

**CANCER RESEARCH UK RESPONSE TO
THE TREASURY GIFT AID CONSULTATION PAPER
28th SEPTEMBER 2007**

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EXECUTIVE SUMMARY

Cancer Research UK makes the following recommendations to improve the take up and administration of Gift Aid:

Top priority recommendations

1. Higher rate tax relief on Gift Aid-ed donations to be transferred to the charity by the use of a 'blended' tax rate for determining the value of Gift Aid claims. This blended tax rate would be reviewed each year as a weighted average tax rate between basic and higher rate. This would simplify Gift Aid procedures and allow for the fact that many higher rate taxpayers find claiming this tax relief too complex to be worthwhile.
2. To allow Gift Aid to be claimed on certain gifts in kind. For example, volunteer expenses that are not claimed but instead gifted to the charity by the volunteer. We would also like to see the process simplified on claiming Gift Aid on other income streams such as the sale of donated goods in charity shops.
3. To review income streams that are based largely on one-off cash donations with the intention of allowing Gift Aid to be claimed on the basis of agreed rates. There would then be no need to hold a Gift Aid declaration, thereby overcoming the difficulties faced by charities in capturing individual donor details in these circumstances e.g. house to house, street and, in particular, In Memoriam collections where it can be inappropriate and insensitive to approach supporters with additional administration requests.

Other recommendations

4. A commitment by the Government that when legislative changes affect charity sector income, transitional measures are introduced to minimise the impact. This will allow charities to plan their finances with more confidence that their income is secure for the short and medium term. For example, transitional measures should be introduced when the basic rate of income tax falls to 20% in April 2008. (For more detail on this recommendation please see Appendix 1.)
5. For small Gift Aid claimants the introduction of a 'flat rate' Gift Aid scheme analogous to the VAT flat rate scheme. This would enable Gift Aid administration to be simplified where specialist administrative skills may be lacking. Branches of larger charities could fall within this scheme. (For more detail on this recommendation please see Appendix 2.)
6. HMRC Gift Aid audits to introduce a de-minimus limit, for example 10%, for untraced Gift Aid declarations before Gift Aid has to be repaid by a charity. This would help to make sure that charities are not unnecessarily penalised.
7. For larger charities HMRC Gift Aid audits could be more regular but less time consuming to avoid the potential 'time bomb' of having to pay back Gift Aid going back over several years.
8. Co-ordinated research into, and promotion of, Gift Aid to the public and the charity sector. One suggestion is the creation of a properly funded agency, independent of the Government, such as a longer-term reincarnation of the

'Giving Campaign'. Such a centralised resource would help to increase awareness and understanding of the Gift Aid scheme.

9. A commitment by HM Revenue & Customs to set up a dedicated Gift Aid website. This should be combined with a fundamental review of current Gift Aid materials to ensure that they are appropriate to the needs of users.
10. The creation of a national database of Gift Aid declarations which is available to all charities. This would also enable a donor to make a one off universal Gift Aid declaration to UK charities and would greatly decrease the administrative burden on charities. As it will be important to further consider how such a database could be implemented (including issues of data protection), the Government should look into utilising existing HMRC databases and systems. We understand that this may take time and is considered to be a longer term measure.

Cancer Research UK would welcome the opportunity to discuss these recommendations further.

BACKGROUND TO GIFT AID AT CANCER RESEARCH UK

Gift Aid is a key income stream for Cancer Research UK – in 2006/07 the scheme generated approximately £23m of income. This income could cover the cost of running approximately 23 laboratories within the Cancer Research UK London Research Institute for a year. Scientists at this Institute are conducting intricate laboratory studies to discover exactly how and why cancer develops. This knowledge is essential for developing new ways of preventing, diagnosing and treating cancer. Gift Aid is claimed on the majority of the Charity's eligible donation income, utilising a variety of processes.

Regular testing is performed on these processes and action plans are developed to address the root causes of any errors identified. The action plans often bring about income and process improvements. The Gift Aid consultation paper offers Cancer Research UK a substantial opportunity to express its views on how it promotes and manages Gift Aid and what changes can be made to improve the take up and administration of the scheme within the sector.

