

# Charitable giving and the new 50% income tax rate

March 2010

**stewardship<sup>®</sup>**

PO Box 99, Loughton, Essex, IG10 3QJ

t: 08452 26 26 27

e: [enquiries@stewardship.org.uk](mailto:enquiries@stewardship.org.uk)

w: [www.stewardship.org.uk](http://www.stewardship.org.uk)

This Briefing Paper and others like it are provided free of charge and help a great many churches and charities. Their development involves many hours of dedicated professional expertise both from within and outside of Stewardship. They are provided at our own cost as part of our mission to equip you.

If you find the material in this Briefing Paper to be of value, we would invite you to respond in the following ways:

- Subscribe to receive our email bulletins at our website, [www.stewardship.org.uk](http://www.stewardship.org.uk); and
- Tell others in your church or charity about our resources.

If you regard the material to have been of particular help and significance to you in your work (for example using it to inform a church or charity group/network) perhaps you would consider making a financial gift to Stewardship in appreciation (though please feel under no obligation).

## CONTACT DETAILS

Stewardship

PO Box 99, Loughton, Essex IG10 3QJ

t 08452 26 26 27 or 020 8502 5600

f 020 8502 5333

e [enquiries@stewardship.org.uk](mailto:enquiries@stewardship.org.uk)

w [www.stewardship.org.uk](http://www.stewardship.org.uk)

Stewardship is the operating name of Stewardship Services (UKET) Limited, a registered charity no. 234714, and a company limited by guarantee no. 90305, registered in England

© Copyright Stewardship 2010

## COPYRIGHT

This publication is the copyright of Stewardship. We want our resources to have the maximum impact, therefore you are welcome to reproduce or otherwise distribute this material in whole or part. We simply ask two things: (1) there must be no use for commercial gain, and (2) Stewardship is clearly acknowledged with the following wording "Reproduced with permission from Stewardship. [www.stewardship.org.uk](http://www.stewardship.org.uk)". If extracts are to be used in another context, permission should be sought in advance by emailing [enquiries@stewardship.org.uk](mailto:enquiries@stewardship.org.uk) or telephoning 020 8502 5600. Thank you.

## DISCLAIMER

Whilst every care has been taken in the preparation of this material, Stewardship cannot be responsible for action taken or refrained from in reliance thereon. It is recommended that appropriate professional advice be sought in each relevant individual circumstance.

# table of contents

---

	Page
1 Introduction	2
2 Impact of charitable giving on donor's tax liability	2
2.1 Gift Aid	2
2.2 Gifts of qualifying shares and property	2
3 Examples	2
3.1 Gift Aid donations	2
3.2 Gift of shares or property	3
4 Claiming the reliefs	3
5 Action points	4
6 Pension contributions	4
7 Stewardship Gold Account	5

# Charitable giving and the new 50% income tax rate

## 1 Introduction

The Government announced in the Winter 2008 Pre Budget Report the introduction of a new 'additional rate' of tax of 45% for higher earners, to take effect in April 2010. This was quickly increased to 50% in Budget 2009.

From 6 April 2010, individuals with taxable income above £150,000 will pay this new top rate of tax.

## 2 Impact of charitable giving on donor's tax liability

The silver lining of the tax cloud is that the main forms of charitable giving continue, for now, to attract tax relief at the donor's highest rate of tax and this includes the new 'additional rate'. Gifts of qualifying shares or property, and the gross amount of any gift aid donations will reduce the donor's income for tax purposes.

### 2.1 Gift Aid

A gift aid donor, if an additional rate (50%) taxpayer, can claim a personal repayment of tax equivalent to the difference between the additional rate of tax (50%) and the basic rate tax reclaimed by the charity (20%), calculated on the **gross** payment.

As a result, these donations now attract **30%** personal tax relief for the donor against their income above £150,000, rather than the 20% that a 'higher rate' (40%) taxpayer enjoys.

### 2.2 Gifts of qualifying shares and property

A donor of shares or property will be able to deduct the market value of the shares or property, at the time of their gift, from their taxable income giving effective tax relief of 50%.

## 3 Examples

### 3.1 Gift Aid donations

A donor makes a donation to a charity of £800. The deemed gross equivalent of the donation for these purposes is £1,000 (the £800 gift, plus the **basic** rate tax that the charity will reclaim of £200).

The additional rate taxpayer can make a claim for personal tax relief on this gross equivalent. This means that they can claim relief of £300 (£1000 x (50% less the 20% reclaimed by the charity)). The gift of £800 has, therefore, cost the donor £500, enabling the charity to benefit by £1,025.64 (including £25.64 transitional relief which is available on gifts made between 6<sup>th</sup> April 2010 and 5<sup>th</sup> April 2011).

If the donor then gives their repayment to the charity (for example, by indicating this on their Self Assessment Tax Return), further relief will be available to the charity:

Repayment donated to the charity	£300.00
Basic rate repayment to the charity	£ 75.00 (£300 + £75 at 20%)

In this way, an original net of tax gift of £800 has led to total resources to the charity of £1,400.64 (an increase of 75% on the original amount gifted).

