and she is on 39% taper, a fall in income of £125 means an increase in tax credits of £48.75 (ie £125 x 39%).

### **When Gift Aid is likely to be important**

Gift Aid is likely to be particularly important if you make regular or substantial gifts. It can be particularly significant for single working people: Gift Aid can mean that it is worth claiming in situations where a claimant might expect to get no award at all without Gift Aid.