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Giving it away

Income tax

The tax system provides a number of reliefs for making gifts to charity. If you are thinking of giving your money away, it's worth taking advantage of these rules to maximise the value of your gift.

If you give money to charity and make a Gift Aid declaration:

- The charity can claim back 25% of the amount you give as a rebate of tax that you have paid on your income
- You can reduce the amount of income on which you are liable to tax at 40% or 45%

The effect is to give you relief for your gift at your marginal rate of tax – if you give a charity £8,000, it receives £10,000, and it costs you £8,000, £6,000 or £5,500, depending on whether you pay Income Tax at 20%, 40% or 45%.

The Gift Aid declaration confirms that you will pay at least as much tax in total for the year (Income Tax and CGT) as the charity reclaims (£2,000 in the above example), so it's important to check the numbers if you are making a very large gift or your tax liability for the current year is low. Cash Gift Aid donations can, under certain circumstances, be carried back for tax relief in the previous year and this can result in significant tax savings if the individual is in the position of losing personal allowances when income is slightly over the £100,000 threshold.

You can also obtain tax relief for gifts of quoted shares or land – the value is deducted from your income before calculating your tax. Employers can sign up to a ‘payroll giving’ scheme. Employees can then make regular contributions to charity out of their salary and receive tax relief through PAYE.

Capital Gains

There is no charge to CGT where an asset is given to charity. As charities are not taxable if they use the proceeds of sale for charitable purposes, any gain disappears. This means that if you want to give the value of an asset away, and it’s standing at:

- A gain, give the asset to the charity
- A loss, sell it, give the money to charity and claim Gift Aid relief.
- The capital loss can still be used against other gains

Inheritance Tax

Any gift to charity is exempt from IHT, whether it’s made during a lifetime or in a Will. If you give to charities at least 10% of the net chargeable value of your estate in your Will, the rate of IHT on the remainder will be reduced from 40% to 36%. If your estate is only a little above the IHT nil rate band, this can be surprisingly generous. For example, someone with a wholly chargeable estate of £400,000 would only have to give £7,500 to charity in order to qualify for the reduced rate of IHT. Increasing a charitable bequest from £7,000 to £7,500 would actually increase the amount left for other beneficiaries after tax.

For further information, please contact the Private Client Team:

Gavin Morton at gavin.morton@chiene.co.uk
Hazel Gough at hazel.gough@chiene.co.uk
Helen Mackenzie at helen.mackenzie@chiene.co.uk
Moirá McMillan at moira.mcmillan@chiene.co.uk

Information correct at April 2018