Cancer Research UK is also active within the charity sector in terms of promoting and improving Gift Aid. We have been instrumental in setting up the Gift Aid Best Practices Forum, a sector wide initiative to share best practice on promoting, managing and claiming Gift Aid. We are also closely involved with the Charity Tax Group and its work in this area.

DETAILED RESPONSE

Section 1: Small and Local Charities

Cancer Research UK is the largest charity in the UK and is supported by approximately 900 fundraising committees. These groups are operated by volunteers and operate in a way that is similar to many small and local charities. We have used our experience with them to respond to this section of the consultation.

Q1: How can the Government work with charities to increase their overall awareness and understanding of Gift Aid?

The Government should ensure that charities are provided with adequate and appropriate information about Gift Aid so that they can increase awareness and understanding of the scheme amongst their staff and supporters. Some suggestions for this include a reviewed HMRC website with updated materials (see Executive Summary point 9) and a funded agency, independent of Government, to co-ordinate research into, and promotion of, Gift Aid to the public and the charity sector (see Executive Summary point 8).

Q2: What proportion, if any, of your donations are made using Gift Aid? If this proportion is small, why do you think this is the case? If this proportion is relatively large, what challenges do you face and how have you overcome them?

An average 2% of the income received from Groups of Friends and Local Committees (“groups and committees”) is Gift Aid-ed. The take up rate is low due to the way in which the money is raised and/or donated, for example through ticketed fundraising events and cash collections. The introduction of blanket claim rates for one-off cash donation income streams would improve this percentage (see Executive Summary, point 3).

In addition, groups and committees are often uncomfortable in approaching their supporters for the additional information needed to enable Gift Aid claims to be made. They also tend to be confused concerning the information that they need to supply to Cancer Research UK to support Gift Aid claims. To help counteract this, a Volunteer Guide has been prepared for release later this year, which will include key facts about the Gift Aid scheme, Frequently Asked Questions and key processing guidelines.

Q3: Do you make Gift Aid repayment claims? If not, why not?

Yes. We make separate Gift Aid repayment claims every quarter for personal donations and special modified claims that cover the Charity’s sponsored events.

Q4: What kind of guidance or mechanisms do smaller charities need to support them in the Gift Aid process and what format should this take?

Gift Aid rules and regulations need to be easier to understand and communicate. Our groups and committees would then feel more comfortable and confident in distributing and discussing this information with their supporters. We also need better literature and resources to help groups and committees promote and claim Gift Aid (see Executive Summary, points 8 & 9).

Section 2: The Donors

Q1: Do you find that Gift Aid encourages your donors to give more?

Although we have not conducted any specific research into this area, it is our understanding that Gift Aid most directly affects the value of the donation when larger sums of money are involved. In other words those who sponsor participants in events, committed monthly givers and cash donors, who pledge £10 or £20, are mainly concerned with the actual amount of cash they can afford to donate. However, our higher value donors, who pledge more than £1,000 for example, may well consider the tax implications of their gift before deciding the amount they wish to give.

Related research¹ has shown that approximately 70% of supporters feel that being able to make tax efficient donations to charity is either fairly or extremely important to them. It has also been noticed that the more committed a supporter is to the Charity, perhaps agreeing to a monthly or yearly gift, the more likely they are to give a Gift Aid declaration. However, any increase in the value or volume of donations to charity cannot be solely attributed to Gift Aid as there are many other contributing economic and social factors.

Q2: What do you think are the perceived barriers to using Gift Aid amongst the general public?

The main barriers to Gift Aid are perceived as:

- fear of unsolicited mailings from providing full name and home address details
- fear of tax inspections - a perception exists that claiming Gift Aid may put the donor's tax affairs under HMRC review
- donors not understanding whether they are taxpayers
- lack of understanding about the Gift Aid scheme
- financial and legal sounding declarations and explanatory notes required on Gift Aid materials – they are complex and off-putting to many lay users.

Q3: How can the Government work with the sector to raise the awareness of Gift Aid amongst donors?

To raise awareness of Gift Aid amongst donors, the Government should run or support a sector campaign along the lines of the Giving Campaign. This would provide a much needed centralised resource to carry out consistent research into, and promotion of, Gift Aid to the public and the charity sector (see Executive Summary, point 8).

¹ IPSOS-MORI Omnibus survey carried out for Cancer Research UK (September 3rd-7th 2007)

Section 3: Wealthy Donors and Higher Rate Taxpayers

Q1: What proportion of your donors giving large sums of money donate using Gift Aid?

