



Personal Tax

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 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 reclaim from basic rate tax on your gift from the Revenue. That increases the value of the gift you make to the charity. For example, if you give £10 using Gift Aid in the current tax year that gift is 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 the Revenue 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. For example, if a subscription between £100 to £1,000 is made, the maximum value of the benefits you can receive in return for your donation is £25.

However, you can disregard free or reduced entry to view heritage property or wildlife, the preservation of which is the charity's main aim.

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

For tax returns from 2003/04 onwards, individuals can 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 also 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 government added a further 10% to all such donations up to April 2004.

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 the Inland Revenue. The agency then distributes the money to the charity or charities of your choice.



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In an effort to stimulate interest in payroll giving, the government has announced that it plans to pay grants to smaller businesses that establish schemes for their employees.

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 indexation allowance, taper relief and unused annual exemption. If, say, the CGT bill is nil,

she could gift the proceeds of £10,000 under Gift Aid. Under Gift Aid, the grossed up amount of the donation is $100/78 \times £10,000 = £12,820$. Alma is entitled to higher rate relief on the gift of £2,308 (ie $(40\% - 22\%) \times £12,820$).

Although Alma has received less tax relief (£4,000 - £2,308), the charity will have received £12,820 (£10,000 from Alma and £2,820 from the Revenue).

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

Qualifying investments

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

- 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.

Land is only included for gifts from 6 April 2002.

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.