

The Retail Gift Aid Scheme

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Introduction

The Retail Gift Aid Scheme ('RGAS') is an HMRC approved way for charities (and Community Amateur Sports Clubs) to claim Gift Aid on proceeds from the sale of donated goods in charity shops. By claiming Gift Aid shop proceeds can be increased in value by up to 25% (whilst the basic rate of Income Tax is 20%).

RGAS has grown in importance for charity shops in the last five to ten years. Many charity shops now operate RGAS successfully and survive HMRC Gift Aid inspections. However, RGAS is only suitable for goods donated by owners who are UK Income Tax or Capital Gains Tax payers, and it is administratively burdensome, with detailed recording and reporting requirements imposed by HMRC.

Traditionally charity shops have taken ownership and possession of goods when donated. The shop then sells the goods as its own. As Gift Aid can only be claimed on monetary donations and not on donations of goods or on the proceeds from the sale of goods, no Gift Aid can be claimed.

Under RGAS the shop acts as the owner's agent in selling the goods. The sales proceeds, less any commission charged by the shop (the 'net sales proceeds'), belong to the owner at the point of sale. If the owner agrees, the proceeds can then be donated to the charity under Gift Aid, and as a result the charity can claim Gift Aid.

In the guidance below:

‘charity shop’ or ‘shop’ refers to the entity that operates RGAS, usually either the charity or a trading subsidiary of a charity. If RGAS is operated on a large scale, it may be necessary to transfer operation of the scheme to a trading subsidiary, as explained further below.

Summary of the RGAS requirement

- 1** RGAS is exclusively for donations of goods to charity shops (including online shops), it cannot be used for sales of donated goods in other circumstances, for example in an auction at a charity fundraising event.
- 2** The goods must be personal / private goods donated by their owners, for example personal clothing, furniture and other private possessions. Donations of goods by businesses must be excluded, as must donations of land and buildings and donations of intangible assets such as company shares.
- 3** The owner of the goods must pay sufficient UK Income Tax and Capital Gains Tax to cover any Gift Aid claimed by the charity (the Gift Aid ‘tax to cover’ requirement). Shops are not expected to verify that owners are Income Tax/Capital Gains Tax payers and have paid sufficient tax, however shop staff must explain these conditions to potential RGAS owners. See **staff training** below.
- 4** The owner of the goods must make a Gift Aid declaration to the charity. This is a formal declaration that the owner wishes to donate any net proceeds to the charity under Gift Aid and that the owner understands they must be a UK Income Tax or Capital Gains Tax payer, and that they must have paid sufficient UK Income Tax and/or Capital Gains Tax to cover all of the Gift Aid claimed on all of their Gift Aid donations. The declaration should be an enduring Gift Aid declaration, Gift Aiding any current and future proceeds, and should be dated. See **Gift Aid declaration** below.
- 5** The shop must also enter into an agency sales agreement with the owner under which the shop will sell the owner’s goods as agent. HMRC require the terms and conditions of the agency sales agreement to be set out in writing. See **Agency sales agreement** below
- 6** If the shop is registered for VAT, the shop should charge the owner a commission on sales in order to protect the shop’s ability to reclaim VAT on its purchases. This commission is VAT standard-rated income for the shop. Commission rates are usually set at 1% – 5%. The amount that is available for Gift Aid is the net proceeds: the sales

proceeds less any commission charged by the shop, and less any VAT chargeable on that commission. See **VAT implications** below.

- 7 These commissions may be classed as non-charitable trading receipts for the shop for Income Tax or Corporation Tax purposes, and as a result taxable income for the charity if it operates RGAS itself. In order to avoid this, the RGAS operations may be conducted in a trading subsidiary of the charity rather than in the charity itself. See **Income/Corporation Tax implications** below.
- 8 Goods sold under RGAS must be separately identified and labelled so that customers understand the goods are sold by the shop as agent for their owners, HMRC recommend the use of differently coloured price labels. HMRC also recommend shops put up a notice to inform customers that the identified goods are sold by the shop as agent of their owners. RGAS goods labels must identify the owner by use of an owner ID or code, so that when they are sold, the net proceeds can be allocated to the owner's account. See **Handling RGAS goods** below
- 9 Depending on how RGAS is operated, the shop may have to notify the owner of the net sales proceeds before they can be gifted to the charity and Gift Aid claimed. The shop may also have to send the owner an annual statement at the end of each tax year setting out total net proceeds from sales of the owner's goods in the tax year. See **RGAS methods** below.
- 10 The shop must keep records of the Gift Aid declarations made by owners, the agency sales agreements, of letters and notifications sent to owners, of staff training and training materials, and it must carry out periodic checks to make sure RGAS is being operated correctly. See **RGAS record keeping** below

