

CHARITABLE GIVING - WHY MIGHT I WANT TO AND WHAT ARE MY OPTIONS?

Many individuals harbour philanthropic aims; once they are able to meet their own financial needs and those of their loved ones in terms of essentials, comfort and future security, people often consider donating some of their additional wealth for charitable purposes.

As well as the social and other benefits that a charitable donation can provide, giving to UK charities has long been tax effective. This note explores some of those tax benefits as well as outlining the options available when considering making a charitable donation in the UK.

THE TAX EFFECT OF GIVING TO CHARITY

The UK tax system provides a number of reliefs and exemptions in relation to income tax, capital gains and inheritance tax. Until 15 March 2023, these reliefs and exemptions applied to gifts to UK and EU charities. However, with effect from this date, these reliefs and exemptions are restricted to gifts to UK charities only.

Gift Aid

Gift Aid donations made by individuals are treated as having basic rate tax deducted by the donor. Charities take your donation - which is money you have already paid tax on - and reclaim basic rate tax (20%) from HM Revenue & Customs on its "gross" equivalent (the amount before basic rate tax was deducted). Therefore, if you give £100 to charity using Gift Aid, it's worth £125 to the charity.

Moreover, if you pay higher rate tax, you can claim the difference between the higher rate of tax (at 40% or 45%) and the 20% basic rate of tax on the total "gross" value of your donation to the charity.

Gifts of qualifying investments

As a rule, you are not liable to pay capital gains tax on capital gains when you make a gift of assets, such as land or stocks and shares, to a charity.

Since 6 April 2000, individuals have also been able to claim income tax relief on gifts to charity of certain shares, securities and other investments. The shares or securities must be listed on a recognised stock exchange (such as London) or on the Alternative Investment Market (AIM). The relief was extended from 2002 to include gifts of land or buildings. This relief is available in addition to the relief from capital gains tax set out above.

Income tax relief generated by gifts to charity (whether under Gift Aid or by making a gift of a qualifying investment) can only be used in the tax year in which the gift is made. Therefore, the timing and size of donations can be important in terms of optimising your overall tax position.

Inheritance tax

Outright gifts to charities are entirely exempt from inheritance tax (IHT), whether made by will or during your lifetime. Lifetime gifts to charity (in contrast to many other gifts) leave your estate immediately rather than being at risk of triggering an IHT charge if you die within seven years of making the gift. In addition, since 6 April 2012, if you leave 10% or more of your estate to charity in your will, the IHT rate on all or part of your chargeable estate will be reduced from the usual 40% to 36%. For more information on this, see our briefing note “Charitable giving under a will”.

Charitable giving by non-UK domiciliaries

Donating to charities used to be of interest to non-UK domiciliaries, as the tax reliefs available in the UK were, until 15 March 2023, available to all EU charities as well as UK ones. This meant that donations could be made to EU charities from foreign bank accounts without the need to remit any taxable funds to the UK. This planning has now been shut down. Subject to limited transitional provisions, any further donations after this date will be taxed by the UK in the usual way.

HOW TO GIVE TO CHARITY

The method by which you give to charity very much depends on how much involvement you would like to have with the application of your funds. There are three main options:

Donate to an existing charity

If you choose to donate a sum of money or an asset to an existing charity, you can give directions as to how you would like your donation used, but you have very little control over either the ultimate destination of the funds or the timing of any tax deduction. This may be suitable for simple lump sum giving.

Set up a charity account with a donor advised fund

Donor advised gift funds such as the Charities Aid Foundation or Prism The Gift Fund are set up to provide assistance to you in the administration of your giving. You will still decide when and where to give your money, but you will have an adviser to help you meet your giving objectives and you will have more control over the timing of any tax deduction. This may be suitable if you would like longer term involvement and envisage giving larger amounts of money. There is often also an option to set up a charitable trust with the gift fund, allowing you to focus on charitable giving while the gift fund deals with setting up and running the charity.

Set up your own charity

Establishing your own charity allows you to give in a tailor-made way to causes which may not already benefit from an existing dedicated charitable fund. Your chosen charity trustees (of which you can be one) will have control of the funds and the charity's constitution can be drafted in line with your particular charitable criteria. You would also have more control of the timing of any tax deductions. This is an ideal option for people wishing to have longer term, hands-on involvement in the gifts being made and also for parents wishing to introduce their children to the idea of running funds.

Your new charity can take the form of one of three different vehicles – a charitable company limited by guarantee, a charitable trust or a charitable incorporated organisation (CIO). The question of which form of charity is most appropriate will depend on a variety of factors including the intended activities of the charity, whether it will employ staff and/or enter into numerous contracts, if it is intended that it will hold property and the likely value of the charity (and therefore the level of administrative, regulatory and running costs which will be proportionate).

NEXT STEPS

If you wish to consider further the possibility of engaging in charitable giving, we can work with you to understand your objectives and advise on the best way to achieve those aims, as well as ensuring that any such donation is effective from a tax perspective.

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The information contained in this guide is intended to be a general introductory summary of the subject matters covered only. It does not purport to be exhaustive, or to provide legal advice, and should not be used as a substitute for such advice.

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