

# Giving to charity by individuals

## Introduction

If you are thinking of making a gift to charity you should consider the benefits of tax-efficient giving.

This can make it cheaper to donate to charity or it can benefit your chosen charity by making your donation go further.

There are a number of schemes operated by the Inland Revenue, which make it easy to give to charity in a tax-efficient way. This Help Sheet explains the following ways in which you can give.

- Gift Aid.
- Gifts of land, buildings, shares and securities.
- Payroll Giving.

It sets out the position from April 2003, but is only a brief guide.

## Gift Aid

If you pay tax in the UK, then Gift Aid is a simple way to increase the value of your gift to a charity. Making your donation using Gift Aid will enable the charity to reclaim the basic rate tax on your gift to them. This means that if you give £10 to charity using Gift Aid in the tax year 2003-04, that gift is worth £12.82 to the charity.

You can make payments by cash, cheque, postal order, direct debit, standing order, debit or credit card or even in a foreign currency (including the euro).

Subject to a few rules, you can give any amount, large or small, regular or one-off and the charity can reclaim the tax.

If you are a higher rate taxpayer, you can claim relief on the difference between the basic rate and higher rate of tax.

If you do not pay tax, you should **not** use Gift Aid.

### How does my gift qualify for Gift Aid?

Your chosen charity will normally ask you to consider making your donation using Gift Aid. They will give you a simple form to complete declaring that you wish to make donations under Gift Aid.

The charity can only reclaim the basic rate of tax if you have paid enough tax in the tax year to cover the amount reclaimed on your gifts. The tax year runs from 6 April one year to 5 April the next.

### How do I know I have paid enough tax?

For most people it will normally be easy to determine if you have paid enough tax to cover the amount the charities will reclaim. That tax paid can be income tax or capital gains tax at any rate and can include tax paid on savings and income.

You can calculate the amount of tax the charity will reclaim using the following formula.

$$\text{Amount of gift} \times \frac{\text{basic rate of income tax}}{100 \text{ minus the basic rate}}$$

So, with the basic rate 22%, the charity reclaims 22/78ths of your gift.

#### Example 1

During the tax year you give a total of £400 to various charities.

With the basic rate at 22%, the amount of tax the charities can reclaim is £112.82 (£400 x 22/78).

If you have paid tax totalling £112.82 or more then you can make the donations using Gift Aid, making your donation worth £512.82 (£400 + £112.82) to the charities.

If you have paid less tax than £112.82, you should not make the donations under Gift Aid. You can still give the money to charity and not complete a Gift Aid declaration.

#### I am a higher rate taxpayer. Can my chosen charity reclaim the higher rate tax paid?

No. The charity can only reclaim tax on your gift at the basic rate. If you are a higher rate taxpayer, you can claim the difference between the higher rate of tax at 40% and the basic rate of tax at 22% in your Self Assessment return.

So, in the example above, you may reclaim higher rate relief of £92.30 (£512.82 at 18%) on your gross donation of £512.82.

From April 2004 you will be able to gift repayments to a charity of your choice. This means that your original gift could be worth even more to the charity.

#### Do I have to make a declaration with every gift?

No. One declaration will cover all the gifts you make to a charity for whatever period you wish. For example, it can cover gifts you might already have made to a particular charity since 6 April 2000, or it can cover the gifts you make in the future.

#### Can I receive benefits from the charity in respect of my gift?

There are limits to what benefits can be received in any tax year. These limits are set out in the following table.

Amount of donation	Value of benefits
£0 - 100	25% of the value of the gift
£101 - 1,000	£25
£1,001 - 10,000	2.5% of the value of the gift

The total benefits must not exceed £250.

### **Can I pay my membership subscriptions through Gift Aid?**

You can pay membership subscriptions to a charity through Gift Aid, provided any membership benefits do not exceed the limits on the previous page. Where a charity offers you free or reduced entry to view heritage property or wildlife, the preservation of which is the charity's main aim, the value of that benefit is disregarded.

### **What is the carry back of Gift Aid relief about?**

From 6 April 2003, if you make a gift to charity using Gift Aid, you can elect to have any higher rate tax relief due carried back to the previous year of assessment. The election can be made for any or all Gift Aid payments made between the end of the tax year and the following 31 January (as long as the return has not already been sent in).

