

# **Tax efficient gifts to charity**

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## **Tax efficient gifts to charity**

UK taxpayers who wish to benefit charity should look in detail at the relative tax benefits of giving away cash or listed shares (or a combination of the two) to charity. The main differences are explained below, although please note that the examples we have given are illustrative only and do not take into account the basic rate of income tax or the availability of personal allowances. They also assume that the maximum rate of income tax payable by a donor is 40% - individuals with income in excess of £150,000 will pay tax at the higher 50% rate from April 2010.

### **Gifts of shares to a UK charity ("share aid")**

On a gift of any listed shares (or units in an authorised unit trust, shares in an OEIC or interests in offshore funds) to a UK registered charity:

- the charity receives the full gross value of the shares
- the donor can set off the value of the shares on the date of the gift against his taxable income
- in the case of income taxable at 40%, the donor will get tax relief at the same rate e.g. if a donor has an annual salary and bonus of £100,000 and makes a gift of shares also worth £100,000, the donor's tax bill of £40,000 will be reduced to zero
- in the case of dividend income, the donor will get tax relief at an effective rate of 22.5%
- dividends are always treated as the top slice of a donor's income so the value of the shares will be relieved against dividends before other income taxable at 40%
- there is no capital gains tax liability for the donor on the gift of the shares.

Share aid relief from income tax applies in the same way to property given to charity (subject to certain conditions).

### **Gift of cash to a UK charity ("gift aid")**

On a gift of cash to a UK registered charity:

- the donor is treated as if he has given the charity a gift grossed up at the basic rate of income tax of 20%
- the charity can reclaim the basic rate tax in respect of the gift (although the basic rate of tax was reduced to 20% with effect from April 2008, charities can continue to claim 22% until 5 April 2011) e.g. on a gift of £100,000, the charity is deemed to have received £100,000 income and paid £28,205 tax - the charity can reclaim £28,205 from HM Revenue & Customs
- the donor can claim higher rate income tax relief on the grossed up gift. The exact value of the relief will depend upon whether the donor has dividend income e.g. on the same gift of £100,000, the donor can reclaim an additional maximum amount of £23,076 - if he has dividend income, the relief will be lower
- if he wishes, the donor can also give the higher rate tax he reclaims to the charity
- to the extent that the relief exceeds taxable income, it can be used to relieve capital gains tax at the higher rate
- if the donor sells shares to make the gift of cash, he may have a capital gains tax liability as a consequence.

## **Best approach**

- the best approach to gifts from the point of view of tax efficiency depends upon a donor's sources of income and gains and applicable rates of tax and has to be assessed on a case by case basis
- a combination of share aid and gift aid is possible and may be the most tax efficient approach
- donors will often want to look at the net benefit to both the charity and themselves in deciding on the best approach.

## **Further advice**

This note provides general guidance only. You should not rely or act upon it without taking advice on your specific circumstances.

For further information please contact Con Alexander ([calexander@vwv.co.uk](mailto:calexander@vwv.co.uk) / 0117 314 5214) or your usual contact at Veale Wasbrough Vizards.

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