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tax benefits of charitable giving



Prepared for the
SSKS Temple South East London



Charitable donations can be made in a number of ways, perhaps personally, through your sole trading, partnership or LLP business, or through your limited company.

Each has different requirements in order to qualify for tax relief under the Gift Aid regime.

For every 80p you pay to the SKSS Temple under Gift Aid, the Temple can claim a further 20p from HMRC

personal donations

An appropriate Gift Aid declaration must be made at the time of the donation, though it is possible to make a declaration that covers all future donations until such time as the declaration is withdrawn.

For every 80p you pay to the SKSS Temple under Gift Aid, the Temple can claim a further 20p from HM Revenue & Customs. The 20p claimed from HMRC is effectively tax that you have already paid during the tax year in question. You must therefore ensure that you have paid enough income tax or capital gains tax to cover the amount reclaimed by the charity, otherwise HMRC will come to you to recover the additional tax.

A higher or additional rate taxpayer who makes a donation through Gift Aid can claim additional tax relief, normally through their tax return. An additional 20p or 25p, respectively, can be reclaimed by the higher or additional rate taxpayer for every 80p donated under Gift Aid, making the cost to the donor of getting £1 to the SKSS Temple only 60p or 55p respectively.

Gift Aid only applies to the basic rate of tax (20%). However, if you pay a higher rate of income tax, you will have paid either 40% or 45%. You can therefore claim the difference between the basic rate of tax and your highest rate if you make a charitable donation.

You can either keep this relief or donate it back to the SKSS Temple.



25% extra *FREE*

business donations

Donations made by a sole trade, partnership or Limited Liability Partnership, are not an allowable deduction against business profits for tax purposes.

In order to ensure that the donation qualifies for Gift Aid, the sole trader or partners must make an appropriate Gift Aid declaration (as for personal donations), and the tax relief is claimed by the business owners personally. The SKSS Temple may then claim 20p for every 80p of donation from HMRC.

company donations

Unlike sole traders and partnerships, a business conducted through a limited company can make qualifying donations and receive Corporation tax relief for those donations.

Unlike those donations by individuals, as no tax has been deducted from the donation before the SKSS Temple receives it, the Temple is not able to reclaim tax from HMRC.

The rate of corporation tax relief received by the company will be the marginal tax rate at which the company is paying tax on its profits.

As a company will not make a declaration under the Gift Aid regime, it is important that the company keeps records of the donation, including any correspondence with the SKSS Temple concerning the donation.

A limited company can make qualifying donations and receive Corporation tax relief for those donations.

other charitable donations

So far we have only dealt with cash donations to charity, the more common form in which donations are made. But there are other ways in which you can donate.

payroll giving

An employer could set up a Payroll Giving Scheme. This is a tax-effective way to give to the SKSS Temple - so it costs employees less to give more. The system is easy to opt in and out of, giving donors full control over their giving.

Here donations are deducted from the employees pay before tax has been deducted. The donations are passed to the SKSS Temple via an agent, and because no tax has been deducted from the donation the Temple does not need to reclaim tax from HM Revenue and Customs.

property, land or shares

It is also possible to receive tax relief in respect of gifts of land and shares to the SKSS Temple.

Any land or buildings are eligible for the relief as long as the whole of your interest in the property is handed over to the SKSS Temple. You therefore could not donate your family home and claim the tax relief but continue to live in it, as you would be retaining an interest in the property.

The relief works in much the same way as Gifts of Shares. Tax relief will be given for the market value of your property as a deduction from your income tax liability for the tax year in which the gift is made. Additionally, you may be eligible for exemption from Capital Gains Tax on the appreciation of the property value that you would have had to pay if you had simply sold the property. If you pay income tax at 40%, your income tax bill could be reduced by 40% of the value of the gift.

The tax position of these kinds of donations should be considered on a case by case basis. Please seek advice before making a donation or setting up a scheme.

legacies

As well as making charitable gifts during your lifetime, you can leave money or assets to the SKSS Temple in your will. Qualifying donations will be deducted from your Estate when calculating the Inheritance Tax liability, and in certain circumstances can reduce the rate of Inheritance tax payable on the balance of your Estate from 40% to 36%.

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