12 April 2022

Client briefing

The tax benefits of charitable giving

Philanthropy note (2)

As well as benefiting the charity, you “the donor” may also benefit from the tax relief that applies on charitable giving.

Lifetime Gifts (by an individual)

Income Tax

Charities can claim Gift Aid on gifts of cash, enabling them to reclaim the basic rate of tax (currently 20%) on the sum donated. A gift of £100 would therefore be worth £120.

You may benefit as well, as higher rate tax payers can claim back the difference between higher rate and basic rate tax on the sum donated.

You can also claim income tax relief on other “qualifying investments” (gifts of listed shares and property/land, if certain conditions are satisfied). If the relief applies, you can reduce your taxable income for the year in which the donation is made by a sum equivalent to the value of the benefit given to charity.

The only caveat is the total income tax and/or capital gains tax you have paid for the financial year must be at least equivalent to the tax being reclaimed (you cannot claim back tax you have not paid!). If you wish to make a large donation but have not paid enough income tax/capital gains tax (CGT) during the year to claim back all of the tax you could potentially claim on a gift of that size, you could consider spreading the gift across tax years.

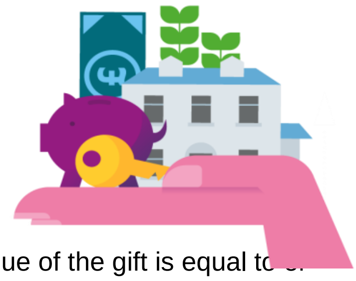
CGT

If you have an asset (such as property or shares) that has increased in value since the date of acquisition, ordinarily that gain may be liable to CGT on a transfer (24% or 20%, depending on the asset, for higher rate tax payers). If, however, that asset was transferred to a charity, the gain would be wiped clean and no CGT would be payable.

Inheritance Tax (IHT)

A charitable gift will immediately reduce the value of your estate for IHT purposes (potentially saving 40% in IHT on the amount gifted). There is no need to survive the gift by three to seven years for the IHT advantage to kick in (as would be the case with a gift to an individual, for example).

Making provision under a Will



CGT

As with lifetime gifts, no CGT arises on charitable gifts made on death.

IHT

No IHT is assessed on the value of the charitable gift, which passes free of IHT.

Making a charitable gift on death can also have an additional benefit. If the total value of the gift is equal to or exceeds 10% of the deceased's net estate, then the rate of IHT that applies on the balance of the chargeable estate is reduced from 40% to 36%.

Although the threshold for the reduced IHT rate is a gift of 10% of the net estate, there is a 4% "tipping point". If you intend to leave at least 4% of your net estate to charity, the bequest could (arguably should) be increased to 10%, which would mean:

- the charity is better off (that goes without saying);
- less tax is paid due to the IHT exemption on the gift and the reduced rate; and
- crucially, by a quirk in the calculation, the beneficiaries of the chargeable balance are not worse off – they would receive the same as they would had you gifted 4% and more than they would had you gifted a percentage greater than 4% but less than 10%.

The gift could be made under your Will, or within 2 years of your death by your Executors.

Gifting through a Company

Corporation tax relief

If the directors and shareholders are in agreement, the company could make a charitable gift. Taxable profits could then be reduced by a value equivalent to the amount gifted (reducing the amount subject to corporation tax for the relevant accounting period).

Can tax relief be lost?

Yes, tax relief can be lost if:

- The asset gifted is ultimately not used for purposes that are considered to be exclusively charitable in line with UK Law (this can be an issue with overseas gifts); or
- a financial advantage or benefit (that goes beyond a permitted value) is received in return for the making of the gift.