



Guide to giving Tax efficiently

“Now he who supplies seed to the sower and bread for food will also supply and increase your store of seed and will enlarge the harvest of your righteousness. You will be made rich in every way so that you can be generous on every occasion, and through us your generosity will result in thanksgiving to God”. “This service that you perform is not only supplying the needs of God’s people but is also overflowing in many expressions of thanks to God. Because of the service by which you have proved yourselves, men will praise God for the obedience that accompanies your confession of the gospel of Christ, and for your generosity in sharing with them and with everyone else. And in their prayers for you their hearts will go out to you, because of the surpassing grace God has given you. Thanks be to God for his indescribable gift!” *2 Corinthians 9:10-15*

Practical ways to give

The collection basket: if you are a non tax payer and do not wish to give regularly by standing order, your gift can be made direct into a collection basket or plate. If you are a tax payer, the charity will **not be able** to reclaim tax on your gift unless they can attribute the gift to you and maintain a record of it. If you are a higher rate tax payer over 65 or on tax credits you may also miss an opportunity to obtain tax relief or increased tax credits yourself.

By Standing order: From an administration point of view this is an excellent option as it helps with the budgeting and cash flow of the Charity. Tax Payer’s should fill in a gift aid declaration, if you are not a taxpayer this is still an efficient way to give.

Envelope system: many charities provide envelopes with the gift aid declaration printed on them. By recording the gifts in each envelope these can be used to identify your gift and thus allow gift aid relief to be claimed.

Payroll giving: _You may authorise your employer to make a deduction from your pay packet payable to the charity of your choice. In this way the gross gift before tax (but after national insurance) is passed onto your charity. The government used to provide an incentive for this scheme but no longer do so, also, a small admin charge may also often be deducted by the administrators of these schemes **making this potentially less favourable than a direct gift using gift aid.**

Salary sacrifice: Your employer **may** agree to you sacrificing some of your salary in return for them making a charitable donation direct to a charity. This can be very tax efficient as the reduced taxable income will also reduce both the employees and employers national insurance payments, thus allowing an increased gift to be made. You do however need to be wary as your ability to borrow could be effected, advice is essential, before entering into such an agreement. The agreement must be properly documented to be effective.

How to give-tax efficiently

giftaid it

If you are planning on making a gift of any amount to charity it is worth considering how you give it, as the charity in question may be able to claim tax relief on your contribution using "Gift aid".

Gift Aid increases the value of donations to UK charities by allowing them to reclaim basic rate tax on your gift, which has the same effect as increasing your net gift by 25% (20% of the gross gift

Example

Gift to charity	£100	£5,000
Charity Gift Aid Reclaim	£ 25	£1,250
Your total gross gift to charity	£125	£6,250

In addition

Higher rate tax payers may also gain tax relief themselves of 20% ,30% or even 40% of the gift made

If you are over 65 and have income between £24,000 & £28,930 you will also be eligible for a tax refund

Those with lower incomes, may also be able to claim increased tax credits or working family tax credits

Important note

You must fill in and give the charity a gift aid declaration for them (or you) to be able to claim tax relief on the gift. However, unlike the previous covenant system, the declaration can be given after the gift has been made. **You must** pay at least the amount of tax (income or CGT) being reclaimed by the charity.

If the charity reclaims more tax than you have paid, you will owe the tax man the balance! Tax paid includes tax credits on dividends received or basic rate tax deducted on interest received from banks and building societies.

If you are Claiming tax credits or working family's tax credits

If you claim tax credits or working family's tax credits, your tax credit may increase when you declare a gift aid donation, as it will effectively reduce the level of your deemed income (as would making a pension contribution).

The amount you may get depends on your own circumstances and income and there is a higher limit, so you do need to check. However, in many cases (if your combined income is less than say £30,000) the extra tax credit you get amounts to around 37% of the gross gift made, that's almost 47% of the actual (net) gift!

Example

Your actual Gift to charity	£1,000	£5,000
The charity is able to reclaim	£,250	£1,250
Your total gross gift to charity	£1,250	£6,250
Your tax credit increases by* yr 1	£ 471	£2,359
Total cost to you (yr 1)	£ 528	£2,640

*Based on family with total income of £30,000 and the gross gift

What is even more amazing is that, if your income is higher in the following year, your tax credit will be based on the lower earning year thus you could actually get almost your full gift back (94%).

Unfortunately, the taxman doesn't exactly make the above obvious on the forms he sends you but you can use the following link to calculate what your tax credit could be based on your adjusted income (after deducting the gift aided gift)

<http://taxcredits.hmrc.gov.uk/HomeNew.aspx>

And use the following link to download the relevant supplementary form <http://www.hmrc.gov.uk/forms/tc825.pdf>

If you are over 65
&
your income is between £24,000 & £28,930

If you are between 65 and 74 and your total income is between £24,000 & £28,930 (2011/12 tax year) then you may be able to claim a **tax refund amounting to 10%** of the gross gift made.

This is because your tax free allowance normally goes up at age 65 (by £2,465 from £7,475 to £9,940 in the 2011/12 tax year) and again at age 75 (by a further £150) but the taxman reduces these allowances by £1 for every £2 you earn over the “age allowance income limit” (£24,000 in the 2011/12 tax year) thus if you earn over £28,930 you end up with the same tax code as an 18 yr old.

