



Getting Britain giving to Culture

An introduction to the new tax regime for giving to cultural charities





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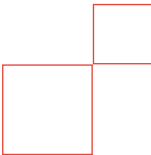
Introduction by Chris Smith, Secretary of State for Culture, Media and Sport

Britain’s arts and heritage are thriving as never before. In this year 2000, new museums and galleries are opening thanks to the national lottery, more people than ever before are choosing to visit heritage properties and sites, and the Government is providing the highest ever level of public support for the arts. It is a privilege to be Secretary of State for Culture, Media and Sport at this time.

The success of our cultural organisations derives of course principally from the artists, the creators, the managers involved. It derives partly from consistent Government support. But it doesn’t stop there. Like so many of the best things in our society, these organisations depend on time, energy and financial assistance freely given by private volunteers and donors. In particular, many of them are charities, and rely on gifts given by individual and business supporters. This is vital. It is healthy for culture to be supported not just by Government, but by the choice of millions of individuals and thousands of companies, giving freely to support the causes and cultural activities that they cherish.

The Government wants to recognise and encourage this private support, to complement the substantial public money it provides for the arts, museums and heritage. The new tax regime for giving to charities - described in this booklet - gives that encouragement a practical form. From April 2000, the tax rules for giving to charities are being greatly simplified and improved. This will benefit charities in all areas of good works.

It provides a particular opportunity for cultural charities. I am determined to support cultural charities in making the most of this opportunity. That is the purpose of this guide. Immediately, the changes outlined here will make possible an increase in income for many charities operating in the arts or heritage sectors. It should also raise the profile of those charities - and make more people think about whether and how they might want to contribute to helping them. This is a chance not just to make giving more effective; not just to encourage more giving; but to change the culture of giving to culture.



CULTURE

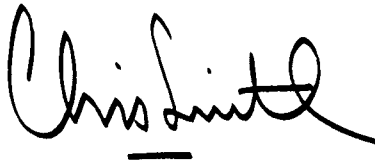
MEDIA

SPORT

SPORT

Introduction by Chris Smith, Secretary of State for Culture, Media and Sport

We have a long and proud tradition of philanthropy and private patronage, and a long tradition of generous giving to charities of many kinds. This is the chance to bring those traditions together: to encourage everyone who values and cherishes the heritage and the arts of this country to develop the habit of supporting them financially - to make patrons of us all.

A handwritten signature in black ink that reads "Chris Smith". The signature is written in a cursive style with a prominent underline under the name.

Chris Smith
Secretary of State for Culture, Media and Sport

April 2000

The new tax regime

1. The new tax regime

A new deal for giving to charities was announced in the Budget on 21 March 2000. Following a review of charity tax law, the Chancellor of the Exchequer has proposed major simplifications and improvements to the tax treatment of gifts to charities. These changes take effect from April 2000: from 1 April for gifts by companies, and from 6 April for gifts by individuals.

These changes apply to all charities. This booklet outlines the proposed changes, and draws out the implications and the issues for charities in the cultural sectors. It is aimed at the many arts organisations, most museums and galleries, many "Friends of..." organisations, and many conservation and heritage organisations that have charitable status. This booklet should not be treated as definitive guidance on tax law, which will be confirmed only following the passage of the Finance Act 2000. More detailed guidance will be produced subsequently by the Inland Revenue.

What are the changes?

There are four main changes proposed that should interest cultural charities:

- a. *the simplification of Gift Aid (gifts of cash by individuals)* - this is probably the most important single change for most cultural charities - and certainly the most important for small and medium-sized charities. From 6 April 2000 any donation - however large or small - to a charity from a tax-payer will be eligible for income tax relief. All that is required to claim the relief is information showing who has given how much and a declaration that the donor wants the tax to be reclaimed (which can be a written document, or a registration of a gift made by phone or by the internet). Donors won't need to fill in any complex forms; there will be no minimum donation to qualify for tax relief; and donors won't have to agree to go on giving money for a fixed period of time. The only limit on the size of donations is set by individuals' total tax liability

The new tax regime

- tax relief cannot be reclaimed that is greater than the total tax they are liable to pay.

