

Tax relief for charitable donations

Introduction

Individuals who donate to charity can do so tax-free. There are various ways of making tax-relieved gifts to charity – the way in which the relief works depends on whether the donation is made via Gift Aid, as a deduction from wages or a pension via the Payroll Giving Scheme, in a will or whether it is a gift of land or property.



Gift Aid

A donation through Gift Aid is treated as having been made net of the basic rate of tax, allowing the charity to reclaim the tax element from HMRC. Thus, the amount given equates to 80% of the donation and the charity benefits from the remaining 20%. This results in every £1 given through Gift Aid being worth £1.25 to the charity.

To enable the charity to reclaim the tax, the donor must complete a Gift Aid declaration, in which the donor must confirm that they are a UK taxpayer. This is important – the tax that is paid to the charity comes from the tax paid by the individual, and if the individual has not paid sufficient tax to cover tax claimed by the charity on the donation, HMRC may ask the donor to pay the equivalent amount in tax. Taxpayers who make regular donations and who have a Gift Aid declaration in place should check that they have paid enough tax. This may be important for pensioners who, following an increase in the personal allowance, find that they are no longer taxpayers.

Donors who pay tax at the higher or additional rate of tax are able to claim relief of the difference between the higher or additional rate and the basic rate through their

self-assessment returns. It is important that this is not overlooked and that records of donations are kept so the additional relief can be claimed.

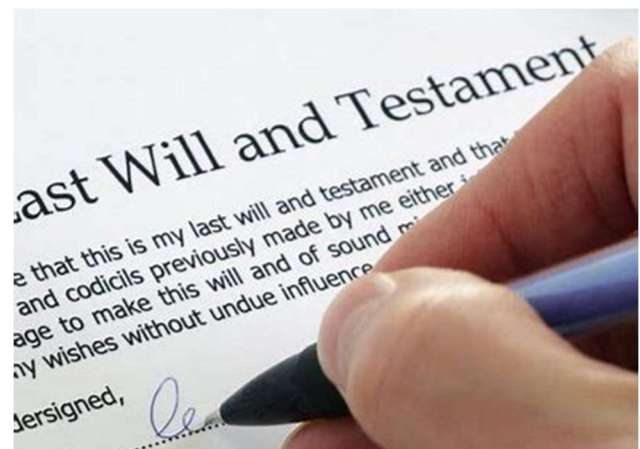
Payroll giving

Payroll giving schemes enable employees to make donations to charity as a deduction from their pay and to receive tax relief at source for those donations. Employers wishing to operate a scheme must appoint a payroll giving agency. A list of approved payroll giving agencies is available on the Gov.uk website. The employer deducts the donation from the employee's gross pay for PAYE purposes and pays it over to the payroll giving agency. The payroll giving agency passes the donation on to the employee's chosen charity.

As the deduction is made from gross pay, no tax is paid on it. However, the employee will still pay National Insurance on the amount donated (as will the employer).

Gifts in a will

Where a donation to charity is made in a will, the donation will either reduce the value of the estate before inheritance tax is calculated, or, if 10% or more of the estate is left to charity, reduce the rate of inheritance tax by 10% from 40% to 36%.



Giving land, property or shares to charity

Income tax or capital gains tax relief may be available for donations of land, property or shares to charity. Income tax relief is given by deducting the value of the donation from total taxable income for the tax year in which the gift was made to the charity. Relief is claimed in the self-assessment return.

Where land, property or shares are sold to a charity for more than the cost, but less than their market value, no capital gains tax is payable.

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