For our “Friends” group of supporters, who give between £250 and £10,000 per annum, we have a 70% take up rate for Gift Aid. For our “Major Donors”, who give in excess of £10,000 per annum, we have a 25% take up rate for Gift Aid. The low take up rate for “Major Donors” is due to a number of different reasons:

- many “Major Donors” choose to make their donations via their own organisations or trusts
- many large donations are one-offs, resulting from a house sale or inheritance for example, and the donor may not have paid sufficient income or capital gains tax in order to make a Gift Aid declaration
- many “Major Donors” are not resident in the UK and may therefore pay a limited amount of UK income tax.

Q2: Do you believe that the higher rate relief encourages wealthy donors to give? If so, what evidence do you have of this?

It is our understanding that some wealthy donors are encouraged to give to charity due to the tax reliefs that are available to them. Whilst we have not carried out specific research with our wealthy donors on this issue, general research² has shown that approximately 40% of supporters feel that the ability to claim tax on their donations to charity is quite or very important to them, although approximately 35% of supporters feel that it does not affect their decision to donate to charity either way.

Q3: Have you employed any particular methods to increase awareness of the higher rate relief? How successful has this been?

A marketing campaign is being planned for our “Friends” group of supporters, who give us between £250 and £10,000 per annum, around the concept of higher rate tax relief and also the self assessment tax return donation scheme (SA Donate).

Q4: In your experience, do higher rate taxpayers also donate the tax relief that they receive on Gift Aided donations? Which mechanisms are they using to do this?

Due to the way in which the HMRC schemes operate, we have no way of identifying whether a supporter donates the higher rate tax relief that they receive on their charitable donations. However, we are able to monitor the use of the SA Donate scheme. In 2005/06 Cancer Research UK received 155 donations from supporters who were due a tax repayment, which represents 8% of all donations made to UK charities via this mechanism.

Q5: Are you promoting the use of SA Donate? If so, how?

When SA Donate was introduced we included an article about it in our supporter newsletter. We also ensured that details of the scheme were available on our website – including our SA Donate unique reference (UAA95LG). We also plan to promote SA Donate as set out in answer 3 above.

Q6: What, in your view, are the key reasons for higher rate taxpayers not donating their additional tax relief?

² IPSOS-MORI Omnibus survey carried out for Cancer Research UK (September 3rd-7th 2007)

The barriers to donating higher rate tax relief are perceived as:

- inability to use SA Donate on Short Tax Returns and online Tax Returns
- low number of tax returns issued by HMRC – most higher rate tax payers are not required to complete a self assessment tax return
- lack of awareness by donors of the ability to claim higher rate tax relief and the ability to donate tax repayments to charity
- insufficient records kept by donors to be able to include charitable donations on their tax returns
- the complexity of the current process, resulting in charities being uncomfortable about promoting the scheme due to their lack of understanding
- charities' inability to identify and monitor supporters who are higher rate tax payers.

Q7: What measures might encourage higher rate donors to donate their additional tax relief?

Measures to increase the donation of higher rate tax relief could include:

- paying the tax relief directly to the charity, for example by the use of a 'blended' tax rate (an average tax rate between basic and higher rate - see Executive Summary, point 1). We believe that a 'blended' tax rate for all Gift Aid claims would simplify Gift Aid procedures and allow for the fact that many higher rate tax payers find claiming this tax relief too complex to be worthwhile
- making the SA Donate scheme available on the Short Tax Returns and online Tax Returns
- introducing a simple form to allow higher rate tax payers, who do not complete a tax return, to claim the higher rate relief on their Gift Aid-ed donations. This form could also have the option to donate the repayment to charity
- either using the same reference code as the charity's registration number for the SA Donate scheme, or removing the need to give a reference code altogether and allowing the supporter just to write the name of the beneficiary charity on the form.

Q8: How can the government work with the sector to raise awareness of the higher rate relief amongst wealthy donors?

To raise awareness of the higher rate relief amongst wealthy donors, the Government should run or support a sector campaign along the lines of the Giving Campaign (see Executive Summary, point 9).

Section 4: Gift Aid in Respect of Admissions

Cancer Research UK does not charge for the right of 'admission'. As a result, we have not responded to this part of the consultation.