This contrasts with the previous rules, under which tax relief was available only if either a single donation was of at least £250, or the donor agreed to give regular sums for a fixed period of at least four years under a "deed of covenant". From now on, all donations, whether £1 or £1000, and whether made once or made every month, qualify for tax relief.

b.

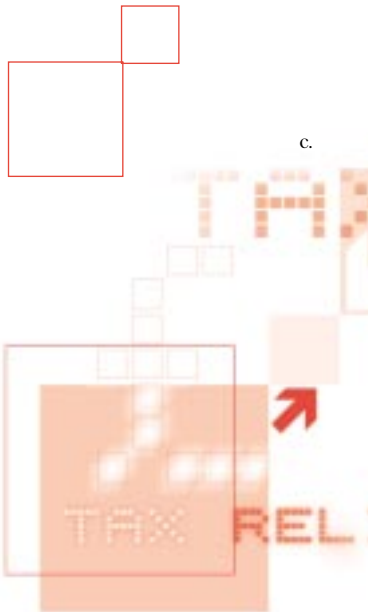


a new income tax relief for gifts of shares - this provides a particularly tax-efficient way of giving to charity for individuals who have a capital gains tax liability. It may be of most interest to charities which are able to solicit substantial sums from relatively wealthy individuals - for example while raising partnership funding for a Lottery project. At present if an individual makes a gift of quoted shares to a charity, then he or she is not liable for capital gains tax on the value of the shares that are given - and from 6 April 2000 he or she will also receive full income tax relief on the value of the donation as well.

c.

improvements to the payroll giving scheme - the payroll giving scheme allows companies to set up a simple way for their employees to give money regularly to a chosen charity, while obtaining tax relief by allowing the gift to be made before Pay As You Earn tax is deducted. From 6 April 2000, the existing ceiling of £1200 for payroll giving is abolished. In addition, the Government will encourage payroll giving, by providing a 10% supplement to whatever is donated through this scheme over the next three years. Later this year the Inland Revenue will launch a publicity campaign to encourage the wider take-up of payroll giving.

At present not many cultural charities benefit from payroll giving. But the introduction of the supplement, and the



The new tax regime

accompanying publicity, is a chance to get started. It might be particularly appropriate, say, for an arts organisation that has established a strong and long-lasting relationship with a corporate supporter: that company might like to encourage its employees to deepen the arts / business relationship by donating some money directly, in addition to the sponsorship provided by the employer. Or the employer might consider offering to "match" donations given by its employees (as is commonly done in the United States).

- d. *simplification of the rules for gifts of cash by companies* - from 1 April 2000 companies making a gift of cash to a charity will no longer deduct tax from their donation and give the charity a "Gift Aid declaration". Instead it can just pay the whole amount of the donation to the charity and claim a deduction for that amount in its accounts. The charity then does not have to reclaim any tax from the Inland Revenue.

New opportunities for cultural charities

2. New opportunities for cultural charities

These changes will have a number of effects.

More money for cultural charities

First, they should immediately and *directly raise the income of most charities* that receive donations from individuals. Charities will be able to reclaim tax on a much larger proportion of their donation income, because more gifts will qualify for tax relief. Most charities will now be able to turn almost every £1 of donation income into £1.28 - by reclaiming an extra 28 pence on each £1 from the Inland Revenue.

More incentive to give

Secondly, this provides *an opportunity to make fund-raising more effective*. As donors come to realise that every £1 they give can be turned into £1.28, this is an effective incentive for encouraging giving: the value of giving to charity has gone up, compared to other uses of the money, so there should be more giving.

Getting Britain thinking about giving to culture

Thirdly, it is a chance to raise the profile of cultural organisations as charities. British people are famously generous in their support of charities - whether for disasters overseas, medical research at home, animal welfare, or education - as well as many other good causes. Cultural charities - e.g. building conservation charities, or local theatres, or museums' Friends organisations - also benefit from the generosity of many people. But the profile of the arts or heritage as a charitable activity is perhaps lower than that of the other sectors mentioned above. As cultural charities take advantage of the these changes that apply to all charities, so their profile as charities - and consequently the idea that they may be deserving of support and donations - will rise.

