Tax & Charitable Giving

Taxing gifts

As far as HMRC is concerned, charitable donors consist of individuals and businesses and tax incentive schemes are available for both. Donations through the Gift Aid scheme are the better known of these. Donations by individuals are treated as if basic rate (20%) tax has already been deducted, so charities can claim back the associated basic rate tax from HMRC. Higher rate tax payers can also claim tax relief on the difference between their higher rate (40% or 45%) tax and the 20% associated with the gift. When companies donate money under Gift Aid they can claim corporation tax relief on those donations, the charity receives the donation only and no Gift Aid claim can be made.

Less commonly used are some other tax incentive schemes, income tax relief is available for gifts of shares and property to charities; and under Payroll Giving, employees make donations through their employer's payroll scheme before tax is taken off. Where employees are seconded to charities for up to three years, the employer can claim tax relief on the wage and related costs.

You can claim Gift Aid on the donation if the value of the benefit doesn't exceed certain limits, for example:

Donation	Maximum value of benefit
up to £100	25% of the donation
£101 - £1000	£25
£1,001 and over	5% of the donation (up to £2,500)

Charities that receive small donations of £20 or less will be able to apply for tax repayments without having to obtain Gift Aid declarations for those donations, these small gifts can be up to £1,250 in a year.

Inheritance tax can be saved by a donor where 10% or more of a deceased's net estate is left to charity: in those cases the current 40% tax rate will be reduced to 36%.

Tax saving is not normally the primary motivator for individual giving, but nevertheless donors can reduce their tax liabilities. Donations will qualify as long as they're not more than 4 times what has bene paid in tax in that tax year, whether it is on income or capital gains.

Note for Charities and Fundraisers

In 2007 HMRC commissioned MORI Social Research Institute to conduct research among wealthy people (defined in this study as those with an annual income of £200k +) on their views of tax in the context of charitable giving. The survey may be a few years old, but it is still of value because fundamentally human nature and people's reactions to taxes are unlikely to change over time.

For most, tax incentives were not the main consideration when making decisions about giving to charity. Factors such as the perceived worthiness of a cause, a participant's faith or personal affiliations appeared to be more critical. However, participants generally viewed tax reliefs very positively, and simplicity and convenience were seen as key factors in encouraging the take-up of tax reliefs and potentially increasing charitable giving. Gift Aid was by far the most well-known and most commonly used of the reliefs, followed by Payroll Giving. These two were also perceived to be the easiest to understand and most convenient to use, though there was some confusion over the higher rate tax relief element of Gift Aid, in terms of its availability and how it worked. There was also some confusion over Payroll Giving, for example in terms of the level of control that individual employees had over the donation amount and the nominated charity. However, this particular relief was generally felt to be a good way of encouraging regular donations, administered as it is via automatic salary deductions. Conversely, there was little knowledge or use of tax incentives for giving shares, securities, land or buildings to charity. These were only deemed relevant for the very wealthy (with an income over £500k), who might hold enough of these types of assets to 'give away'.

Some individuals were heavily influenced by tax relief, particularly when large tax bills are due, and some wealthy respondents said they would consider making larger donations than they might otherwise have done in order to reduce their tax bill. For business owners, company tax reliefs were found to play an important role in shaping giving behaviour: company donations were rarely distinguished from personal donations, and company tax reliefs tended to be more widely used and understood than personal tax reliefs. This suggests that a shift in focus might be appropriate to encourage charitable giving by this group of wealthy people through the corporate – rather than personal tax system.