Fulham Palace House & Garden

# Tax efficient donating in the UK

There are a number of ways that people and companies can give tax efficiently to Fulham Palace Trust.

## Gift Aid

The most common tax break associated with charitable giving is gift aid. For every donation where the donor is able to make a Gift Aid declaration, the charity can reclaim an additional 25% of the donation from HMRC. This is the income tax that the donor has paid on the income that they have made the donation from.

So a gift of £100 will allow Fulham Palace Trust to reclaim £25 from HMRC if a valid gift aid declaration has been made. A declaration is saying that the donor has paid income tax on income at least equivalent to the donation.

If the donor is a higher rate tax payer then further tax relief can be claimed on their self-assessment tax return. At 2015/16 rates this gives a further 20% or 25% relief to reclaim the tax at their marginal rate of 40% (on income from £42,386 to £150,000) or 45% (on income over £150,000).

**For example,** If your Gift Aid payments add up to £100 in 2015-16 the grossed-up value of your donation to charity would be £100 x (100/80) = £125. Higher rate relief due to you would be:

£25 if you pay tax at 40% (£125 at 20%), or £31.25 if you pay tax at 45% (£125 at 20% plus £125 at 5%)

## Gifts of shares and property

**Capital gains tax (CGT)**

A new tax relief was introduced in 2000 whereby individuals can obtain the relief on the gift of assets to a charity, such as land or shares. So another way of gifting would be to give shares or securities to a charity. If you do that you will be able to claim tax relief for the gift at your top rate of tax. This is in addition to the capital gains tax relief i.e. you pay no capital gains tax on a gift to a charity, even if the asset is worth more when you donate it than when you acquired it.

## Charitable gifts by Companies

If you control a Limited company then it may make sense for a donation to be made by the company rather than you as an individual. Companies should get tax relief on a donation to a UK registered charity.

On a company gift the charity cannot make a gift aid claim, it receives in total the amount given. However the company can deduct the payment in calculating its corporation tax liability at 20%. So a gift by a company of £10,000 actually costs the company £8,000 to make when the tax relief is taken into account.

## 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

The charity can then either keep the shares and utilise income or sell the shares. As a charity there is no tax to pay on the sale of the shares so a significant tax benefit is gained by both you and the charity.

**For example,** Derrick owns quoted shares with a market value of £10,000 and an original cost to him of £3,000. Derrick is a higher rate tax payer.

Derrick gives the shares to the charity. The charity will then sell the shares of £10,000 and keep the full scale proceeds.

Derrick will not have a capital gain arising under CGT. As a higher rate income tax payer he will be entitled to 40% income tax relief on the value of his gift i.e. income tax relief of £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 Derrick sold the shares, he would make a capital gain of £7,000 before considering any unused annual exemption. If, say, the CGT bill is nil, he could gift the proceeds of £10,000 under Gift Aid. The charity can reclaim gift aid of £10,000 x (20/80) = £2,500, a total benefit of £12,500.

As Derrick is a higher rate income tax payer the charity can also claim 20% of the gross gift (£12,500 x 0.2), i.e. £2,500. Derrick is also entitled to higher rate relief on the gross gift of £12,500. Derrick can claim 20% of the gross gift, £10,000 x (100/80) x 40% – 20% = £2,500.

## Leaving a legacy

Legacies to charities are exempt from inheritance tax, currently incurred at 40% on estates over the nil rate band.

As a result, legacies to a charity are significantly tax efficient. A legacy of £50,000 would otherwise attract inheritance tax of £20,000 leaving £30,000 for beneficiaries, but if the beneficiary is a charity the full £50,000 would be received by the charity.

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