Section 5: The Record-Keeping and Auditing Process

CLAIMS AND RECORD KEEPING

Q1: What are the main challenges you face in claiming Gift Aid?

The main challenges we face are around maintaining robust processes and procedures across a large and diverse organisation involving volunteers, paid staff and outsource providers with both manual and automated systems such that all necessary records are made and preserved to support valid Gift Aid claims. We have calculated that Cancer Research UK employs the equivalent of seven full-time staff to administer Gift Aid.

Q2: How do you keep track of your donors, donations and claims? Could the process be simplified?

Due to the wide diversity of income streams within the Charity, keeping track of our donors, donations and claims can be by manual process (including spreadsheets), by databases and by bespoke computer systems.

The process could be simplified if:

- there was a national database of all Gift Aid declarations for use by all charities, thereby removing the need to store and test declarations and saving a significant amount of resource (see Executive Summary, point 10)
- Gift Aid for our smaller Gift Aid income streams, such as groups and committees, could be claimed on the basis of a flat rate scheme (see Executive Summary, point 5). This would work by assuming that a certain percentage of all individual donations are from UK taxpayers and should automatically qualify for Gift Aid. It would allow charities to claim back a proportion of Gift Aid without the need for charities and donors to fill in any paperwork. In particular, it would benefit smaller charities that may not have the specialist expertise or resources to develop accounting and fundraising systems that can withstand robust Gift Aid audit procedures
- claims could be submitted online rather than by post. This would speed up the process and avoid problems with missing or damaged CDs, incorrectly formatted files etc.

Q3: Do you use the record keeping process to follow up with donors that have made gifts through Gift Aid?

Yes.

Q4: Do you use IT to support keeping a record of Gift Aid declarations? If so what do you use and how helpful is it? Are there other ways that IT systems could support the process?

Yes, we use a number of commercial databases and scan declarations using several outsource providers, some of which can be viewed online and some of which are stored on CDs. The latter can be problematic if the CDs become corrupted,

especially if they are old CDs and the service providers have changed since the documents were scanned. However, in general, the use of databases and scanned images does assist with the easy storage, retrieval and analysis of Gift Aid declarations.

If a central database of Gift Aid declarations were introduced, with donors agreeing that all donations made by them were to be Gift Aid-able irrespective of the charity donated to, this could be accessed via the web removing the need to store individual declarations within the charity (see Executive Summary, point 10).

AUDIT PROCESS

Q1: What has your experience been of the Gift Aid audit process and what challenges have you faced?

The auditor was practical and helpful. However, the underlying process imposes large time and resource demands on a charity, which have to be accommodated in addition to normal activities.

Particular challenges were:

- **Locating declarations** – due to the ongoing nature of declarations, even though the audit sample was drawn from recent claims the declarations applying to these donations could be 6 years old. Storage practices and underlying technology have evolved over this time but it can be very time consuming and difficult to locate declarations made 6 years previously, especially if stored in hard copy as opposed to scanned
- **Donor names** – as HMRC guidance has been clarified and tightened, declarations which were previously acceptable, e.g. in the name of Mr Smith, are now unlikely to be considered acceptable
- **Repairs of audit samples** – final settlement of our repayment has now been delayed for over 12 months because of this issue. When the current Gift Aid scheme was introduced in April 2000, if a Gift Aid declaration included in an audit sample could not be located, a new declaration could be obtained. As a result the declaration was not included in the rate used to extrapolate the audit errors across the population to calculate the repayment due to HMRC. When this practice was changed in August 2004, it was understood that to ensure charities audited before and after this date on claims made between April 2000 and August 2004 were treated consistently, such repairs would be allowed to reduce the error rate on such claims. The higher error rate would then only being applied to claims made after August 2004. The delay in the confirmation of this position, as well as the lack of publicity around the change in system, is very disappointing. We suggest the previous method of extrapolation was more appropriate and should be adopted again in future.

Q2: If you have faced any particular difficulties, how do you think the process could be improved?