Learning from others

Fourthly, cultural charities can make use of new forms of giving encouraged by these reforms, and promulgated by other parts of the



New opportunities for cultural charities

charity sector. As the new tax rules take effect, many charities - including some of the largest and most prominent - will be reviewing how they go about soliciting donations. Because the new rules make it much more worthwhile to claim tax relief on relatively small donations, many more members of the public will become aware of the tax issue. They will be used to the idea of making a declaration that tax can be reclaimed on anything they give. Once they are used to it in other charities, it will not seem strange for arts or heritage bodies.

Why it's worth doing: some arithmetic examples

3. Why it's worth doing: some arithmetic examples

How much can charities gain? Here are some examples of how the new reliefs will work.

Improved Gift Aid

You run a cultural charity. For all tax-payers: if someone gives you £10, you can reclaim a further £2.82 (basic rate at 22%) from the Inland Revenue. For you to receive £100, someone needs to give you £78, and you reclaim the £22.

For higher-rate tax-payers, you have a better argument. If someone gives you £10, you reclaim £2.82; and the tax-payer also reclaims another £2.31 from the Revenue (the difference between the basic rate tax which the charity reclaims and the higher rate) at the end of the tax year. It costs him only £7.69 to enable you to get £12.82. Equivalently, for you to receive £100, it would cost him only £60.

Payroll giving

The arithmetic for payroll giving is even better. The gift is deducted before tax is paid on the donor's salary, so that he or she gets full tax relief at the marginal rate. There is no tax reclaim by the charity. The Government will also provide an additional 10% top-up for the next three years. From now until April 2003, a gift of £20 a month will generate £240 a year for the charity, plus a further £24 top-up - £264 in total. And because income tax relief is given through the payroll, this costs only £187.20 to a basic-rate tax-payer, and £144 to a higher-rate tax-payer.

Gifts of shares

This is potentially the most efficient way for someone to make a gift. Suppose someone wants to give you £10,000. If he gives you £10,000 cash, you can reclaim £2,820; and assuming he is a higher-rate tax-payer he can reclaim £2,307. A gift that is worth £12,820 to you has cost him £7,693 - 60% of the total value.



Why it's worth doing: some arithmetic examples

But suppose he gives you quoted shares worth £10,000 - and on which he has a taxable capital gain of £5,000. There is no tax for the charity to reclaim, so the gift is worth £10,000. But the donor can obtain full income tax relief on the gift. And the donor saves capital gains tax of 40% on the £5,000 as well as the new income tax saving. So the gift which is worth £10,000 to you has cost him in this example only £4,000, i.e. £10,000 - £4,000 (income tax relief at 40%) - £2,000 (capital gains tax relief at 40% on the £5,000 capital gain): that is, only 40% of the total value of the gift.

If you know any higher-rate tax-payers who are thinking of making a substantial gift, it is definitely worth encouraging them to think about making a gift of shares, as long as the shares have gained in value and would otherwise be subject to capital gains tax.

It is also worth seeking out potential donors who may be well off in terms of equity (shares), but not so well off in terms of cash, and who may prefer to make gifts of shares in any case: for example, entrepreneurs with their own company that has gone public.

Making the new rules work for you

4. Making the new rules work for you

For definitive guidance on administering the new rules, you need to turn to the Inland Revenue's guidance notes, (available on the Revenue's website at www.inlandrevenue.gov.uk), or seek advice from the Inland Revenue's Financial Intermediaries and Claims Office (FICO) at St John's House, Merton Road, Bootle L69 9BB. But here is an indication of the main points to bear in mind, for Gift Aid and gifts of shares.

Gift Aid

You don't need to persuade donors to fill in deeds of covenant or other long or complex forms. All they need is to make a "declaration" of who they are, how much they are giving, and that they want tax to be reclaimed. Declarations can be in writing, or given orally or electronically.

Formally, a declaration requires:

- the donor's name
- the donor's address
- the charity's name
- a description of the donations to which the declaration relates; this can be "any donations I make on or after today" or another form of words
- a declaration that the donations are to be given as Gift Aid donations; this can be as simple as "please reclaim tax on my donations"
- a note explaining that the donor must pay tax at least equal to the tax deducted from the donation; and
- the date of the declaration.

