

IFA Fact-Files "Charitable Giving"



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Many of our clients are involved in Charitable Giving. The charity benefits and you benefit. Tax relief is given to individuals to encourage this sort of philanthropy. This fact-file sets out the main provisions of the current legislation, drawing attention to areas where financial planning and charitable giving combine.

Tax reasons for giving

If you are a tax-payer, the Government will give you tax relief on the amount you give to charity, if your payment is made under:

- Gift Aid
- Payroll giving

Gift Aid now incorporates the old style "deed of covenant" that used to be necessary for tax relief on regular giving.

Payroll Giving

This is only appropriate if your employer has set up the facility and they are not required to do so by law. If they have a scheme however, many employees would welcome the deduction "at source" from their earnings.

Gift Aid

- This can either be a single "one-off" payment or a regular payment (weekly, monthly, quarterly or annually).
- The donor makes a declaration that the payment is to be made under the Gift Aid scheme (although this can be done via telephone, the Internet or simply as a tick on a sponsorship form.)
- The payment made is treated as having basic rate tax paid on it.
- The Charity then makes a claim to the Inland Revenue to recover the basic rate tax you paid.
- Higher rate tax payers need to keep a record of their payments, to claim higher rate tax relief, reducing their own tax liability.
- Donors can Carry Back their payment to a previous tax year, as long as the election is made before 31st January in the following tax year (this rule is the same as pension contributions).
- The Charity must be based in the UK.
- There are no minimum or maximum payments.

Donors must make sure that their tax liability is at least the amount of the tax deducted from the donation, otherwise they will have the excess tax to pay to the Inland Revenue.

Non-taxpayers should NOT use Gift Aid – but they can still give to Charities.

Charity options for Businesses

A payment to charity from a sole trader or partnership is dealt with in the same way as any normal individual as above. A Limited Company which chooses to make a gift to charity can do so, again by way of the Gift Aid system. They need to account for the payment in their Corporation Tax return although they pay the gross sum they want to give away. This gross sum is deducted from their Gross Profit for the year, before their Corporation Tax is calculated, thereby granting the business full Corporation Tax relief on the payment.

Charitable Agencies

Some agencies exist to encourage and support charitable giving. The Charities Aid Foundation is the main Government sponsored scheme. There is an alternative Christian organisation called Stewardship Services.

These organisations can act like a clearing house, dealing with the Gift Aid tax reclaims and passing gross charitable gifts to a selection of charities or directly to the charity of your choice.

The website addresses for these organisations are:

www.stewardship.org.uk

www.cafonline.org

An example of the higher rate tax calculation:

2004/05 tax year

Individual with taxable earnings of: £38,000

	<u>No charitable giving</u>			<u>With charitable giving of £3,000</u>		
		<u>Tax rate</u>	<u>Tax payable</u>			
First	£4,745	0%	£0	£4,745	0%	£0
Next	£2,020	10%	£202	£2,020	10%	£202
Next	£29,380	22%	£6,463	£28,235	22%	£6,211
Gift to charity	£0	22%	£0	£3,000	22%	£660
Remainder	£1,855	40%	£742	£0	40%	£0
	Total tax payable		£7,407	Total tax payable		£7,073
	Net income to individual		£30,593	Net income to individual		£27,927
				(Loss to income)		£2,666
	Charity receives		£0	Charity receives		£3,846

Legacies in Wills

An important aspect often overlooked is the ability to give to charities out of your Estate after your death. One of the key considerations for older people these days is Inheritance Tax, and legacies to charities are Inheritance Tax free. If you have supported a charity during your lifetime, this is the ultimate gift. Many charities could not survive without receiving legacy money.

Summary – Charitable giving

We believe that many people benefit when they give, and it is important to make sure that your giving is maximised from a tax perspective so that both you and the charity benefit wherever possible. Do feel free to raise this subject with us as part of your review.

If you have any questions or need an independent review of your investment arrangements, please contact Martin Andrews to discuss your situation further. Martin Andrews & Associates Ltd is an Independent Financial Adviser regulated by the Financial Services Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.