The audit process could be improved in the following ways:

- **Introducing a de minimus system** – the problem with locating declarations will grow as the Gift Aid scheme continues. The process can be improved by recognising that there can be problems in locating declarations and audit trails which does not mean that the original claims were incorrect but simply that the passage of time and human error can lead to misfiling, lost records etc. This could be reflected by repayments only arising from Gift Aid audits if

the error rate exceeded a given limit, such as 10% (see Executive Summary, point 6)

- **More frequent audits** – for larger charities, having an audit every six years can lead to a large liability to repay Gift Aid. We suggest that for larger charities the audit process is made more regular to avoid this potential ‘time bomb’. Alternatively, a specific income stream could be audited per year, with any errors being extrapolated to that income stream’s Gift Aid claims only. The audits could also be made less time consuming by making them more risk and process based, rather than relying on substantive testing (see Executive Summary, point 7)
- **Donor names** – if HMRC guidance becomes more stringent, the guidance in existence at the time the declaration was obtained should continue to apply to any claims relating to that declaration.

APPENDICES

1. Explanation of Transitional Relief

The problem

In the last Budget the then Chancellor Gordon Brown announced that the basic rate of income tax would be lowered from 22% to 20% for the year to 5 April 2009.

This was very bad news for charities like Cancer Research UK that claim substantial amounts of Gift Aid. This is because in making a Gift Aid claim a charity is getting back the tax that the donor has already paid at the 'basic rate'. So in one fell swoop the value of Gift Aid claims was reduced by over 11%.

It is estimated that based on our expected Gift Aid claims for the year to 5 April 2008 this will cost Cancer Research UK £3m per annum. The cost to the sector as a whole is expected to be of the order of £80m per annum.

What is transitional relief?

Transitional relief would involve a gradual change in the rate at which charities claimed Gift Aid from 22% to 20%. This could, for example, be in equal amounts over three years.

Transitional relief recognises that it is the right of the Government to set the basic rate of tax. Neither does Cancer Research UK wish to encourage its supporters to pay more tax than they need to. But where charities, many operating on very tight budgets, have suffered a significant loss of anticipated income through factors beyond their control, they need financial help to tide them over the financial hardships that this would cause.

The Government is committed to Gift Aid and has introduced this Gift Aid consultation to increase Gift Aid take up. However the benefits of the Gift Aid review will take time to become part of everyday charity life. Transitional relief will help bridge that period before the impact of the Gift Aid consultation can make a difference and should not preclude other initiatives to Gift Aid practice or administration.

What would be the financial benefits of introducing transitional relief?

For Cancer Research UK the benefit of transitional relief over a three year period would be approximately £4.5m and for the charity sector as a whole would be approximately £120m.

Is transitional relief complicated to put in place?

We believe that transitional relief is a simple and practical process to put into place. The Gift Aid process would be exactly the same as it is now. The only change would be the rate at which each Gift Aid claim was calculated.

2. Explanation of VAT Flat Rate Schemes

A 'flat rate' Gift Aid scheme

A Gift Aid 'flat rate' scheme could be introduced which would mirror aspects of the existing VAT flat rate scheme.

The VAT flat rate scheme allows businesses with an annual turnover for VAT purposes below a certain level to adopt a simplified form of accounting for VAT. VAT is paid across to HMRC based on a percentage of the 'tax inclusive' turnover. This percentage will differ depending on the type of business concerned. The aim of the provision is to reduce the administrative burden for smaller businesses.

In a similar way smaller charities (including self accounting branches of national charities) could have the option of claiming Gift Aid based solely on a percentage of donations they receive. The charity or branch would not be required to keep Gift Aid declarations although it would be necessary to be able to support the figure given for donations.

The percentage to apply as a flat rate could come from a range, as with the VAT flat rate scheme, and should be agreed on a risk assessment carried out by HMRC. This might be based on the completion of questions from a simple standard form.

This option would allow smaller charities and branches of national charities to considerably reduce the administration of Gift Aid compliance. It would also reduce the likelihood of adverse outcomes from HMRC Gift Aid audits. Liabilities from such inspections generally come from missing Gift Aid declarations rather than from unsubstantiated donations.

3. Comments on Corporate Gift Aid, CAF Vouchers, Payroll Giving and Use of Fulfilment Houses

Corporate Gift Aid

We are aware that there are widespread concerns in the charity sector about the changes in corporate Gift Aid that took effect from 6 April 2000.

Prior to that date corporate Gift Aid was paid after the deduction of basic rate income tax. From that date the payments were made gross. This change significantly reduced the administration involved in tax efficient corporate giving.

