

# The Oval *Slant* — December 2009

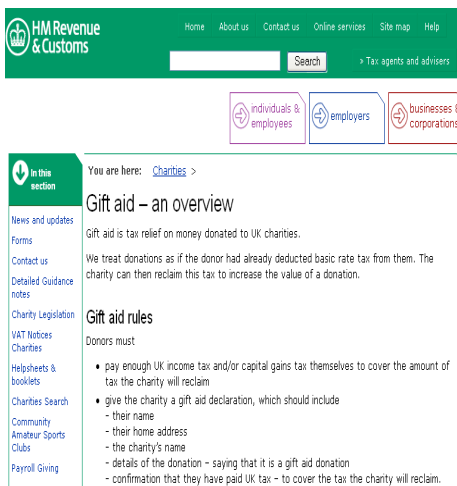
## 'Tis the Season for Giving - and the Taxman can be Father Christmas!

In this season of goodwill, it is often a time to take stock of our lives and charitable giving may be under consideration. Many of us are in the fortunate position of perhaps having a little more income or capital than is required. There are no pockets in a shroud and we can't take it with us (!) so, rather than leave it all to the family or charity in our Wills, is there some sense in making charitable gifting during our lives? Doing so offers the twin benefits of having the vicarious pleasure of seeing our gift doing good work during our lifetime, as well as (if done correctly) Her Majesty's Revenue & Customs (HMRC) adding to the gift value. Of course, there is nothing to prevent us putting money into charity boxes or providing financial assistance in our local community. However, formal gifting to a registered charity offers a considerable incentive to either increase the value of the gift to the recipient, or reduce the net cost to you.

### Gifts out of Income

Generally, there are two efficient ways of doing this. Firstly, if you are an employee, you can make regular donations under the "Give As You Earn" scheme. Here, a sum is deducted from your monthly salary and donated to a registered charity of your choice. Basic rate tax relief is provided at source and then you can also claim higher rate tax relief (if applicable) via your tax return. If such donations are made under a scheme called "Payroll Giving", the donation is deducted before calculating tax. This means you get immediate tax relief on the donation at the highest rate. If you are not an employee, or wish to keep any donations entirely confidential, regular payments can be made from your bank account directly to a registered charity. Such contributions are paid net of basic rate tax and higher rate tax can be reclaimed from HMRC.

### Gift Aid



The screenshot shows the HM Revenue & Customs website. The main heading is "Gift aid - an overview". Below this, it states: "Gift aid is tax relief on money donated to UK charities. We treat donations as if the donor had already deducted basic rate tax from them. The charity can then reclaim this tax to increase the value of a donation." Under "Gift aid rules", it lists "Donors must" and provides a bulleted list of requirements:
 

- pay enough UK income tax and/or capital gains tax themselves to cover the amount of tax the charity will reclaim
- give the charity a gift aid declaration, which should include:
  - their name
  - their home address
  - the charity's name
  - details of the donation - saying that it is a gift aid donation
  - confirmation that they have paid UK tax - to cover the tax the charity will reclaim.

This scheme allows one-off or indeed regular donations to be made and the charity can reclaim the basic rate income tax; provided you confirm to them you are a tax payer and give them your address. Hence, if you make a contribution of £10, the charity can reclaim a further £2.50 and, if applicable, you can still claim higher rate tax relief as well. An obvious but often overlooked aspect is that, for your gift to qualify for tax relief (both by the charity and by you if you are a higher rate tax payer), you must have sufficient income to have the tax liability to cover the gift. Many people don't realise that Gift Aid donations can be backdated to the previous tax year. An application needs to be made to HMRC by the 31<sup>st</sup> January after the end of the tax year to which you wish to backdate the gift. This can provide useful tax mitigation/planning opportunities and Gift Aid donations can also increase eligibility for age related personal allowance and married couples allowance.