This may look daunting. But in fact almost all of it can be pre-printed; and the description of the donations can be as general as "the enclosed donation" or "any donations I make on or after today" (so they can last indefinitely).

Declarations can be oral - in which case you just have to send the donor a written record of the declaration, i.e. a note (probably mostly pre-printed) covering the points set out above. Declarations can also be made on-line, or over the telephone. Again, you need to confirm with a note.



Making the new rules work for you

You also need to keep records showing who has given what, so that you can identify every donation to an identifiable donor who has given a valid declaration.

If you are already used to fund-raising, you will probably have a database or records of donors and how much they give or have given. If you are relatively new to systematic fund-raising, you may well already have some systems for listing members, patrons or supporters. You do not need complex new systems - just a record of all the donations made, and a reference for each donation against a declaration that these are for Gift Aid. Once a declaration has been made, it can stay valid indefinitely, if appropriately worded. Declarations can be printed onto forms, or onto giving envelopes, or included in publicity material. As many other charities start soliciting declarations, you will find that many members of the public are familiar with the idea.

Obviously there is some administration involved in all this. It will be up to every individual charity to decide at what level it is worth soliciting and recording donations for Gift Aid purchases. But it should be possible to set up simple administration that costs little - and certainly less than the extra benefit of tax reclaimed on most sums. In time, everyone will come to expect to make their donations as Gift Aid donations anyway.

If you are keeping your records in electronic form, you will need to make sure, as usual, that you meet the requirements of the Data Protection Act.

Existing deeds of covenant in existence before 6 April 2000 will continue to qualify for tax relief as before: effectively, the existing deed of covenant will stand in place of a Gift Aid declaration. But any donations made outside the deed, or after the deed expires, will need to be covered by a declaration. A new deed on its own, without a declaration, that is made after 5 April, does not qualify for tax relief.

Making the new rules work for you

Gifts of shares

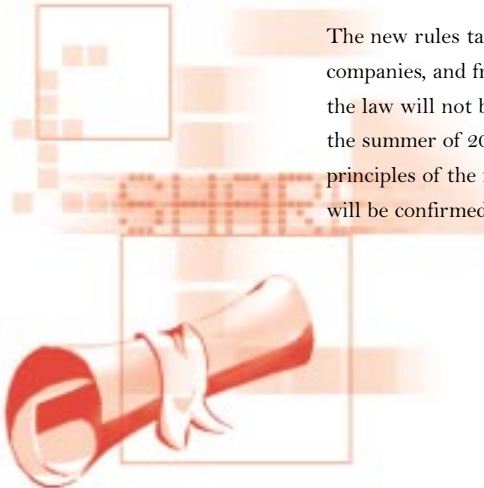
Making best use of the new rules for gifts of shares requires a bit more expertise. Smaller charities may want to wait until they are familiar with the basic cash Gift Aid regime. The tax rules are no problem because the charity does not reclaim any tax. But to be ready to take advantage of them if you are offered shares, you will need to be able to assist potential donors to transfer shares to you, and of course you will need to be able to sell the shares subsequently if you want to realise their value. Most banks and many building societies provide a share-dealing service, and can introduce you to the process. Arts & Business, the arts funding system, and representative bodies in the cultural sectors will also be able to provide advice.

Payroll giving

Not many cultural charities are yet involved in the payroll giving scheme. But a number of other larger charities do make use of it. As the Government's campaign to promote payroll giving takes off, more charities will become familiar with it. Advice on getting started with payroll giving can be obtained from the Inland Revenue and from the Charities Aid Foundation.

When can we start?

The new rules take effect in April 2000; from 1 April for gifts by companies, and from 6 April for gifts by individuals. The details of the law will not be finalised until the Finance Act has been passed in the summer of 2000 - but, subject to Parliamentary approval, the principles of the rules will be as outlined in this booklet. Final details will be confirmed in Inland Revenue guidance.



Giving to culture: changing the culture of giving

5. Giving to culture: changing the culture of giving

These tax changes aren't just a way to reclaim some extra tax. They will require charities in all sectors to think hard about how best they organise themselves to seek gifts. And in turn that provides an opportunity to think more widely about the whole culture of individual giving.

