



Gift Aid keeps on giving

It has been well documented that during the Covid pandemic charities had suffered a catastrophic drop in donations. There is a fear within the charity sector that this will continue as the rising cost of living impacts upon great swathes of the UK population.

Every little bit helps is a mantra which is echoed around the charity community and leading the way in helping to fulfil that noble sentiment is the Gift Aid scheme.

The benefits for both the donor and the charity itself through correctly utilising the Gift Aid scheme are significant. Sadly, in a survey carried out in 2021 a whopping £600 million additional monies could not be claimed by struggling Charities due to individuals eligible to make a Gift Aid claim failing to do so.

Let's remind ourselves of the benefits of the Gift Aid scheme for both donor and the charity:

- ▶ **For every £100 which is donated the charity can claim an additional £25 top up from the Government.**
- ▶ **If you are a higher rate or an additional higher rate taxpayer you can claim tax relief of up to 25% (26% in Scotland) on the grossed-up contribution made.** If your income falls between £100,000 and £125,140 that tax relief effectively increases to 40% (41% in Scotland).
- ▶ If you are only a basic rate taxpayer in this tax year but were a higher rate/additional higher rate taxpayer in the previous tax year you can potentially elect to carry back your Gift Aid payments to the previous year in order to benefit from the higher rate Gift Aid relief.
- ▶ **By making a Gift Aid payment you can potentially wipe out or mitigate the high-income child benefit charge.**

To obtain the Gift Aid relief four conditions must be satisfied.

***The donation must be to a registered charity** in either the UK or another country within the European Economic Area.

***A Gift Aid declaration must be made.** This can be done a number of ways including orally.


***The declaration must show the donor's name, address, and name of the charity and confirm the gift should be treated as a Gift Aid donation.**

***The donor must confirm they pay enough UK tax in the year in which they make the donation to cover the tax claimed back by the Charity.** Failure in this respect could result in HMRC effectively claiming back the tax incorrectly claimed by the Charity from the donor tax payer.

It's important to note:

- ▶ You cannot claim Gift Aid on subscriptions to a body who later pay across an element of that amount to a charity.
- ▶ **It is difficult to obtain Gift Aid relief if the donor receives benefits from the charity.** For example, if the donation is up to £100, the benefit received from the charity must be no more than 25% of the donation.
- ▶ **Donations made in cryptocurrency do not currently qualify for Gift Aid relief** as they are not recognised as legal tender and are therefore not gifts of money.



 **TIP...** It is very important that the Gift Aid declaration is made by the right person otherwise there is a chance that HMRC could claw back the charity top up from the individual or a person could miss out on higher rate tax relief. Please do not hesitate to contact us if you have any doubts.

A Gift from Payroll

The Payroll Giving Scheme (PGS) is a simple way of helping out charities, especially if you are thinking of making regular contributions.

It is also tax advantageous for you, the donor, but not so for the charity itself.

The PGS can be run through your employer or pension provider. They need to contact an approved Payroll Giving Agency to set up the PGS. An approved list can be found on the HMRC website.

The Agency will charge a fee for operating the PGS which is usually around 5% of the charitable donations paid across. They will either take the fee directly out of the contributions paid across to them or the employer can choose to pay the fee instead. Any cost incurred by the business in respect of the PGS is tax deductible.

Once the scheme has been set up, you notify your employer of the charitable amount you wish to contribute and to which charity you want it paying.

The employer will then deduct the donation from your gross salary prior to deducting tax under Pay As You Earn (PAYE) on your remaining net wages. They will then send the donations across to the agency who will disseminate the contributions out to the chosen charities.

Depending upon your personal circumstances and which part of the UK you are based, you effectively could get tax relief ranging from as low as 19% up to 61%.

It is important to note that:

- ▶ The charity can't benefit from a tax relief top up which they can do under the Gift Aid scheme.
- ▶ **National insurance is still liable to be deducted on the gross salary not on the net amount.**

The employer or pension scheme need to keep proper records in case of HMRC scrutiny, such as:

- ▶ A copy of the contract with the Payroll Giving Agency
- ▶ The forms where the employees authorise the employer to deduct the donation and to whom it should be paid.
- ▶ A record of the deductions made and a record of the payments made across to the Payroll Agency.

TIP... If you want any help in setting up a Payroll Giving Scheme and to process the payroll with this scheme in place, please do not hesitate to contact us.



Charity Can Cut Both Ways

Normally, if your Estate, after taking account of all your allowable inheritance tax reliefs, is above the inheritance tax threshold, then upon death, the excess will attract an inheritance tax liability of 40%.

▶ **However if you leave a sufficient charitable legacy that IHT liability could fall to 36%.**

▶ **You need to make a charitable contribution of at least 10% of the value of your Estate**, after stripping away certain eligible reliefs, such as your IHT nil rate band (presently £325,000).

▶ Depending upon the makeup of your Estate, **the 10% test might only have to apply to part of it to attract that 36% tax rate.**

▶ **In some cases, it is worth increasing the donation to the charity, as this might result in your non-charity beneficiaries receiving a greater pay out from the Estate**, as a result of the reduced IHT rate. This may require the beneficiaries of your Estate to do a Deed of Variation within two years following your death.

