

<b>Title:</b> Small Charitable Donations and Childcare Payments Bill <b>IA No:</b> 01/16 <b>RPC Reference No:</b> Not applicable <b>Lead department or agency:</b> HM Revenue and Customs <b>Other departments or agencies:</b> HM Treasury	<b>Impact Assessment (IA)</b>			
	<b>Date:</b> 06/09/2016			
	<b>Stage:</b> Enactment			
	<b>Source of intervention:</b> Domestic			
	<b>Type of measure:</b> Primary legislation			
<b>Contact for enquiries:</b> Alastair.Lloyd@hmrc.gsi.gov.uk				
<b>Summary: Intervention and Options</b>			<b>RPC Opinion:</b> Not Applicable	

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
N/A	N/A	N/A	Not in scope	Not a regulatory provision

**What is the problem under consideration? Why is government intervention necessary?**

When the Gift Aid Small Donations Scheme (GASDS) was introduced in the Small Charitable Donations Act 2012 (SCDA 2012), the Government undertook to review the scheme after three years of its operation. The changes being made are intended to increase the flexibility of the scheme to help it support a greater number of charities and a greater number of donations.

The Government is also keen to ensure that, as far as possible, charities carrying out similar activities, but structured in different ways, have the same access to GASDS top-up payments.

**What are the policy objectives and the intended effects?**

The Government's objective is to ensure that the rules operate as equitably as possible; that they ensure organisations doing similar things are able to claim similar amounts whether they are structured as a single charity nationally, or as a 'group' made up of connected charities. It is keen to encourage further take-up of GASDS particularly amongst smaller charities and those carrying out work in their local communities, making the scheme less restrictive and proposes a number of changes to the scheme in order to achieve this.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

A Call for Evidence on the operation of the scheme was published in December 2015 with a further consultation published on 20 April 2016. The changes are being made in light of the responses to that consultation.

The eligibility criteria is being relaxed to make the scheme more accessible – particularly to smaller and newer charities. The rules currently deliver inconsistent results between charities structured in different ways and equitable treatment needs to be restored. There are two elements of the scheme (the main allowance and the community buildings allowance) and allowing charities to claim one or the other but not both delivers a fairer outcome without radically changing the rules with which everyone is familiar.

<b>Will the policy be reviewed?</b> It will/will not be reviewed. <b>If applicable, set review date:</b> Month/Year					
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope?		<b>Micro</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b>		<b>Non-traded:</b>

**I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.**

**Signed by the responsible Minister:** James Watson Date: 29.8.16

# Summary: Analysis & Evidence

# Policy Option 1

Description:

## FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate:

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	Neg	Neg	Neg

### Description and scale of key monetised costs by 'main affected groups'

It has become apparent that different structures within similar charitable bodies have resulted in an unintended ability to make a valid claim under both GASDS allowances. These changes are intended to correct that anomaly. We estimate that this could impact up to 3,000 charities, but the Government believes that the measure, which received broad support during consultation, is essential to protect the integrity of the scheme and ensure parity of treatment between different charities.

### Other key non-monetised costs by 'main affected groups'

These reforms are expected to result in a negligible increase of costs for charities and community amateur sports clubs (CASCs) and will have no impact on businesses.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	Neg	Neg	Neg

### Description and scale of key monetised benefits by 'main affected groups'

Simplifying the eligibility criteria which charities must meet to be able to access GASDS, relaxing the community buildings rules allowing charities operating in community buildings to benefit from donations made within the same local authority area as the building, and bringing forward legislation to include contactless payments within GASDS form a package of changes that could benefit up to 71,000 charities that currently claim Gift Aid.

### Other key non-monetised benefits by 'main affected groups'

Key assumptions/sensitivities/risks  
N/A

Discount rate

## BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 0	Benefits: 0	Net: 0	Zero net cost

# **Evidence Base (for summary sheets)**

## **Background**

The GASDS was established in the Small Charitable Donations Act 2012 (SCDA 2012).

The scheme was introduced from 6 April 2013 to complement Gift Aid.

