

Giving to charity

Gift Aid

Gift Aid is the main vehicle for tax-efficient giving to charities. It applies to any donation whether large or small, regular or one-off.

Simply by confirming that they are taxpayers, donors can ensure that their chosen charities can reclaim the basic rate of income tax on all their donations, equal to 25% of the amount donated.

This confirmation has only to be completed once for each charity (it can even be done by telephone or internet) and remains valid for as long as the donor remains a taxpayer.

As an added boost for donors, higher and additional rate taxpayers can claim for themselves the difference between basic rate and their effective rate of tax against their own income tax or capital gains tax liabilities, reducing further the net cost of the donation.

This relief may be carried back to reduce the tax payable for the previous tax year.

Example

| | |
|--------------------------|--------|
| You give to charity | £1,000 |
| Charity reclaims tax | £250 |
| Total value of your gift | £1,250 |

Tax reduction for higher rate taxpayer is £250 (£262.50 in Scotland), tax reduction for an additional rate (45%) taxpayer is £312.50 (£325.00 in Scotland).

So a gift worth £1,250 to the charity could cost you as little as £687.50 (£675 in Scotland).

CAF charity card account

This is a very flexible scheme organised by CAF (Charities Aid Foundation). You can open an account with as little as £10 a month (£120 per annum) by direct debit or with a single payment of £100.

The account is in effect a 'charity cheque book and debit card' and can be used to make donations easily - spontaneously or regularly - by phone, by post or online - to your preferred charities.

Tax is recovered at the basic rate and added to your account. As with Gift Aid, higher rate taxpayers can reclaim the difference between the basic and higher rates of tax.

Donated goods can also be accompanied by a Gift Aid declaration, so that when the charity shop sells the goods, the donor is invited to Gift Aid the proceeds. This provides similar benefits for higher and additional rate taxpayers.

Payroll giving

This scheme allows you to make gross donations to charity (deducted from your salary before tax is calculated). There is no statutory minimum or maximum limit, although individual schemes may impose a lower monthly donation limit.

Example

| | |
|--|--------|
| You give from your gross pay | £50 |
| Charity receives | £50 |
| Actual cost to basic rate taxpayer | £40 |
| Actual cost to higher rate taxpayer | £30 |
| Actual cost to higher rate Scottish taxpayer | £29.50 |
| Actual cost to additional rate taxpayer | £27.50 |
| Actual cost to additional rate Scottish taxpayer | £27 |

Tax refunds

Self-assessment tax payers may nominate a charity to receive all or a specified amount of an anticipated tax repayment. The donation will be passed direct to the charity by HMRC once the tax return or claim is processed.

Gifts in land

Gifts of certain shares and securities, land and buildings to a charity attract income tax relief as well as capital gains tax (CGT) relief.

Example

| | |
|---------------------------|----------------------|
| You give shares valued at | £1,000 |
| Income tax saving | |
| basic rate taxpayer | £200 |
| higher rate taxpayer | £400 |
| additional rate taxpayer | £450 (Scotland £460) |
| Potential CGT saving | £100 or £200 |

There is a similar corporation tax relief for gifts by companies.

Deeds of covenant

With the enhancement of Gift Aid, there is no longer a separate tax relief for payments made under a deed of covenant. Covenanted payments by individuals are now dealt with under the Gift Aid measures.

Disclaimer: The views expressed in this article are the personal views of the Author and other professionals may express different views. They may not be the views of Lambert Chapman LLP. The material in the article cannot and should not be considered as exhaustive. Professional advice should be sought in connection with any of the issues contained in the article and the implementation of any actions.