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For centuries charities have played a significant and privileged role in society and their importance is recognised in the favourable tax treatment they enjoy. Tax relief for gifts to charity is significant and benefits both the donor and the charities. If you would like to maximise the benefit a charity receives from your donations and minimise the amount of tax you pay, you may like to consider giving in one of the ways discussed below.

Income Tax

1. Gift Aid

The Gift Aid scheme allows you to give cash to a charity, or ask a charity to sell your unwanted items on your behalf in its shop, and claim tax relief on your gift. The charity will reclaim the basic rate tax from HMRC. It is important that you have paid enough tax (either Income Tax or Capital Gains Tax) to cover the basic rate of tax on the gross gift. For example, if you decide

to give £100 to charity from your net income, the gross gift is £125. You must have paid £25 in tax during that year as the charity will reclaim £25 from HMRC. If you are a higher rate taxpayer, you can reclaim for yourself the additional tax of 20% (or 25% for higher rate taxpayers taxed at 45%), being the remaining tax you have paid on the gross gift after the charity has reclaimed the basic rate tax. You can also choose to nominate a charity to receive your repayment. It is possible to carry back a Gift Aid payment to create a tax repayment for a previous year. If you would like to make a donation under the Gift Aid scheme, the charity should be able to supply you with a simple form to sign.

2. Payroll Giving

“Give As You Earn” schemes are run by employers and allow employees to give any amount to charity through PAYE deductions. Tax relief is given in a similar way to the Gift Aid scheme. Payroll giving is

often the most tax efficient way of regular giving, especially if you are a higher rate taxpayer, as no tax is ever paid. It is also very simple for you, the donor. However, not all employers run these schemes. In fact, two years ago an independent review of the schemes found that around half of all UK employers do not run payroll giving schemes. It is also difficult to move the scheme when employees change jobs. The schemes have not proved very popular as they are perceived as bureaucratic, inefficient and lacking the direct contact between charities and donors that leads to long-term relationships. Schemes must be approved by HMRC.

3. Deed of Covenant

A Deed of Covenant used to be required to achieve tax relief but since 2000 this has not been necessary. Deeds which are still running will continue to qualify for tax relief under the Gift Aid scheme until they expire.

4. Gifts of Assets

You can claim relief from Income Tax for the full market value of quoted shares and securities given to charities as well as freehold and leasehold property situated in the UK. The relief is reduced by the value of any benefit or payment you receive from the charity. For example, if you sell shares with a market value of £5,000 to a charity for £1,000, you will be entitled to tax relief on £4,000. The relief is given by deducting the market value of the shares (reduced as above if necessary) from your total taxable income, so that you pay less tax. The relief is granted at the rate at which you pay tax, so is more for higher rate taxpayers.

Capital Gains Tax (CGT)

A gift normally counts as a disposal at market value for the purposes of CGT. However, if you make a gift of shares or other assets to a charity, there is no charge to CGT, unless you receive a payment from the charity which is more than the cost of the shares. If you receive less than the cost of the shares, i.e. you make a loss, you will not be able to claim the loss for CGT purposes (though Income Tax relief may be possible as above). You should obtain confirmation from the charity that the gift has been made.

Inheritance Tax (IHT)

Any outright gifts made to charities in the UK, EU, Norway and Iceland in your lifetime are exempt from IHT.

Many charities rely heavily on gifts made by people through their Wills. Those gifts may take the form of specific legacies (e.g. cash, specific items, or land) or gifts of the whole or part of the residue of their estate. If part of a person's estate is left to charity, the IHT rate is reduced because the part left to charity is exempt from IHT. The IHT rate is reduced from 40% to 36% where 10% or more of the net estate is given to charity. Calculating the net estate is complex. If you wish to make a charitable gift in your Will, we can advise you on the most appropriate way to do so. If you are contemplating leaving part of your estate to a charity and part to your family or a friend, you should seek professional advice as this requires care to ensure your wishes will be carried out. Otherwise there is a significant risk that the gifts may not take effect as you intended.

Miscellaneous

You can donate any tax refunds directly to charity by filling out the relevant section on your self assessment tax return and, if you wish, use Gift Aid to add to the value of your donation.

Substantial Donor Rules

These rules are a result of anti-avoidance legislation which is designed to restrict a charity's tax exemption where particular transactions result in all or part of a donation being effectively returned to the donor in cash or in kind. The rules are complex and if you intend to donate at least £25,000 to a charity in a period of twelve months, or at least £100,000 to a charity in a period of six years, you may wish to seek advice to ensure that the charity will be able to claim the tax relief available to it.

Donating to foreign charities

Legislation has recently been introduced to extend UK charitable tax reliefs to certain organisations equivalent to UK charities in the EU and in the European Economic Area (EEA) countries of Norway and Iceland. If you wish to donate to an organisation in one of these countries, please contact us so that we can discuss the specific requirements that apply to such donations.

Conclusion

The above methods of giving to charity highlight the benefits to both individuals and the charities themselves. Compare the advantages with giving to collectors in the street, where often no tax can be reclaimed.

In addition to advising on charitable gifts, our Charities Team also provides a complete service to charities by giving advice on creating new charities, registration with the Charity Commission, charity administration, the duties and responsibilities of trustees, mergers and dissolution of charities.

Talk to us...



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