The RGAS methods

There are three ways of operating RGAS:

- **The standard-method** – the owner is notified in writing of the net sales proceeds from every sale of the owner's goods and given 21 days from the date of the letter to claim the net proceeds. Notification can be immediately upon sale, periodically (e.g. monthly or quarterly) or when a certain level of net proceeds is reached, and can be by letter or email, but must include HMRC template wording (see Template letters below). If the owner does not claim the proceeds within the 21 day period, the net proceeds can be assumed Gift Aided to the charity. The charity may not claim Gift Aid until expiry of the 21 day period

- **Method A:** This approach is for when the charity acts as the owner's agent. The owner pre-agrees that the charity may treat as Gift Aided any net sales proceeds up to a cap of at most £100 per tax year (a tax year runs from 6 April to 5 April next)
- **Method B:** This approach is similar to method A but for when a trading subsidiary acts as agent in selling the owner's goods. The owner pre-agrees that the charity may treat as Gift Aided any net sales proceeds up to a cap of at most £1,000 per tax year.

For both methods A and B:

- The shop must send the owner an end of tax year statement (i.e. for the period 6 April – 5 April next) of the total net proceeds from sales of their goods under RGAS. This statement must be sent by 31 May each year. The wording of the letter must follow the HMRC template wording for end of year letters (see **Template letters** below). However if there are no proceeds from the sale of an owner's goods in a tax year there is no need to send an end of year statement to that owner in that tax year. With effect from April 2019, if the owner's total net sales proceeds in a tax year are less than £20, an end of year summary letter only needs to be sent at most once every three tax years. If a letter discloses net proceeds realised in more than one tax year, the letter must separately identify the total net proceeds in each tax year

For example:

	2019/20	2020/21	2021/22
Donor 1			
Net proceeds	£19	£19	£19
	no need to send	no need to send	send for 19/20, 20/21 and 21/22, disclose separately
Donor 2			
Net proceeds	£19	£19	£19
	no need to send	send for 19/20 and 20/21, disclose separately	no need to send
Donor 3			
Net proceeds	£19	£19	£19
	send 19/20	no need to send	send for 20/21 and 21/22, disclose separately

- If the net proceeds from sales of an owner's goods in any tax year exceed the method cap (i.e. at most £100 for method A or at most £1,000 for method B) the shop must notify the owner of all net proceeds above the cap and give the owner 21 days to claim. The donor must be able to claim any net proceeds above the cap. Notification can be done immediately, periodically (e.g. monthly or quarterly or annually) or when a certain level of net proceeds is reached, however the net proceeds above the cap cannot be Gift Aided until expiry of the 21 days notification period.

For all methods

Shops may use email to send all in-year and end-of-tax year Gift Aid letters, but if a shop is alerted to an email having been rejected by receiving an 'undeliverable' message, they must follow up and send the owner a letter by post too.

Agency sales agreement

There must be a written agreement between the individual and the shop under which the shop will sell the owner's goods as agent. The agreement can be a document signed by the owner, or a leaflet or information sheet given to the owner. The agreement should cover the following points:

- the owner must be made aware that they're not donating the goods, but arranging for the charity to sell them on their behalf
- the agreement must specify that a commission will be charged for selling the goods on their behalf. The agreement should make clear if the commission is stated net or gross of VAT (e.g. 3% plus VAT or 3% including VAT)
- if the cumulative net sales proceeds in a tax year are less than the method cap, the charity will not have to notify the owner before it claims Gift Aid on the amount
- if the net sales proceeds exceed £100 or £1,000, the agreement should specify that the shop will contact them, so that the individual has an opportunity to decide whether to donate the proceeds in excess of £100 or £1,000. The letter should give the individual 21 days to let the shop know if they do not want to donate the additional amount to the charity
- an end of tax year statement will be sent and in what circumstances
- If the goods are considered by the shop to be unsaleable, the shop may dispose of the goods as it sees fit
- The shop may clean the goods and carry out repairs at its own discretion
- The owner may request an annual statement from the shop
- The shop may alter the terms of agreement, for example in order to accommodate future changes to RGAS made by HMRC

Gift Aid declaration

This can be in writing or oral.

