



# Fenn and Co

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## **Charitable Giving**

If you are thinking of making a gift to charity, this factsheet summarises how to make tax-effective gifts. You can get tax relief on gifts to UK charities if you give:

- under Gift Aid
- through a Payroll Giving scheme, run by your employer, or
- by making a gift of certain shares or land.

### **Gift Aid**

If you pay tax, Gift Aid is a scheme by which you can give a sum of money to charity and the charity can normally reclaim basic rate tax on your gift from HMRC. That increases the value of the gift you make to the charity. Although the basic rate of tax has reduced from 22% to 20% in 2008/09, charities will still for the next three years be able to recover 22% tax. So for example, if you give £10 using Gift Aid in the current tax year that gift is still worth £12.82 to the charity.

You can give any amount, large or small, regular or one-off.

If you do not pay tax, you should **not** use Gift Aid.

#### *How does a gift qualify for Gift Aid?*

There are three main conditions. You must:

- make a declaration to the charity that you want your gift to be treated as a Gift Aid donation
- pay at least as much tax as the charities will reclaim on your gifts in the tax year in which you make them (tax credits on dividend income will count towards the tax paid)
- not receive excessive benefits in return for your gift.

#### *Making a declaration*

The declaration is the charity's authority to reclaim tax from HMRC on your gift.

The declaration can be in writing or orally but, usually, the charity will provide a written declaration form.

You do not have to make a declaration with every gift. You can specify in one declaration as many gifts for whatever period you wish. For example, it can cover gifts you might already have made to a particular charity since 6 April 2000 (when the current scheme started) or it can cover the gifts you make in the future.

#### *Membership subscriptions through Gift Aid*

You can pay membership subscriptions to a charity through Gift Aid, provided any membership benefits you receive do not exceed certain limits. The current limits on the value of benefits received relative to donations are:

- 25% of the value of the donation, where the donation is less than £100
- £25, where the value of the donation is between £100 and £1,000
- 5% of the value of the donation, where the donation exceeds £1,000

There is an overriding limit on the value of benefits received by a donor in a tax year as a consequence of donations to a charity, which is currently £500.

However, you can disregard free or reduced entry to view any property preserved, maintained, kept or created by a charity in relation to their charitable work.

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### *Fund-raising events*

If you have simply collected money from other people, such as on a flag day, you have not given the money yourself, and the other people have not made a declaration to the charity that they are taxpayers, so the payment is not made under Gift Aid. However, if you have been sponsored for an event, and each sponsor has signed a Gift Aid declaration, then the charity can recover the tax on the amounts covered by declarations. Charities may produce sponsorship forms for this.

### *Higher rate taxpayers*

If you are a higher rate taxpayer, you can claim tax relief on the difference between the basic rate and higher rate of tax (through your tax return). Relief is given either for the tax year of payment or in some cases it is now possible to elect to receive the benefit of the higher rate tax relief one year earlier than previously.

You should therefore keep a record of payments made under Gift Aid for each tax year.

### *Donation of tax repayments*

Individuals can also donate all or part of a tax repayment due to them to charity by making a direction on the self assessment return form. It is possible to direct that the gift should be a qualifying donation under the Gift Aid provisions.

## **Payroll Giving**

A Payroll Giving scheme allows you to give regularly to charity from your pay and get tax relief on your gifts. The scheme requires your employer to set up and run a scheme. You authorise your employer to deduct your gift from your pay. Every month your employer pays it over to a Payroll Giving agency approved by HMRC. The agency then distributes the money to the charity or charities of your choice.

Because your employer deducts your gift from your pay or pension before PAYE is worked out, you pay tax only on the balance. This means that you get your tax relief immediately at your highest rate of tax. (The amount you pay in national insurance contributions is not affected.)

## **Gifts of Shares or Land**

### *Capital gains tax (CGT)*

You are not liable to CGT when you make a gift of assets, such as land or shares, to charity, even if the asset is worth more when you donate it than when you acquired it.

### *Income tax*

You may also get income tax relief for these gifts to charity if they are 'qualifying investments'.

There are two main types of qualifying investments:

- quoted shares and securities
- land and buildings.

### *Example*

Alma owns quoted shares with a market value of £10,000 and an original cost to her of £3,000.

Alma is a higher rate taxpayer.

Alma gives the shares to the charity. The charity will then sell the shares for £10,000 and keep the full sale proceeds.

Alma will not have a capital gain arising under CGT. She will be entitled to 40% income tax relief on the value of her gift ie £4,000.

Although this sounds a very attractive relief, a comparison should be made of the alternative route of gifting to a charity by selling the investment and giving the net proceeds to charity under Gift Aid.

So, if Alma sold the shares, she would make a capital gain of £7,000 before considering any unused annual exemption. If, say, the CGT bill is nil, she could gift the proceeds of £10,000 under Gift Aid. The charity can reclaim tax of  $£10,000 \times \frac{22}{78} = £2,820$ . For 2009/10 Alma is entitled to higher rate relief on the gift of £2,500 [ $£10,000 \times \frac{100}{80} \times 40 - 20\%$ ].

Although Alma has received less tax relief (£4,000 - £2,500), the charity will have received £12,820 (£10,000 from Alma and £2,820 from HMRC).

If you would like further advice on this matter, please contact us.

In more detail, the following investments qualify for the tax relief:

- shares and securities listed or dealt in on the UK Stock Exchange, including the Alternative Investment Market
- shares or securities listed or dealt in on any overseas recognised stock exchange
- units in an authorised unit trust (AUT)
- shares in a UK open-ended investment company (OEIC)
- holdings in certain foreign collective investment schemes (foreign equivalents of AUTs and OEICs)
- freehold interests in land
- leasehold interests in land where the lease period is for a term of years absolute.

You should always contact the charity to ensure that it can accept the shares or the land. Indeed for land, the charity needs to give you a certificate stating that it has acquired the land.

The charity may be able to help you with the transfer procedure.

### **How We Can Help**

If you would like to help a charity financially, it makes sense to do this in a tax efficient way. We can provide assistance in determining this for you.

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