This is true of all charities. But it is particularly true for arts, heritage and cultural charities. Some of them already have very professional fund-raising arms; but they will need to think about how to adapt their operations to the new rules. Others which don't devote as much attention to fund-raising will want to think about how to gear up to take advantage of these changes. Different organisations may adapt in different ways, and charities can learn best practice from one another. There are a number of issues for cultural charities to think about. Some are listed below

Benefits

There are limits - set out by the Inland Revenue - on what benefits a donor can receive before the payment ceases to be considered as a donation. Broadly, they are that the value of benefits given in respect of a donation cannot exceed 25% of the donation if it is less than £100, £25 if the donation is between £101 and £1,000, and 2.5% of the donation over £1,000, subject to a maximum benefit of £250. You will need to make sure that you do not exceed those levels of benefits given to donors if you want to get the best tax treatment

Membership, mailing lists, Friends schemes

Many cultural charities will raise funds through membership or supporters' schemes, mailing list membership, or Friends organisations. The money you obtain through these means can be eligible for tax relief, as long as they meet the rules on the proportion of benefits purchased, and are not payments for services. In many cases it will be possible to make these schemes meet the rules, since the economic value of the privileges associated with Friends membership may be quite low compared to the total donation involved. However, where you are in doubt about the proportion of

Giving to culture: changing the culture of giving

benefits, it may be safer and simpler to separate the payments into two elements: one a payment for a package of privileges (e.g. priority booking, an annual party etc), and one a pure donation

Free admission to heritage properties

There is an existing concession from the benefit rules for the benefit of free or reduced price admission to properties owned by heritage preservation charities. This will remain: as before, it will not stop donations qualifying for tax relief.

Tickets with added voluntary donations

Some arts organisations sell tickets to certain events while soliciting a voluntary donation on top of the ticket price. As long as the donation is voluntary, and provided of course you have a Gift Aid declaration in the usual way, then those donations are eligible for tax relief. You may find this a useful alternative to simply pricing tickets high for fund-raising galas.

Fund-raising events

There is a related change, separate from the rules on donations, about the tax treatment of fund-raising events. This is also potentially significant for cultural charities. From 1 April 2000 many more charities' fund-raising events will be exempt from paying VAT on the supply of goods or services, and from paying income or corporation tax on their profits. This exemption applies to up to fifteen events of the same kind at the same location in any financial year, or to any number of events of the same type, where the gross weekly takings do not exceed £1,000.

VAT treatment of payments

When considering the benefits that are associated with a donation, you will need to consider separately whether there any issues that affect your VAT position. Guidance can be obtained on this from Customs & Excise.

Collecting money in cash-boxes or buckets

Some charities obtain substantial funds through traditional cash



DONATIONS

Giving to culture: changing the culture of giving

collections. In most case this will go on as before. But it is worth thinking about whether this will still be the best method for your organisation. For example, many galleries have large transparent collecting boxes to encourage cash donations. But for the occasional visitor who inserts a £10 or £20 note, it may be worth trying to find a way to encourage them instead to put the money in an envelope with a declaration, rather than just giving the cash

Collecting money through envelopes

In fact, the use of envelopes with printed declarations attached may become very common as the easiest way to make best use of the new regime. Very many charities are likely to rely to some extent on this. Arts and heritage charities - alongside others - will need to think how best to combine this with the scope for spontaneous giving that many donors prefer.

Seeking regular donations

On the other hand, more and more givers to charity will become used to all charities asking them to contribute by regular giving, whether through the formal payroll giving scheme, or through standing orders or direct debits. Cultural charities will want to ensure that they are as well placed as other charities - perhaps by working together - to be considered as potential beneficiaries.

Seeking donations on booking forms

As the culture of giving changes, it should be possible to learn lessons from abroad, particularly America, where the culture of giving is more entrenched. Arts organisations might for example consider adding an extra line for an optional donation to their standard paper or on-line booking forms, so as to solicit and collect donations at the same time that patrons are dealing with them. Box offices would need to be retrained to think about soliciting donations as well as selling tickets.

Partnership funding for Lottery projects

Charities putting together packages of partnership funding for Lottery projects will want to build into their planning the generation of tax reclaimed through the new rules.