For example:

▶ **Andrea Jones died in March 2022. Her Estate on death was worth £800,000.** The assets were solely in her name.

▶ Andrea had made a gift to her daughter of £160,000, 4 years before she died.

▶ She left a legacy to the RSPCA amounting to £60,000.

▶ **Once all the relevant calculations are done, the net value of the Estate at death is £635,000.**

▶ Here the legacy of £60,000 is less than 10% of £635,000, so the Estate does not qualify for the reduced rate.

▶ **It would, however, be possible for the beneficiaries of the estate to increase the charity legacy by another £3,500, by executing a Deed of Variation so that the 10% test is met.**

▶ **This would reduce the IHT liability from £230,000 (40% rate) to £205,740 (the 36% rate). A tax saving of £24,260.**

▶ **The charity benefits by a further £3,500 plus the non-charity beneficiaries could receive a further distribution from the Estate of £20,760.**



You can break the Estate value down into 3 components:

▶ **General component** - Assets owned in your sole name.

▶ **Survivorship component** - Assets you jointly own which pass by survivorship or under a special destination in Scotland (for example - joint bank account or jointly owned property).

▶ **Settled property component** - Assets held within a Trust of which you are a beneficiary and have a right to receive income from.

▶ **You only need to make a 10% charitable legacy in respect of one of those components to attract the 36% IHT rate.** That reduced rate would only apply against the value of that particular component, unless the Estate makes an election to merge two or more components.

For example :

▶ Mary Rudge died in May 2022 leaving assets owned personally, valued at £850,000. This is the general component.

▶ She left 10% of the residue of her estate to Cancer Research. The donated amount from this part of the Estate was £85,000.

▶ Mary also held a joint bank account with her son, Jack, which had a balance of £80,000 at death. This is the survivorship component.

▶ **Once all the relevant calculations are done**, the charitable donation in respect of the general component needed only to be £54,115 to pass the 10% test.

▶ **As regards that part of Mary's Estate, the reduced tax liability would be £164,210, compared to £182,460 (40%).**

▶ Taking account of the rest of her Estate, her total IHT bill potentially stands at £173,750.

▶ **However, where the amount qualifying for charity exemption in one component exceeds the 10% test (as is the case here), the beneficiaries may want to consider making an election to merge the components to gain the maximum benefit from the reduced rate. In this case that would reduce the IHT liability by a further £954.**

▶ The non-charity beneficiaries would receive an increased distribution of £19,204 in total.



The wording of the Will is important in this case, as is recognising the make-up of the person's Estate and to do a review of the situation, within 2 years following the death to ensure that a Deed of Variation and/or an election is not missed. We are happy to provide advice on all aspects surrounding inheritance tax planning.



Asset Rich, Cash Poor

People nearly always think of the Gift Aid route when thinking of charitable giving from a tax perspective. **However, you can gift assets such as shares, land and buildings to charity instead of cash.**

This might help if you are asset rich, cash poor but want to make a donation to a charity in a tax efficient manner.

Of course, you could sell the asset first and then Gift Aid the cash across but that could trigger off a capital gains tax liability on any gain you made as a result of the sale.

Through this route of gifting the asset to charity you can avoid the potential capital gains tax and receive income tax relief on the true value of the asset as a deduction against your taxable income for the year.

Let's compare this approach against that of going down the gift aid route.

- ▶ Tom Pope has a salary of £90,000 a year.
- ▶ He owns British Telecom shares which are presently worth £20,000. He originally bought them for £10,000.
- ▶ He has already used up his capital gains tax annual exemption elsewhere.
- ▶ **Tom is contemplating whether to sell the shares and then gift the proceeds under the Gift Aid scheme or to simply donate the shares direct to the charity.**

The Gift Aid Option

- ▶ Tom would suffer capital gains tax of £2,000.
- ▶ If Tom donated the remaining £18,000 by way of the Gift Aid scheme, the charity would effectively get £22,500.
- ▶ Tom would get higher rate tax relief of £4,500 (£4,725 in Scotland).
- ▶ The net cost for Tom of making the gift would be £15,500 (£15,275 in Scotland)

The Asset Gift Option

- ▶ Tom would get tax relief of £8,000 (£8,200 in Scotland)
- ▶ The net cost for Tom of making the gift is £12,000 (£11,800 in Scotland)
- ▶ The charity would effectively receive £20,000 in the form of the shares.
- ▶ The only dilemma for Tom is, does the benefit to him of a cost of £12,000/£11,800 as opposed to £15,500/£15,275 outweigh the loss of benefit to the charity from £22,500 down to £20,000?

As a footnote to all of this the charity could ask Tom to sell the shares on its behalf. Tom can do this and still claim the tax relief as shown under the Asset Gift Option but he will need to keep details of the charity's request and a record of the gift. Without that evidence Tom might find he still has a capital gains tax liability to pay, without any income tax relief at all. Heaven forbid.

TIP... If you would like to review the impact of gifting a particular asset to charity from a tax perspective, please do not hesitate to contact us.

We are here to help
 We can help you by ensuring that you're aware of the changes that will affect you, your family and your business. To find out more about the ways that we can help you, do not hesitate to contact us.

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