This should be an 'enduring Gift Aid declaration' so the charity can carry on claiming Gift Aid for the owner's future donations. An enduring Gift Aid declaration is a declaration by the owner that all net proceeds from present and future sales (and if possible sales made in the previous four years) are to be Gift Aided to the charity. The declaration should be dated. HMRC provide a model enduring declaration, see **Template letters** below.

Probably the most straightforward approach is for a trained member of staff (employee or volunteer) to explain RGAS to owners of goods and if an owner agrees to sign up to RGAS, give the owner a printed leaflet to read, sign and return, the leaflet comprising the agency sales agreement and an enduring Gift Aid declaration. The owner is then given a printed document setting out the terms and conditions and confirmation of the Gift Aid declaration.

However there are many other ways of achieving this, for example the owner could enter into an oral agency sales agreement and make an oral Gift Aid declaration. The shop must then send the owner a letter confirming the declaration within 30 days. This letter can be sent by email or by post but it must include all the details provided by the donor in their oral declaration. The letter should give the owner 30 days from the date of the letter in which to cancel the declaration. At the same time the owner is sent the terms and conditions of the agency sales agreement.

Staff training

All shop staff (employees or volunteers) responsible for operating RGAS must understand and be able to explain the nature of the arrangements, how Gift Aid applies, that the owner must have paid sufficient UK Income Tax and Capital Gains Tax and the consequences of not doing so.

Shops are expected to keep records of staff training and of training materials and shops must undertake regular checks on a periodic or sample basis, as appropriate, to ensure the processes are being followed correctly. Records of such checks must be kept for possible inspection by HMRC.

Shops may not operate incentive schemes or provide monetary rewards to staff relating directly to operating RGAS such as setting targets for Gift Aid take up, publishing league tables of shops, giving staff bonuses, incentives, or otherwise rewarding increased Gift Aid claims from individual shops. Where targets or other schemes are in place, they should only be used for monitoring performance and identifying training needs, rather than to directly reward shop staff.

Handling RGAS goods

It is advisable to distinguish RGAS goods from other goods at the point of collection, for example by putting RGAS goods brought into the shop into differently coloured bags, each of which is tagged with the owner's details, or by attaching donor ID labels to collected items such as furniture.

The RGAS goods must then be individually labelled and identified to the owner. HMRC expect shops to allocate a unique identity code or number to each owner and use this on the price labels attached to their goods so that the proceeds from the sale of each item can be linked to the correct owner. RGAS goods must be identifiable from other goods sold by the shop, for example by using differently coloured price tickets or labels on the goods.

The shop must also make customers aware that they are selling RGAS goods on behalf of individuals. For example, a shop could put up a notice or poster to that effect in the shop window or by the till stating that items identified by the tickets or labels are sold as agent for the owner under the Retail Gift Aid Scheme.

There are now several EPOS systems that can handle or can be adapted to handle RGAS. Such products may be able to: generate donor IDs and goods labels, assign sales proceeds to owners, generate owner notifications and end of year statements and generate Gift Aid claims.

Rag and scrap

Where RGAS goods are put into rag or sold as scrap, if (and only if) the proceeds can be tracked back to each individual RGAS owner, then they can be Gift Aided in the same way.

As rag proceeds are based on weight, the RGAS goods must be weighed. The rate received for the goods (£ per kg) is multiplied by the weight of the RGAS goods and attributed or apportioned to the RGAS owners.

One approach is to weigh the RGAS goods as they are put into rag and put them into separately identified bags (e.g. of a different colour), recording the owners' IDs and weights as they are put into the bags, so the ownership and weight of each item in the RGAS bag is known. The net proceeds from the RGAS bags are then apportioned to the RGAS owners based on weight.