#### **Example 2**

Mr Jones, a higher rate taxpayer, makes a Gift Aid donation of £1,000 on 1 June 2004.

He has two choices in how he obtains tax relief. He can either claim relief for the payment made for the year 2004-2005 or carry back the relief to the year 2003-2004.

If he elects to carry the relief back he must do so before 31 January 2005. However, if he sent in his return on 30 June 2004 and did not elect to carry back the donation, he can only claim it for the year 2004-2005. It is not possible to amend the return in order to elect to carry back the donation.

### **How is the relief claimed?**

By simply entering the donations in the appropriate Gift Aid box on your Self Assessment return.

### **Can I use Gift Aid to pay the proceeds of fund-raising events to charity?**

If you have been sponsored for an event, and each sponsor has given a Gift Aid declaration, then the charity can recover the tax on the amounts covered by declarations. Charities may produce sponsorship forms for this.

### **Does a gift I make jointly with someone else qualify for Gift Aid?**

Yes, but you must tell the charity how much is from each of you, and you will both need to give declarations if the whole amount is to qualify.

### **Can I use charity vouchers to make Gift Aid donations?**

Some organisations, which are charities themselves, offer charity accounts and provide you with a charity card or charity 'cheque book' of vouchers so that you can give directly to the charities of your choice. In this case, you give your money to the organisation issuing the charity card or vouchers. They will ask you for a declaration and will reclaim basic rate tax on your gift. The value of your charity account or the vouchers issued to you will include the tax reclaimed.

### **Can I get relief for a gift to a foreign charity?**

No. Gift Aid applies only to charities established in the UK, but many foreign charities are established in the UK through branches.

**Can I make a Gift Aid payment to a UK charity if I do not live in the UK?**

In certain circumstances. You may do so if you are a Crown employee serving overseas. You can also use Gift Aid if you are not a UK resident, but you make your gift out of income or gains charged to UK tax.

**Will Gift Aid affect my age-related personal allowance or married couples allowance?**

The gross amount of any Gift Aid donations you make reduces the level of your income when calculating any entitlement you may have to the age-related personal allowance or married couple's allowance. If you are aged over 65, or (for the married couples allowance) you or your spouse were born before 6 April 1935, it is important that you enter details of your Gift Aid payments on your tax return. Without this information you may not receive all the allowances you are entitled to.

If you are entitled to these allowances and do not receive a tax return, you should notify your Tax Office of the gross amount of any Gift Aid payments you have made in order to ensure that you receive your full entitlement to the allowances.

**Gifts of land, buildings, shares and securities**

You can now also claim relief on gifts of certain assets to charity. This includes selling the asset to a charity at less than market value. A company cannot, however, get relief for a gift of its own shares.

**What land, buildings, shares and securities qualify?**

The following categories qualify.

- Shares and securities listed or dealt in on the UK Stock Exchange, including the Alternative Investment Market.
- Shares and securities listed or dealt in on recognised foreign stock exchanges.
- Units in an authorised unit trust.
- Shares in a UK open-ended investment company.
- Holdings in certain foreign collective investment schemes.
- A qualifying interest in land. A qualifying interest in land is the whole of a person's beneficial interest in freehold or leasehold land in the UK.

If in doubt, we can tell you whether the gift or sale will qualify for relief.

**How do I calculate the amount of relief?**

The amount of relief you can claim is

- the market value of the qualifying investment at the time you give them or sell them to charity, **plus**
- any incidental costs (for example, brokers fees or legal fees), **less**
- any disposal proceeds or other money, or the value of other benefits you or a person connected with you (such as, a relative or connected company), receive in consequence of you giving or selling the qualifying investment to charity.

### **Are there any forms that need to be completed?**

No, evidence of the gift of shares or securities having been made to the charity may be in the form of a copy of the stock transfer form or letter from the charity acknowledging receipt of the gift.

For gifts of real property, you will need a certificate from the charity that must contain all the following information.

- A description of the qualifying interest in land, which is the subject of the disposal.
- The date of the disposal.
- A statement that the charity has acquired the qualifying interest in land.

