

Chapter 4.

PAYROLL GIVING

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4.1 INTRODUCTION

- 4.1.1 Payroll Giving provides tax relief at source for individuals who give to charity by direct deduction from their pay. Pensioners can also use Payroll Giving to give to charity by direct deduction from their occupational pension, but , for simplicity, we will refer in this guidance only to employees.
- 4.1.2 Once an employee has signed up to the scheme the employer simply deducts the relevant amount from the employee's pay before deducting tax under PAYE and sends the payment to the agency charity.
- 4.1.3 Any employee whose pay is subject to PAYE and whose employer has agreed to run an approved scheme (and made all the necessary arrangements) can take part in the scheme.
- 4.1.4 A number of improvements were made to the scheme with effect from 6 April 2000.
 - There are no limits on the amounts that can be given.
 - All gifts made between 6 April 2000 and 5 April 2003 attract a 10% supplement from the Government.
 - Donations and the supplement must now be distributed by the agency charity to the end-recipient charity within 60 days of receipt from the employer.

4.2 AGENCY CHARITIES

What is an agency charity?

- 4.2.1 An agency charity is a charity approved by the Revenue for the purpose of acting as an agency under the Charitable Deductions (Approved Schemes) Regulations 1986 (as amended). IR (Charities) deals with applications for approval.
- 4.2.2 The agency and employer sign a contract which must conform to the requirements set out in the Regulations. The agency's function is to distribute the donated monies to charities nominated by the employees within the prescribed timescale. The agency will also claim and distribute the 10% supplement, within the prescribed timescale.
- 4.2.3 The agency charity is responsible for ensuring that the donations under its scheme go only to charities. If the agency is in doubt it can liaise with IR (Charities).

Can the agency charity claim tax repayments?

- 4.2.4 Since all the tax relief is given to the donor at source, no further tax will be repayable to either the agency charity or the charity receiving the donations.

How does the 10% supplement work?

- 4.2.5 All donations under Payroll Giving made between 6 April 2000 and 5 April 2003 will be topped up by a 10% supplement paid by the Government. Although this is public expenditure, it will be claimed from the Inland Revenue and distributed by agency charities in accordance with Section 38, Finance Act 2000. The supplement is claimed from IR (Charities) by the agency charities and distributed with employees' donations.

Where employees are provided with vouchers by the agency charity the 10% supplement is credited to the employee's account. So the amounts of vouchers given to charities will include the supplement.

4.3 EMPLOYERS

Does an employer have to set up a scheme?

- 4.3.1 There is no obligation on an employer to set up a scheme. But the Government is keen to encourage employers to do so. That is why the Government is promoting the scheme among employers and employees, backed by the 10% supplement on all donations for three years from 6 April 2000.

How does an employer set up a scheme?

- 4.3.2 The first thing an employer should do if he wishes to set up a scheme is to contact an approved agency. The agency will provide the employer with a contract setting out the details of the scheme along with all the necessary forms. It is quite straightforward for an employer to run a scheme because the agency charity shoulders most of the administrative burden.

What does setting up a scheme entail?

- 4.3.3 The employer needs to:-
- tell his employees that they can give to charities through the scheme;
 - let them have forms (provided by the agency) authorising the employer to deduct their charitable gifts from their pay;
 - make the charitable deductions before PAYE is applied. This gives the employees tax relief at their marginal rate;
 - send the total charitable deductions to the agency charity each month at the same time as the PAYE remittance is sent to the Collector of Taxes. The agency will issue a receipt.
- 4.3.4 The agency can offer a number of options:

- personal option, where the employee simply agrees to give specified amounts to named charities out of his pay each week or month
- personal account, where the employee is provided with a charity card or vouchers similar to a cheque book. He can then use the card or vouchers to make gifts to any charity of his choice when he wants to.
- group option, where a group of employees pool their donations, which are then distributed to specified charity or group of charities.
- employers shared giving scheme, where employees' donations are pooled and an employees' committee decides how the gifts should be distributed to charities.

What records should be kept?

4.3.5 The employer should keep the following records:-

- a copy of the employer's contract with the agency;
- a copy of the employees' authorities to make deductions;
- details of payments made by each employee; and
- receipts from the agency charity.

What about the employer's costs?

4.3.6 There may be some additional cost for the employer in running the scheme but these are likely to be absorbed in the existing payroll costs. Any costs will be allowed as a deduction against the employer's profits for tax purposes.

Are there any other costs?

4.3.7 Most agency charities make a small charge to cover their administration expenses. The charge is usually deducted from the employees' donations before they are passed to charity. The amount will be spelt out in the contract. If the employer wishes to pay the agency's cost then, again this will be allowed as a deduction against profits.

Some agency charities do not make any charge for administration. Instead they are funded by the fundraising organisations which will help employers to promote payroll giving in the workplace. They in turn will make a charge to the charities for whom they are fundraising.

4.4 EMPLOYEES

How does an employee join the scheme?

4.4.1 An employee can join the scheme by asking their employer for an application form. This should be filled in and given back to the employer or sent directly to the agency charity depending on the particular arrangements of the scheme.

How does the employee get tax relief?

4.4.2 The gift to charity is deducted from earnings before they are taxed. So the employee gets relief at his highest rate of tax. But the gift does not reduce earnings for National Insurance Contributions purposes.

Which charities can employees support?

4.4.3 Donations can be given to any charity in the UK. Donations can be given to more than one charity or to a consortium made up of different charities.

How does an employee leave the scheme?

4.4.4 An employee can leave the scheme at any time by giving his employer reasonable notice.

Can donations be refunded?

4.4.5 Once a payment has been deducted from earnings and tax relief given the gift must go to the charity. The donation cannot be refunded.

Does the employer have to know which charity receives the donation?

4.4.6 No. It is not necessary for the employee to tell the employer which charity he intends to benefit. Requests can be forwarded directly to the agency charity. It is an important feature of the Payroll Giving scheme that an employee can keep his choice confidential if he wishes to do so.

Can the charity provide any benefits in return for donations?

4.4.7 No. If a charity provides benefits, for example free admission to properties or events, in return for donations the donations will not qualify for relief under Payroll Giving. However, we would not regard items of negligible value, for example newsletters or badges, as benefits for this purpose.