The purpose of GASDS is to support the charity sector by providing top-up payments on donations in circumstances where it would be unduly burdensome or difficult to obtain Gift Aid declarations, for example bucket collections or during church collections. This means that charities don't lose out on the Gift Aid on small donations from donors who do not complete Gift Aid Declarations in those circumstances.

As there is no link to the tax paid by the donor the scheme is not a tax relief but is instead treated as public expenditure. Therefore, this impact assessment has been produced for information purposes only.

The scheme comprises a 'main' top-up allowance (raised from £5,000 to £8,000 from April 2016) and the 'community buildings' allowance (also raised from £5,000 to £8,000 from April 2016).

The Government committed to reviewing the scheme three years after its introduction to ensure it was operating as intended.

## **Summary of policy**

The broad policy intention of the scheme is that each eligible charity should be entitled to a top-up payment on a maximum of £8,000 small cash donations. A small donation being £20 or less.

GASDS is intended to allow charities and CASCs to claim a Gift Aid style top-up in circumstances where it is not practical or feasible to obtain a Gift Aid declaration. The scheme is not intended to replace Gift Aid. The Government therefore considered it reasonable that charities and CASCs should demonstrate a reasonable history of compliance with Gift Aid before gaining access to GASDS.

A number of eligibility criteria were therefore included within the scheme. The purpose of these criteria was both to minimise the risk of fraud and to provide a link to the wider Gift Aid scheme. Charities are required to have been registered for at least two full tax years before they can access GASDS. Charities must also have made successful Gift Aid claims in at least two out of the previous four tax years with a gap of no longer than two years between claims. During initial development of the scheme it was found that charities with similar activities are often structured in different ways, and this could lead to potentially unfair outcomes. For example, a charitable organisation operating in different locations may structure itself so as to register as several separate charities or one much larger charity.

Some charities that carry out charitable activities in local communities operate through local groups that are registered charities in their own right. If each of these charities was entitled to an allowance, these groups could receive a significantly greater entitlement than other charities carrying out similar charitable activities that have a more centralised structure with local groups that form part of the same charity. The community buildings allowance was designed to prevent – as far as possible – such disparity. To qualify, charities must meet the relevant conditions and be in receipt of small cash donations from regularly carrying out their charitable activities (other than fundraising) in a community building for example a village or church hall.

To prevent charities fragmenting to obtain multiple allowances, connected charities rules were introduced. Where charities are connected, the small cash donations received by each of the connected organisations are effectively pooled. The main top-up allowance can then be claimed by the main office or shared between the connected charities.

### **Problem under consideration**

The rules – in particular the eligibility criteria – are precluding smaller and newer charities from benefitting from the scheme.

The connected charities provisions and community buildings rules together do not give the intended outcome in every case. If this is not addressed, it will permit some charities to get significantly more allowances than others even though they are doing very similar things which is fundamentally unfair.

### **Rationale for intervention**

The reforms to GASDS are intended to simplify and increase access to the scheme, particularly for smaller and newer charities.

### **Policy objective**

To ensure that the scheme operates as effectively as possible so that it can support a greater number of charities, and a greater number of donations.

### **Description of options considered (including do nothing)**

The Government undertook to review the scheme after it had been in operation for three years.

A Call for Evidence was published in December 2015 and invited views from charities and other organisations on the operation, take up and understanding of the current GASDS rules. During this period HMRC and HM Treasury officials attended a number of stakeholder meetings and events to discuss the review. The Call for Evidence produced 197 responses from a variety of charities and representative bodies, with the vast majority being from churches.

Responses indicated that the scheme was valued and delivered real benefits to eligible charities.

However, the Call for Evidence identified that the eligibility criteria were a barrier to smaller and newer charities claiming under the scheme. It also confirmed that the connected charity rules did not always work with the community buildings rules as intended.

Following analysis of the responses, and other representations from stakeholders, specific proposals for simplification and increased accessibility to the scheme were set out in a consultation document which closed on 1 July 2016 which included the reform of the community buildings rules. This consultation received 46 responses.

As a result, the Government has chosen to legislate within the Small Charitable Donations and Childcare Payments Bill the following reforms to GASDS:

- removing the requirement that a charity must have been in existence for at least two complete years before the year they wish to claim GASDS for;
- removing the 'two in four year' rule Gift Aid history requirement;

- restricting claims to either the main allowance or community buildings allowance;
- relaxing the community buildings rules to allow collections received within the same local authority area as the building; and
- extending GASDS to include contactless payments.