### **How do I claim the relief?**

Calculate the amount of relief as described on the previous page. The amount should be entered on your Self Assessment return

If you are a partner or a sole trader, you should deduct the relief when you calculate your income for the tax year in which you make the gift of shares, securities or real property. You should enter the amount on your Self Assessment return.

## **Payroll Giving**

If your employer operates a Payroll Giving scheme, you can make donations to charity direct from your pay packet. It's a simple way for you to give regularly to charity from your pay and get tax relief on your gifts.

If your employer does not operate a Payroll Giving scheme, you might want to ask if they would be willing to start one. Your employer can find out how easy it is to run a scheme by calling **0845 3020203**.

### **Can all employees join in Payroll Giving?**

Yes, provided you are an employee or pensioner and your employer deducts tax from your pay or pension.

### **How much or how little can I give?**

There are no limits on how much or how little you can give. It is entirely up to you.

### **How does Payroll Giving work?**

Once you have authorised your employer to deduct a gift from your pay, they will deduct this amount from your pay and hand it over to a Payroll Giving agency approved by the Inland Revenue. The agency will then distribute the money to the charity or charities of your choice. Some agencies can provide you with a charity card or cheque book so that you can give directly to any charity whenever you want to.

### **How do I get tax relief?**

Your gift is deducted from your pay or pension before your tax is worked out. So you pay tax only on the balance. This means that you get your tax relief immediately at your highest rate of tax. (Your National Insurance contributions are not affected.)

### Example 3

#### *Basic rate taxpayer*

You authorise a monthly deduction of	£10.00
You save income tax at 22%	<u>£2.20</u>
Net cost to you	£7.80

#### *Higher rate taxpayer*

You authorise a monthly deduction of	£10.00
You save income tax at 40%	<u>£4.00</u>
Net cost to you	£6.00

#### *Charity*

Charity receives	£10.00
Plus 10 per cent Government supplement (until April 2004)	<u>£1.00</u>
Total	£11.00

#### **Can I give to any charity?**

Yes, you can give to any UK charity and you may give to more than one charity if you wish. You can nominate a large, national charity or a smaller, local one. You can nominate your church, village hall, Parent Teacher Association or scout group, etc, providing they are charities.

#### **Will my employer have to know which charity I want to support?**

No, you can keep your choice confidential if you wish. The Payroll Giving agency will provide you with a charity nomination form, which you can complete and return direct to the agency. (Alternatively, the agency may be able to offer the charity card or cheque book option described on page 5.)

#### **Can I change the charities I wish to support?**

Yes, by simply telling the Payroll Giving agency.

#### **Can I stop giving?**

Yes, at any time. Simply tell your employer's payroll department.

#### **Can I ask for a refund of my donations?**

No, once a gift has been deducted from your pay, it must go to charity.

#### **Will the Payroll Giving agency deduct a handling charge?**

All the agencies are charities in their own right. A small fee - usually no more than 4 per cent or 35p per donation, whichever is the greater - may be deducted from your gift to meet the agency's administration costs. However, some employers will pay the agency's charges so that the full amount of your gift can go to your chosen charity.

#### **Will this affect the other gifts I make to charity?**

No, you can make any other gifts you want to, for example, under Gift Aid.

**Is more information available?**

Yes, there are Payroll Giving guides for employers and for employees available from the Inland Revenue. These give more information about the scheme and can be obtained by calling **0845 3020203**. The guide for employers contains a list of all the approved Payroll Giving agencies. It also contains a list of all the promotional fundraising organisations, which will help employers set up and run a Payroll Giving scheme.

**Further Information****Inheritance tax**

Outright gifts and bequests to UK charities are completely free of inheritance tax.

**Capital gains tax**

You are not liable to capital gains tax when you make a gift of assets, such as land or stocks and shares to charity, even if the asset is worth more when you donate it than when you acquired it.

**Contact with the Tax Office**

This Help Sheet does not cover every point. If you have any questions, the staff at your local Inland Revenue Enquiry Centre or Tax Office will be happy to answer them. Addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 5.00pm, Monday to Friday.

Alternatively, you can contact our Charity helpline on **0845 3020203** (option 3), which is open from 8.30am to 6.00pm, Monday to Friday.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

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