### 3.2 Gift of shares or property

A donor who has a taxable income of £170,000 decides to make a gift of qualifying shares to a charity. The shares originally cost £800. Due to the success of the company over the years, they now have a market value of £10,000. The costs of transfer to the charity are £200.

Because the shares are gifted to charity, the donor will not be liable to capital gains tax. Broadly, the **capital gains tax saving** is £1,656 (the increase in value of £9,200 at the CGT tax rate of 18%).

In addition, the donor can claim **income tax relief** equal to 50% on £10,200 (i.e. the market value of the shares gifted, plus the costs of transfer).

The total tax relief gained is, therefore, £6,756 (£1,656 of Capital Gains Tax, plus £5,100 of income tax).

A gift of property has similar effect – no capital gains tax plus income tax relief on the market value of the property gifted. However, the amounts involved will be larger and the donor therefore needs to make sure that there is sufficient tax capacity to allow full relief to be gained.

In both cases, there are conditions relating to these reliefs and appropriate advice should be sought. Where there is insufficient taxable income in the year of gift to enable the full amount to be tax relieved, it may be more tax efficient for the donor to sell the asset in the market and then gift aid the net proceeds to charity over more than one tax year, potentially also making use of the gift aid **carry back** provisions. These tax strategies are beyond the scope of this Briefing Paper.

## 4 Claiming the reliefs

Most, if not all, additional rate taxpayers will receive an annual self assessment tax return. Relief is claimed simply by entering the relevant amount on Page TR 4 of the return form as follows (2009/10 SA Return references):

### Gift aid donations:

For gift aid donations, enter the net amount given (i.e. before any tax relief) as follows:

- Made, and claimed, in the tax return year Box 5
- Made after the tax year, treated as made in the tax year Box 8

### Notes:

Box 7 is for recording gifts that were already carried back on the previous year's tax return. It is too late to be making a 'fresh' Box 7 claim on the current year's return.

There are strict time limits for a carry back of relief (Box 8) to be effective. The time limit is 31 January following the end of the tax year to which a donation is to be treated as carried back to, or the date that the Tax Return is submitted (if earlier).

### Gifts of shares and securities:

- Made in the tax return year Box 9

### Note:

Usually, the amount to be entered is the market value on the date that the shares were gifted, plus any incidental costs of transfer (such as brokers' fees), less any sale proceeds (where the shares are sold to the charity at an undervalue) and any benefit received from the charity. If in doubt, refer to the Tax Return Guide, Page TRG 19

(2010) or seek professional advice. Tax anti-avoidance rules apply to the value of the shares transferred where the transaction takes place after 15 December 2009 and there is an avoidance motive involved.

#### Gifts of land and property:

- Made in the tax return year

Box 10

#### Notes:

As for gifts of shares, a sale to the charity at an undervalue will also qualify for relief to the extent of the 'market value' proceeds foregone. The market value on the date that ownership passes to the charity can be increased by the legal and other costs of sale.

The transfer must be of the whole of the donor's beneficial interest in freehold or leasehold land in the UK. If property is jointly owned, all of the joint owners must join in making the gift.

If in doubt, refer to the Tax Return Guide, Page TRG 19 (2010) or seek professional advice.

## 5 Action points

- ➔ If a donor is considering a major gift to charity towards the end of the tax year 2010/11, a donation made before rather than after 5 April 2011 will enable the charity to claim transitional relief, which ends on 5<sup>th</sup> April 2011.
- ➔ Charities may benefit from encouraging additional rate donors making gifts in 2010/11 to share some of their additional tax relief by making an additional donation whilst transitional relief is still available.
- ➔ There may be an additional incentive for donors whose taxable income, after other tax planning and reliefs, such as pension contributions, falls just above £150,000. By making gift aid donations or, maybe, a special one off gift aid donation for the purpose, their income could be reduced below £150,000, bringing them out of the additional rate altogether. Aside from the tax relief that the donation brings, this may have other personal benefits, such as reducing the tax rate on any dividend income that they enjoy from 42.5% to 32.5%.

## 6 Pension contributions

For higher earners, there are restrictions on both the amount of pension contributions that can be made and that qualify for tax relief. From 6 April 2011, individuals with an annual income of £150,000 or over, but below £180,000, will see tax relief on their pension contributions (including the value of employer contributions for those in employment) reduce gradually from their marginal (i.e. 50%) rate down to basic rate (20%) as income increases. Where income is £180,000 or over, the measure restricts tax relief on pension contributions to basic rate.

'Income' for these purposes is calculated before deduction or relief for pension contributions and charitable donations. Therefore, charitable gifts (whether under gift aid or any other form of tax relief for charitable donations) **will not** affect the withdrawal of relief for pension contributions.

## 7 Stewardship Gold Account

The Stewardship Gold Account is an ideal means of a donor obtaining timely tax relief on their charitable donations. Having made their donation to Stewardship, the donor can make requests at any subsequent time for distributions to be made by Stewardship to their favourite charitable causes. In the meantime, the account balance is credited by Stewardship with investment returns.

For further details: [www.stewardship.org.uk/documents/sovereign-gold-brochure.pdf](http://www.stewardship.org.uk/documents/sovereign-gold-brochure.pdf)