However, the changes had the following unfortunate consequences:

- many corporate givers continued to pay the net amount they had previously given. As a result, many charities were financially worse off; and
- the change created confusion with Gift Aid for individuals where the tax continued to be claimed by the charity.

In an ideal world we would like to see an alignment of corporate and individual Gift Aid. The charity would claim the tax. However, we only wish to see a change if this can be agreed without returning to the complexities of administering corporate Gift Aid prior to 6 April 2000. We believe that it is essential to ensure that tax efficient giving is as simple as possible for our corporate givers.

To ensure simplicity, charities might claim basic rate income tax on a corporate donation. The corporate donor would then not claim the payment as a deduction from its profits subject to corporation tax.

If the Government wished to especially promote a culture of corporate giving to charity, then the company might also be allowed to claim corporation tax relief on the charitable payment. To give additional tax relief would not be without precedent. It could be seen as being similar to the enhanced tax relief available for research and development expenditure.

Charities claiming Gift Aid 'on behalf' of other charities – CAF Vouchers

We are aware that for many taxpayers the use of a scheme for tax efficient giving like this, as promoted by the Charity Aid Foundation (CAF), has many advantages – especially for the smaller charity. Under a scheme like this a donor makes a donation to a charity that is subject to Gift Aid. This creates an account that the donor can then use to make donations to charities of his or her choice.

This has the potential to ensure that smaller charities can benefit from tax efficient giving through CAF whilst they do not have to manage the administrative burdens of Gift Aid - such as the keeping of Gift Aid declarations and maintaining robust audit trails. It also makes it simpler for the donor to obtain tax relief on his or her donations as the number of charitable payments that need to be recorded are fewer.

We would encourage the Government to consider how schemes like this could be used on a larger scale.

Payroll Giving

Payroll Giving is an important income stream for Cancer Research UK. In 2006/07 the income generated in this way amounted to approximately £3.7m.

The advantages of Payroll Giving include the supporter getting tax relief on his or her gift to charity immediately (including higher rate relief without the need to complete a tax return) and limited administration required from the charity receiving the gift. This form of giving also encourages the regular giving that charities need to be able to plan for the future with confidence. As the gift is made gross a charity will not normally suffer financial loss when income tax rates change. This contributes to the reliability of the income stream.

However, despite these advantages and a number of Government incentives, Payroll Giving has not been as successful as had been hoped. A key factor accounting for the relatively low take up rate has been the administrative burden of complying with Payroll Giving scheme requirements.

Whilst the focus of this consultation is the Gift Aid scheme, we consider that Payroll Giving complements the Gift Aid arrangements, providing the public with choice as to how to donate to charity. As such we wish to see a flourishing Payroll Giving scheme.

We are conscious that there are other initiatives taking place to review Payroll Giving but we put forward some ideas here highlighting ways in which the scheme might be improved:

- requiring employers over a certain size to (a) offer a Payroll Giving scheme (b) to make that scheme known to new employees; and (c) for employers of listed companies to report the amount of Payroll Giving to charitable causes.
- allowing a Payroll Giving arrangement to be portable when an employee changes jobs. For example, a P45 could have a tick box to notify the new employer of a Payroll Giving commitment. This would lower the attrition rate.
- simplified administration through the promotion of standard forms to be used by Payroll Giving agencies.
- for the Government to commission more independent research on Payroll Giving trends e.g. to determine average gift levels, lapse rates, gender split.

Use of Fulfilment Houses

In common with many charities Cancer Research UK makes use of fulfilment houses, many of which process transactions that result in Gift Aid claims. They act as agents of the charity. As a result, the charity remains liable for any Gift Aid that is claimed incorrectly.

In our experience, HMRC Charity auditors have been willing to deal with fulfilment houses who have expressed a wish to have their systems and procedures reviewed to ensure that they are 'fit for purpose'. When this has happened it has proved to be very helpful.

We consider that there would be merit in exploring how fulfilment houses might gain more formal accreditation for having systems that are capable of processing Gift Aid correctly.

We would also welcome formal HMRC guidance being provided to make charities aware of where they stand when they use a fulfilment house to prepare all or part of a Gift Aid claim. This could also give advice on what questions to ask to gain confidence that a third party can process Gift Aid properly.