

insight

keeping you informed

Giving to Charity

UK based individuals and businesses can obtain tax relief for donations that they make to UK charities. In addition, charities can claim extra income on those donations in the form of gift aid from the government. Gift aid is therefore a valuable relief so care needs to be taken to ensure that its benefit is fully captured.

Basic features

Tax relief can be available for gift aid donations, payroll giving, gifts of land, property and qualifying shares.

Charitable gifts are outside the scope of inheritance tax.

Planning is required to maximise tax relief on voluntary donations.

There are significant record keeping requirements in case of any HMRC audits.

Giving to charity through gift aid

Individuals

Donations made by individuals under gift aid are treated as though they have had basic rate tax deducted from them. Charities can claim back that tax from HMRC. For an individual to make a gift aid donation, they must have paid as much UK tax as the charity is reclaiming, and must make a declaration of that fact to the charity.

Higher rate taxpayers can claim back the difference between the higher rate of tax and the basic rate on the amount of the donation. This is claimed on the individual's tax return.

Without intervention, the fall in the basic rate of tax from 22% to 20% with effect from 6 April 2008 would have had a detrimental impact on the level of income that charities received from gift aid. For the tax years 2008/9 to 2010/11, UK charities and community amateur sports clubs (CASC's) can claim transitional relief from HMRC in addition to the usual claim. The total amount received by the charity will be the same as if the basic rate of tax had not been changed.

Example

- A charity receives a £100 donation under gift aid.
- The grossed-up donation if received post 6 April 2008 is:
$$£100 \times 100/80 = £125$$
- The tax reclaimable from HMRC by the charity is £25, being the same as 20% of £125.
- Before 6 April 2008, the tax reclaimable would have been £28.21 ($£100 \times 100/78 = £128.21$, $£128.21 \times 22\%$).
- The transitional relief is therefore £3.21 being the difference between £128.21 and £125.
- The individual, if a higher rate taxpayer, can claim a repayment of $£125 \times (40\% - 20\%) = £25$ via his tax return.

Sole Traders and Partnerships

Donations from sole traders and partnerships can be made under gift aid in much the same way as those made by individuals, although there are certain procedures to be followed.

Companies

Corporation tax relief is available for donations made by companies to UK charities, although there are restrictions.

A trading deduction is permitted for small donations made to UK charities which are considered to be local to the company.

All other donations are treated as non-trade charges which are deducted from the company's total profits before the tax charge is calculated. The tax relief may be lost if the company is loss making.

The charity receiving the donation does not claim back any tax from HMRC as tax is not deducted at source from the company.

Payroll giving schemes

Donations can be made directly from an individual's salary or pension using this scheme.

The scheme benefits the individual because the donation is made out of their gross salary. It costs the individual less than making a donation by other means because the individual does not make the donation out of taxed income. However, such donations do not reduce pay for NIC purposes.

Gifts of land, property or qualifying shares

Individuals

An individual making a gift, or sale at an under value, of land, property or qualifying shares to a UK charity, can obtain income tax relief and reduce their tax bill. In addition capital gains tax (CGT) reliefs are available which means that no capital gains tax is payable.

The CGT relief is also available where such a gift is made to a CASC, although the income tax relief is not.

Companies

A company making a gift, or sale at an under value, of land, property or qualifying shares to a UK charity, can obtain corporation tax relief. Again, this is not available for such gifts made to a CASC.

CGT relief is available for gifts to a charity or CASC, providing the asset is gifted or sold for less than was originally paid.

Inheritance tax

Gifts made to a UK charity in an individual's will, or during lifetime, are not chargeable to inheritance tax.

Other 'gifts'

Some other payments which are not 'gifts' in the normal sense, may be classed as donations provided the gift aid rules are followed, for example sponsored events.

Donations are eligible for gift aid providing that they are voluntary. Compulsory payments are not eligible. When organising events, charities should give careful consideration to the best way that money can be raised in order to maximise voluntary donations, and

therefore maximise the income on which gift aid can be claimed.

Donor benefit rules

There are specific rules that can stop a donation qualifying for gift aid where the donor receives some form of benefit or appreciation from the charity.

For donations made by a company, the rules are expanded to include benefits received by persons connected with the company.

Where a business makes a payment to a charity and receives something in return that is related to the business e.g. advertising, the payment may in fact be sponsorship. If this is the case, the payment may be a deductible expense against trading profits.

Records

Donors must keep sufficient records to justify their claim for tax relief.

Charities must maintain detailed records of gift aid donations received, including the declarations from the individual donors that they have paid sufficient tax. There should be a clear audit trail between these records and the claim form.

To make a claim for gift aid, the charity should complete form R68 which is available from the HMRC website.

Charities are subject to inspection visits from HMRC to check that they are following the gift aid rules. Records are tested on a sample basis, and the audit produces an error rate which is then applied to the gift aid claims.

Summary

The rules relating to giving to charity can be complex. We can advise on the best way for individuals and charities to maximise tax relief.

What next?

This summary is intended to be illustrative only of the rules regarding giving to charity so you should seek specific advice in relation to proposed donations.

For a free consultation:

Contact your usual BHP account manager or one of our charity specialists:

- **David Charlton**
t: 0114 266 7171
e: david.charlton@bhp.co.uk
- **Rachelle Rowbottom**
t: 0114 266 7171
e: rachelle.rowbottom@bhp.co.uk

BHP - committed to helping you to make the most of your money