### Relaxing the eligibility criteria

The requirements that a charity must have been established as such for tax purposes for at least the two previous complete tax years, and also made a successful Gift Aid claim in two out of the previous four tax years will be removed. Charities will still need to claim Gift Aid in the year in which they claim GASDS allowances – the matching rule is being retained whereby top-up payments are capped at 10 times the Gift Aid claimed. This is both to retain the link to Gift Aid and to reduce the risk of fraud.

Without these changes smaller and newer charities would continue to receive limited benefit from the scheme. The changes deliver a simplification for all charities.

### 'Main' allowance or community building allowances

The scheme comprises two elements – the allowance that all charities, or groups of charities are entitled to, and the allowances for charities who undertake charitable activities within community buildings. To resolve the inconsistencies in treatment, with some charities able to claim far more than others under both elements of the scheme, consultation respondents suggested that the rules be changed so that charities, or groups of charities, be able to claim either the 'main' allowance or community buildings allowances. The Government has adopted that approach with charities effectively being able to opt for the most beneficial allowance. Charities with more than one community building will still be able to claim an allowance in respect of each building but will not also be able to claim an additional 'main' allowance. Again, this change represents a simpler approach for a significant number of charities.

Alternative approaches for making the rules fairer were considered. 'Capping' the allowances in some way would have been difficult to deliver in an equitable way and removing the community buildings element, while a simplification, would have resulted in certain charities being able to claim considerably less allowances. The approach adopted retains existing, familiar elements of the scheme but will be simpler to operate.

### The community buildings rules

The community buildings rules will be relaxed to allow charities with community buildings to make collections outside the building itself but still within the same local authority area as the building. This provides additional flexibility for those charities who make street collections for example, and enables charities who undertake charitable activity in a community building but who do not receive eligible donations actually in the building to benefit.

### Contactless payments

With cash transactions becoming less prevalent generally, there were calls for the scheme to be extended to include cheques, credit cards and direct debits. The GASDS is intended to provide a top-up payment to charities in situations where it is not practical or feasible to obtain a Gift Aid Declaration from donors – it is not intended to replace Gift Aid. Bringing cheques, direct debits and other forms of giving into the scheme would have undermined this policy rationale and discouraged charities from engaging with Gift Aid. However, the Government recognises that the scheme should keep pace with modern fundraising techniques. GASDS will therefore be extended to include 'contactless' payments.

## **Proposed costs**

This measure is expected to decrease receipts by approximately £15 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Autumn Statement 2016.

## **HMRC costs**

HMRC will need to update its existing IT system which is used by charities to claim under GASDS. The cost of these changes is estimated to amount to a total of £100,000. This is only an estimation and therefore subject to change once the current analysis and assessment process has been fully completed and analysed.

## **Wider impacts**

Responses to the consultation's reform proposals were broadly positive with no major issues raised by stakeholders.

The following areas have been considered with no impacts identified: competition, small firms, wider environmental issues, health and well-being, human rights, justice system, rural proofing, sustainable development.

In terms of equalities impacts, no significant issues or negative impacts on groups with protected characteristics was identified during the policy development and consultations carried out both in 2012 and 2016. The 2016 consultation specifically asked whether the proposal to allow charities to claim either under the main GASDS allowance or under the community buildings allowance, but not both, presented any specific equality issues or generated any obviously unfair outcomes - none was identified.

## **Summary and preferred option (with description of implementation plan)**

The Government will legislate the proposed changes through the Small Charitable Donations and Childcare Payments Bill 2016. Commencement is planned for 6 April 2017.

Updated guidance on the changes will be published on gov.uk following consultation with stakeholders.

All claims under the GASDS are processed by an IT system which collects information on the number and value of claims made by individual charities. This provides the information that enables us to monitor take up of the scheme.

As with all tax policy, GASDS will remain under review and the Government will continue to monitor the use and effectiveness of the scheme to ensure it continues to meet the stated policy objective.