

## Briefing Note

### Tax Efficient Gifting to Charities

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#### Gift Aid

- Applies to any qualifying monetary donation - large or small, regular or one off - made to a charity or Community Amateur Sports Clubs (CASCs).
- The donor is deemed to have deducted income tax at the basic rate before making the gift and the charity or CASC can then reclaim from HM Revenue & Customs (HMRC) the basic rate tax which the donor deducted at source.
- If the donor is a higher rate or additional rate tax payer, further tax relief is available on the difference between the higher rate or additional rate and the basic rate of tax. This is done by extending the threshold for basic rate tax by the amount of the gross gift.
- The donor must pay at least as much UK income or capital gains tax as the amount for the donor of income tax relief that all charities and/or CASCs will reclaim through the Gift Aid scheme on his donations for that year.
- The donor can choose to treat the donation as having been made in the tax year immediately prior to the year in which the donation is made.
- Gift Aid can be claimed on gifts of money from individuals, sole traders or partnerships. It cannot be claimed on money from a company; a loan waiver or debt conversion; gifts with conditions attached about repayment; gifts with enforceable conditions about how the money is used; or gifts where the donor receives an associated benefit in excess of the permitted limits. There is a similar corporation tax relief from which companies can benefit.
- A Gift Aid declaration is required from the donor including the donor's name and address, the name of the charity, identification of the gift(s), confirmation that the gift is to be treated as a Gift Aid donation, and confirmation that the donor has been given a suitable explanation of the tax that must be paid.
- A donor does not have to register to claim Gift Aid, but the charity must be recognised as such by HMRC for tax purposes.

#### Inheritance Tax

Gifts to charity during lifetime are exempt from Inheritance Tax (IHT).

- Gifts to charity on death are also exempt from IHT. The rate of IHT on the chargeable estate is reduced to 36% where at least 10% of the net chargeable estate is left to charity.

### Payroll giving

- Donations are paid out of earnings or pension income before income tax is applied under the PAYE system and the donor obtains tax relief at his or her marginal tax rate on the full amount of the donation.

### Tax relief on Shares, Land or Buildings

- Gifts of shares, land or buildings do not fall within the Gift Aid scheme as they do not take the form of a payment of cash, but they can also benefit from tax relief.
- No tax is deducted from the gift so the charity does not have to reclaim any tax from HMRC.
- The charity receives the full value of the gift and any future income, free of income tax.
- If the charity chooses to sell the asset, the proceeds will be free of capital gains tax.
- Individuals do not have to pay capital gains tax on any gain on the asset when it is gifted.
- Individuals enjoy income tax relief on an amount equal to the value of the asset gifted to the charity plus any incidental costs of the transfer (e.g. legal or broker fees) less any benefits received by the donor in consequence of the gift. The relief is given in the form of a deduction from the donor's income for the tax year in which the gift is made.
- Gifts of assets to charities are exempt from inheritance tax.

### Personal charitable trusts

- Individuals often choose to set up their own charitable trust. Having established charitable status for the trust, gifts of cash and other qualifying assets can be made to the trust with the benefit of tax relief as described above.

This note is intended as a brief summary of the taxation and legal position of Tax Efficient Gifting to Charities as at February 2016. Taxation is subject to change and depends on the individual circumstances of each client. Legislation is also subject to change. No responsibility can be accepted for any action taken in reliance of this note and specialist advice should be taken in every case. Turcan Connell would be happy to provide such advice. © Turcan Connell February 2016