stewardship

transforming generosity

charitable giving and the 45% income tax rate

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Stewardship Briefing Paper

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1 Introduction

Since April 2010, individuals with taxable income above £150,000 have been liable to pay income tax at the 'additional rate' of tax. From 2010/11 through to 2012/13, this was set at 50%. From 6 April 2013, the additional rate was reduced to 45%.

This Briefing Paper looks at the impact of charitable giving on donors who are liable to the additional rate of income tax after 5 April 2013. Our earlier Briefing Paper 'Charitable Giving and the new 50% income tax rate' (March 2010) provides a similar analysis in respect of the tax years 2010/11 to 2012/13.

2 Impact of charitable giving on donor's tax liability

Despite a threat, in Budget 2012 to the contrary, all of the main forms of tax relief for charitable giving continue to be available at the donor's highest rate of tax. Gifts of qualifying shares or property and the gross amount of any gift aid donations will, therefore, reduce the donor's income for tax purposes.

2.1 Gift Aid

A gift aid donor, if an additional rate taxpayer, can claim a personal repayment of tax equivalent to the difference between the additional rate of tax (45%) and the basic rate tax reclaimed by the charity (20%), calculated on the gross payment.

As a result, these donations attract 25% personal tax relief for the donor against their income above £150,000. This compares to 20% for 'higher rate' (40%) taxpayers.

Up until 5 April 2013, this personal tax relief was 30% (50% additional rate less 20% basic rate). For a short while, there is a tax planning opportunity in relation to Gift Aid donations, as set out in the following Action Point.

Action Point

Donors wishing to take advantage of the 30% personal tax relief may wish to consider electing to 'carry back' some of their 2013/14 Gift Aid donations to 2012/13. This must be done before 31 January 2014, or the date that the donor's Self Assessment Tax Return is filed, if earlier. Our Briefing Paper 'Gift aid carry back' gives more details about this.

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 45%.

Action Point

Note that there is no 'carry back' facility for this form of giving. It may therefore be appropriate for the donor to sell their shares etc. and then Gift Aid the proceeds to charity. Calculations will need to be performed to compare options.

However, with care, some of the gifts can then be carried back to take advantage of the higher rate of relief in 2012/13. However, it is essential that reference is made to our Briefing Paper 'Gift aid carry back' in order to be aware of potential pitfalls, and to take appropriate professional advice.

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 £250 (£1000 x (45% less the 20% reclaimed by the charity)). The gift of £800 has, therefore, cost the donor £550, enabling the charity to benefit by £1,000.

If the donor then decides to give their repayment to the charity, further relief will be available to the charity:

Repayment donated to the charity	£250.00
Basic rate repayment to the charity	£62.50 (£250 net + £62.50 = £312.50 gross) at 20%.

In this way, an original net of tax gift of £800 has led to total resources to the charity of £1,312.50 (an increase of 64% 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 £2,520 (the increase in value of £9,200, less the costs of disposal, £200, at the CGT tax rate of 28%).

In addition, the donor can claim income tax relief equal to 45% on £10,200 (i.e. the market value of the shares gifted, plus the costs of transfer).

The total tax relief gained is, therefore, £7,110 (£2,520 of Capital Gains Tax, plus £4,590 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 needs, therefore, 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. Similarly, where the capital gain can be covered by the Capital Gains Tax annual exemption, private sale followed by one or more donations under Gift Aid may be preferable. These tax strategies are beyond the scope of this Briefing Paper.

4 Claiming the reliefs

All additional rate taxpayers should 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 (Tax Return 2013 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:

1. 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.

2. 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:

1. 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 HMRC's Tax Return Guide, SA150 (2013) at Page TRG 20, HMRC Helpsheet HS342, or seek professional advice.

Gifts of land and property:

- Made in the tax return year — Box 10

Notes:

1. 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.

2. 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.

3. If in doubt, refer to HMRC's Tax Return Guide, SA150 (2013) at Page TRG 20, HMRC Helpsheet HS342, or seek professional advice.

5 Further action point

➲ 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 37.5% to 32.5% (2013/14 and later years), or 42.5% to 32.5% (2012/13).

6 Stewardship gold account

The Stewardship gold account is an ideal means of securing timely tax relief on your charitable donations, even if you have not decided which specific charitable causes you wish to benefit. Having made your charitable donation to Stewardship and obtained immediate tax relief, you can make requests at any subsequent time for distributions to be made by Stewardship to your favourite charitable causes. In the meantime, the account is credited by Stewardship with an investment income.

For further details visit www.stewardship.org.uk/giving/gold-account.