### Charities Aid Foundation

A very easy way of donating is via a Charities Aid Foundation (CAF) account. You make a general charitable donation (of at least £100) to the CAF and they then issue you with a chequebook or "charity card". CAF then reclaim the basic rate tax relief on your behalf and add it to your account (deducting an admin fee). As and when you wish, you then make donations to your chosen charities and can periodically top-up your CAF account as funds run low. With this record of your lump sum CAF contribution, you can then reclaim any higher rate tax from HMRC. As with any charitable donations, tax relief can only be obtained if the recipient is a registered charity and can give you their registered number.

## ShareGift

Over the years, and also with privatisations, many of us have accumulated a small number of stocks and shares of perhaps limited value. Often the cost and hassle of disposing of these is out of proportion to this value. ShareGift is an excellent and easy way of disposing of these holdings, free of charge. ShareGift accepts small holdings of stocks and shares and disposes of them at no cost; with the proceeds then being donated to charity. Since inception in 1996, ShareGift has donated more than £14 million to 1,500 charities. If the stocks and shares have slightly larger value and you wish to nominate a specific charity, you can transfer them to that charity directly. Not only can you then claim full income tax relief on the donation, but you will not be liable for any capital gains tax that would normally arise on disposal. Stamp Duty is usually also avoided on transfers to charity. It is also worth mentioning that investment bonds can also be gifted to charity. If you personally sold the investment bonds, you may be subject to higher rate income tax on the gain. A charity cannot actually hold an investment bond (and it is not tax efficient for them to do so), but what they can do is instruct you to sell the bond as their agent. As long as the paperwork is correctly prepared, no chargeable gain or tax liability should arise.

## Charitable Trust

Generally, donations made to charity are then spent by that charity as they see fit. There is often no option to request that your donation be spent in a specific way. For rather larger donations (perhaps £50,000 upwards), it can be worthwhile establishing your own Charitable Trust. This does entail certain administrative requirements, both to establish and register the Trust; as well as maintain it. However, this becomes your own charitable vehicle and you can then have an active say in how the money is spent on/by the chosen recipients. For example, we have clients who are considering building a village school or hospital in Malawi and want to have an active role in the project. As long as the Trust is established as a UK registered charity, the monies don't actually have to be spent within the UK. Both the CAF and many solicitors can advise on such Trusts. In addition, many fund management groups have specialist charitable investment divisions to ensure any Charitable Trust funds are suitably invested and working hard for the benefit of the Trust. Reduced fees can often be negotiated in these cases.

## Tax Planning Opportunities

As explained above, donations to charity can be very income tax efficient. Gifts of stocks and shares (and indeed property) should also be exempt from capital gains tax. Gifts to charity should also be immediately exempt from inheritance tax. Hence, the often used route of gifting to charity at death via the Will entirely removes the value of the gift from the estate for tax purposes. However, with the new 50% income tax rate applying from next April for high earners (those with total income of above £150,000 pa), charitable donations are even more attractive. In addition, there will be a loss of personal allowances for those earning between £100,000-approx £113,000 pa (resulting in an effective tax rate of 60%!) and, for those with total income of over £150,000 pa (in the current or previous 2 tax years), tax relief on pension contributions will be limited to basic rate. Here, a lump sum contribution to charity can be very useful to reduce taxable income and so completely avoid these painful tax rates. A charitable donation can reduce income sufficiently to reinstate the personal allowances for the former and; for the latter, take income below £150,000; so the limit on pension contribution tax relief does not apply. Naturally, it is sensible to take proper advice but the potential benefits can be substantial.

## The Three Kings Brought Gifts – The Taxman Does Too!



Increasingly, we are seeing that, as part of sound overall financial planning, charitable giving is under consideration by clients. As can be seen above, charitable donations can not only be good for the world at large and our own spirits; but also via the generous HMRC, for our pockets as well! In such circumstances, perhaps even Scrooge could be persuaded to part with a coin or two?

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