

# Giving to Charity

We consider the options available for individuals considering making tax-effective gifts to charity. Individuals can get tax relief on gifts to UK charities:

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

## Location of the charity

Charitable tax reliefs are available to gifts to UK charities and Community Amateur Sports Clubs (CASCs).

UK donors are able to receive the same tax reliefs in respect of these donations and legacies that they enjoy for donations to UK charities.

The qualifying overseas charities benefit from the same UK tax exemptions and reliefs as UK charities.

## Gift Aid

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

Making a payment under Gift Aid allows donors to ensure that their chosen charities can reclaim the basic rate of income tax on all their donations, equal to 25% of the amount donated.

As an added boost for donors, higher rate taxpayers can claim for themselves the difference between basic and higher (currently 20%) or additional (currently 25%) rates of tax against their own income tax liabilities, reducing further the net cost of the donation. This relief may be used to reduce the tax payable for the previous tax year if the donation has been made before the tax return for the previous year has been submitted to HMRC.

## Example

Gift to charity	£1,000
Charity reclaims tax	£250

Total value of gift                      £1,250

Tax reduction for higher rate taxpayer £250 and for additional rate taxpayer is £312.50.

So, a gift worth £1,250 to the charity could cost as little as £687.50.

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

There are three main conditions. The taxpayer must:

- make a declaration to the charity that the gift is to be treated as a Gift Aid donation
- pay at least as much tax as the charities will reclaim on the gifts in the tax year in which the gifts are made
- not receive excessive benefits in return for the gift.

## **Making a declaration**

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

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

Individuals do not have to make a declaration with every gift. In order to make a Gift Aid donation the individual needs to make a Gift Aid declaration. The charity will normally ask the individual to complete a simple form - one form can cover every gift made to the same charity or CASC for whatever period, and can cover gifts the individual has already made (backdating the claim for up to four years) and/or gifts made in the future.

## **Gift Aid donor benefit rules**

The donor benefit rules that apply to charities that claim Gift aid are determined by two percentage thresholds:

- the benefit threshold for the first £100 of the donation is 25% of the amount of the donation
- for larger donations, charities can offer an additional benefit to donors up to 5% of the amount of the donation that exceeds £100.

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 £2,500.

Taxpayers can pay membership subscriptions to a charity through Gift Aid, provided any membership benefits received do not exceed certain limits. However, disregard free or reduced entry to view any property preserved, maintained, kept or created by a charity in relation to their charitable work.

## Gift Aid Small Donations Scheme

CASCs may be able to claim top-up payments from HMRC on small cash donations under the Gift Aid Small Donations Scheme (GASDS). For the purposes of the scheme, a small donation is defined as £30 or less.

The GASDS may allow the charity to recover tax although no Gift Aid declaration has been made. Unlike Gift Aid, the scheme applies regardless of whether the donor is a UK taxpayer, although the donation must be collected in the UK. However, the scheme only applies to donations made in cash and contactless donations made by card, making it particularly pertinent to those who operate collection boxes or bucket collections. Cheques and bank transfers are not eligible under the GASDS.

To qualify for the GASDS, the organisation must:

- be a charitable trust or a charitable company, recognised by HMRC as a charity for tax purposes or a CASC
- make claims under Gift Aid
- not have incurred a penalty on a Gift Aid or GASDS claim made in the current or previous tax year.

Qualifying organisations can claim a top-up payment worth up to £2,000 on the lower of two amounts:

- ten times the amount on which Gift Aid is claimed in respect of qualifying donations made to the charity in the tax year concerned; and
- £8,000.

Higher and additional rate taxpayers will not be able to claim tax relief on their donations.

## Charities Online

Charities Online allows Gift Aid repayments to be claimed online. The system is designed to speed up and simplify the process of making a repayment claim, saving valuable time for charities and CASCs.

HMRC aims to repay amounts claimed via Charities Online within 20 working days. There are built-in checks to detect errors in the process before the form is sent.

There are many complex accounting and reporting requirements governing charities and not-for-profit organisations. Whatever the nature of your organisation, we can help you to meet its objectives. Please contact us for more information.

## CAF Charity Account

This is a very flexible scheme organised by CAF (Charities Aid Foundation). An account can be opened with as little as £10 a month 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 chosen charities.

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

## Payroll Giving

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

### Example

Gift from gross pay	£50
Charity receives	£50
Actual cost to basic rate taxpayer	£40
Actual cost to higher rate taxpayer	£30
Actual cost to additional rate taxpayer	£27.50

## Gifts in kind

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

Gift of shares valued at		£1,000
Income tax saving	basic rate taxpayer	£200
	higher rate taxpayer	£400
	additional rate taxpayer	£450
Potential CGT saving	basic rate taxpayer	£100
	higher or additional rate taxpayer	£200

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