Template letters

There are currently five HMRC template letters for RGAS and also the HMRC template enduring Gift Aid declaration. HMRC update the templates from time to time

Gift Aid claim template letter: standard method	https://www.gov.uk/government/publications/gift-aid-claim-template-letter-standard-method
Gift Aid template letter for sales above the cap: method A	https://www.gov.uk/government/publications/gift-aid-template-letter-for-sales-above-the-100-limit-method-a
Gift Aid template letter for the end of year: method A	https://www.gov.uk/government/publications/gift-aid-template-letter-for-the-end-of-year-method-a
Gift Aid template letter for sales above cap: method B	https://www.gov.uk/government/publications/gift-aid-template-letter-for-sales-above-the-1000-limit-method-b
Gift Aid template letter for the end of year: method B	https://www.gov.uk/government/publications/gift-aid-template-letter-for-the-end-of-year-method-b
Gift Aid declaration – enduring	https://www.gov.uk/government/publications/charities-and-cascs-gift-aid-declaration-forms-for-multiple-donation

Change of owner details

Any adjustments required as a result of the owner notifying the charity of a change in tax status or other details such as a change of address, must be actioned by the charity within 2 months.

RGAS record keeping

Shops must as a minimum retain the following records:

- the owners' Gift Aid declarations
- copies of any written agreement with the individual under which the shop is appointed as agent to sell the owner's goods
- records of any changes in process between the Standard Method, Method A or Method B and the movement of individuals from one process to another
- records to show that the individual has been notified of the net sale proceeds where required
- records to show that end of tax year letters have been sent to all owners under Methods A or B
- records tracing gift aid claims back to the sales of donated goods to individual owners
- if goods are sold by a trading subsidiary of a charity, records to show how the net sales proceeds are transferred to the charity

HMRC say: –

Commissions charged by charities or their trading subsidiaries must be set at a reasonable rate to cover the costs of operating the scheme. Charities may be asked by HMRC to explain how they've set their commission rates. Because the agency arrangement for selling goods on behalf of an individual is a business activity, commissions charged are a consideration for a taxable supply and VAT must be accounted for at the standard rate. If the commissions charged do not reflect the real costs of acting as agent to sell goods on behalf of individuals, it will not constitute a business for VAT purposes. Under these circumstances any VAT incurred on costs associated with the agency arrangement will not be recoverable by the charity or subsidiary trading company.

In practice commission rates of between 1% and 5% seem to be generally adopted by charity shops.

Income / Corporation Tax implications

HMRC does not consider the sale of donated goods by a charity or by its trading subsidiary, acting as principal, to be a trade but as the realisation of the value of a gift.

However, HMRC does see the provision of agency services for a commission under RGAS to be a trading activity.

This trade will be an exempt trade for a charity if:

- It is beneficiary trading – the work in connection with the trade is mainly carried out by the charity's beneficiaries, or
- It is primary purpose trading – the trade directly furthers the charity's objects or is an ancillary trade (i.e. it doesn't directly further the charity's objects but is undertaken in the course of doing so), or
- It is small scale – the annual turnover from the trade, together with the annual turnover from all other non-exempt trading, does not exceed the small scale trading limits. These limits were increased with effect from accounting periods commencing from 1 April 2019 to the lesser of 25% of the charity's total incoming resources and £80,000.

In other situations, the operation of RGAS can be transferred to a trading subsidiary. Any profit on the agency sales made by the trading subsidiary is subject to Corporation Tax, however the trading subsidiary may be able to Gift Aid that profit to the charity and reduce its taxable profit to nil (and in a way that is recommended by HMRC).

If RGAS is operated by a trading subsidiary:

- The agency sales agreement should be between the trading subsidiary and owner, however the Gift Aid declaration must be made out to the charity
- The trading subsidiary should receive the net commissions as its income, for example they should be banked into a trading subsidiary bank account. It may be possible for the charity to collect the commissions as the trading subsidiary's agent, bank them into its own bank account and then transfer to the trading subsidiary's account
- If RGAS method B is operated, it is unlikely you will exceed the £1,000 cap per owner for the average UK donor, and so only have to ever send end of year letters to RGAS donors

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