In effect this causes a tax rate of 30% on income earned between £22,900 & £28,930, but when you make a charitable gift using gift aid, the charity claims the basic rate tax relief and you benefit from an adjustment to your age allowance income limit leading to **a 10% tax rebate for you.**

Example

Your actual Gift to charity	£1,000	£5,000
The charity is able to reclaim	£,250	£1,250
Your total gross gift to charity	£1,250	£6,250
You reclaim*	£ 125	£ 625
Net cost to you	£ 897	£4,397

*Based on a person with a total income of £28,000,

In order to claim the above you will need to tell your local tax office (but thankfully you don't normally need to complete a tax return)

If you are a higher rate or additional rate tax payers

If you pay higher (40%) or additional rate (50%) tax payer, you can claim the difference between the basic rate tax relief that the charity claims and the rate you normally pay, thus you get to reclaim 20% or 30% tax yourself. In fact you could claim up to 40% yourself if your income is between £100,000 and £115,000. **Claims need to be made on your tax return.**

Example

Your actual Gift to charity	£1,000	£5,000
The charity is able to reclaim	£, 250	£1,250
Your total gross gift to charity	£1,250	£6,250
You reclaim(based on 40%)	£ 250	£1,250
Net cost to you (based on 40% tax)	£ 750	£3,750
Net cost to you (£100-115k income)	£ 500	£2,500

Note1 . It is possible for you to claim on gifts made within the tax year plus those made up to 31st January following the tax year end or the date that you file your tax return if earlier., This could be beneficial if you are likely to have a lower taxable income in the year that you make the gift.

Business owners

It is worth noting that if you own your own limited company, you may make a gift out of the profits of the business direct rather than personally. By giving in this way, you will not be liable to corporation tax on the gift and will save both the income tax (at 20% or 40%) and the National Insurance cost (employers and employees totalling up to 25.8%) if paid on the ‘salary reduction’ basis. You could then increase your gift by the amount of the tax and national insurance savings.

Gifts to charitable organisations in your will

Any gifts to charitable organisations made in your will are free of inheritance tax and thus if your estate is above the nil rate band of IHT (£325,000 in 2010) gifts to a charity are particularly tax efficient (although for smaller gifts it would normally be more tax efficient to give during your life using gift aid).

Example

	No Gift	with gift
Your estate	£425,000	£425,000
Charitable gift	nil	£ 50,000
Nil rate band	£325,000	£325,000
Taxable estate	£100,000	£ 50,000
Inheritance Tax (@ 40%)	£ 40,000	£ 20,000
Net estate	£385,000	£405,000
Beneficiaries get	£385,000	£ 355,000
Charity receives	nil	£ 50,000

The 2011 budget also announced that the IHT rate will be reduced to 36% for estates giving 10% or more to charities (this change is due to come into effect in April 2012)

Gifts from an inheritance just received: Deed of variation

If you are due to be a beneficiary of a deceased estate, it is possible to redirect all or part of your inheritance within two years of the death of the deceased using what is referred to as a “deed of variation” and actually get a refund of inheritance tax already paid. So in the example above, by making changes and gifting £50,000 to charity your own inheritance would only decline by £30,000 the tax man loses £20,000 and the charity gains £50,000.

Gifts of assets such as land or shares

An individual or company can claim tax relief when they give (or sell for less than market value) shares, land or property to a charity, as long as they give up any interest in it when they do so. Where qualifying investments (such as shares) are given to a charity, the amount of the relief that can be claimed by the donor is the market value of the investments on the day they are given to the charity.

In this case whilst the charity is not able to claim gift aid relief, **you, the donor, can gain income tax relief** on the value of the shares and are exempt from any Capital Gains Tax on gains made.

Example

You bought shares in ABC Company worth £10,000 and they are now worth £20,000, if you sold them you would potentially have to pay capital Gains tax on the gain. Assuming you have already used your nil band allowance, then the £10,000 gain would mean you have a £1,800 CGT liability, leaving you with £18,200 if you sold them.

Example

Your actual Gift to charity	as cash	as shares
	£ 18,200	£ 20,000
The charity is able to reclaim	£ 4,550	
Your total gross gift to charity	£ 22,750	£ 20,000
Tax reclaim by you (as B/R tax)	£ nil	£ 4,000
Total cost to you	£ 18,200	£ 16,000
Tax reclaim by you (as H/R tax)	£ 4,550	£ 4,000
Total cost to you (as H/R tax)	£ 13,650	£ 12,000

In the majority of cases the cash gift IS MORE TAX EFFICIENT, but care needs to be taken.

Your notes

Taxation advice has been provided by Robin Stamp CFP APFS LLAA of Alpha Financial Consultants and based on their understanding of current law and taxation which may be subject to change in the future.

Alpha Financial Consultants (Somerset) Limited is authorised & regulated by the Financial Services Authority. The Financial Services Authority does not regulate will writing or tax planning services
Registered Office - Alpha Financial Consultants (Somerset) Limited
Mickleton House, 18 Tower Hill Williton Taunton Somerset TA4 4NT
Registered in England and Wales No. 6038087.