Some questions and answers

6. Some questions and answers

How do I get started?

Obtain the Inland Revenue guidance on the schemes (see more information below), and look out for training sessions run by representative organisations such as the Arts Council of England, Arts & Business, or others.

Is private giving intended to replace public support?

No. The Government is committed to maintaining public support for culture. It has delivered the largest ever increase in government funding for the arts, for instance. Private giving is an additional source of funding for culture, which it wants to encourage to provide a diversity of sources of finance. It will supplement, not replace, public funding.

Is it worth doing if I don't have any fund-raising expertise?

Every charity needs to decide individually how best to take advantage of the new rules. But given the simplification involved, and the substantial financial gain, most organisations can almost certainly benefit.

What about existing deeds of covenant?

Deeds of covenant in existence before 6 April 2000 will continue to qualify for tax relief, as a transitional measure, until they expire.

Is there a maximum limit on Gift Aid?

The maximum limit on the amounts that can be given, and on which tax relief can be obtained, is not fixed in terms of cash. It depends on an individual's total tax bill. Charities cannot reclaim more tax in respect of a donation than the total amount of tax that the individual making the gift is due to pay. However, it is not up to charities to police this. It is up to individuals to give no more money under a Gift Aid declaration or declarations than they are due to pay in tax in total.



More information

7. Where to go for more information

The key source of advice on any detailed technical enquires is the Inland Revenue. Other sources of advice or information listed here may be able to answer queries only on certain aspects of the issues discussed in this booklet.

Financial Intermediaries and Claims Office,
St John's House,
Merton Road,
Bootle L69 9BB.

Inland Revenue - the Inland Revenue has produced interim guidance on the new rules, and will produce definitive guidance in summer 2000. Obtainable from www.inlandrevenue.gov.uk or

HM Customs and Excise - advice on the VAT implications of charities' activities can be obtained from local VAT offices. Information is also available on the Customs website at www.hmce.gov.uk.

Charity Commission - the Charity Commission for England and Wales controls the registration of organisations as charities and works to promote public confidence in charities. Questions about who qualifies as a charity can be put to them. Information is available from www.charity-commission.gov.uk or via the Commission's three offices at:

Harmsworth House, 13-15 Bouverie Street, London EC4Y 8DP
telephone: 0870 333 0123 or fax: 020 7674 2300

20 Kings Parade, Queen's Dock, Liverpool L3 4DQ
telephone : 0870 333 0123 or fax : 0151 703 1555

Woodfield House, Tangier, Taunton, Somerset TA1 4BL
telephone : 0870 333 0123 or fax: 01823 345003

Arts & Business - Arts & Business' vision is to help build communities by developing creative partnerships between business and the arts. In conjunction with Arthur Andersen, it produces a guide to the tax implications of business sponsorship of the arts: a new edition of this

More information

guide, covering the new regime introduced in April 2000, will be published later in 2000. Arts & Business can be contacted via **www.AandB.org.uk** and at

Nutmeg House, 60 Gainsford Street, Butler's Wharf
London SE1 2NY
telephone 0207 378 8143 fax: 0207 407 7527

Arts Council of England - the Arts Council of England has linked up with the Charities Aid Foundation (CAF) to provide advice for arts charities on making the most of these changes - see below. Information from the Arts Council is available via **www.artscouncil.org.uk** or from

Arts Council of England, 14 Great Peter St,
London SW1P 3NQ
telephone 0207 333 0100

Charities Aid Foundation (CAF) - CAF is a major charity and financial agency working with donors and charities to increase the flow of funds and resources for voluntary giving. It can be contacted via **www.givingtoday.org** or at

Charities Aid Foundation (CAF)
King's Hill, West Malling, Kent ME19 4TA
telephone hotline: 01732 520039 / 520044

English Heritage - for further information on charities in the historic environment sector (listed buildings, scheduled monuments, historic parks and gardens), contact:

Sally Embree,
English Heritage, Room 222, 23 Savile Row,
London W1X 1AB.

Other representative bodies may also be able to provide advice tailored to charities in particular sectors.

**Department for
Culture, Media and Sport**

2-4 Cockspur Street,

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