stewardship
transforming generosity

Charitable Giving

Tax relief for higher and additional rate taxpayers

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Stewardship Briefing Paper

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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; 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).

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table of contents

About Stewardship

Stewardship's mission is to transform generosity by:

- making giving easy
- inspiring greater generosity
- strengthening Christian causes

and our vision is:

- for the world to encounter Jesus through the generosity of his church

Since 1906, Stewardship has been helping the Christian community in the UK to give and receive. We love **making giving easy** and help over 25,000 individuals to give around £60 million each year, to our database of over 19,000 charitable causes.

We are committed to **strengthening Christian causes**, by offering practical, tailored support to help Churches and Christian charities to transform the world.

And we **inspire greater generosity** from this community too, through our wealth of resources, courses and campaigns for individuals and churches alike, including the multiple award winning 40acts campaign and website.

1 Introduction

1.1 This briefing paper explains the tax reliefs available to Higher Rate (HR) and Additional Rate (AR) taxpayers for gifts under Gift Aid, for gifts of shares and securities, gifts of land and for payroll giving.

1.2 Basic rate taxpayers currently (2015/16) pay income tax at 20% on most forms of income. Like all taxpayers, some other rates apply or will soon apply to specific sources of income such as dividends and savings interest. These nuances are not covered in this briefing paper.

1.3 Higher rate taxpayers pay income tax at 40% on that part of their income that exceeds the basic rate threshold.

1.4 Individuals whose taxable income exceeds £100,000 have their personal allowance progressively withdrawn at the rate of £1 for every £2 of income above £100,000. As a result, where income exceeds £121,200 (2015/16), the standard personal allowance of £10,600 is withdrawn entirely. The effective rate of tax between £100,000 and £121,200 (2015/16) is **60%**. This paper does not consider the impact of tax relief on charitable gifts for individuals who have taxable income in this bracket. Instead, readers should refer to our separate briefing paper withdrawal of personal allowances for high earners.

1.5 Individuals whose taxable income exceeds £150,000 pay income tax at the rate of 45%.

2 Gift Aid and tax relief

2.1 Basic rate taxpayers

The UK tax system is designed to give basic rate taxpayers automatic relief for charitable gifts made under the Gift Aid Scheme. The system then enables the recipient charity to reclaim the basic rate tax already paid by the donor.

2.2 Higher (HR) and Additional (AR) rate taxpayers

As the tax system only gives automatic relief at the basic rate, it is left for HR and AR taxpayers to personally claim the difference between the HR/AR and the basic rate already given by 'the system'.

Many donors do not claim this extra relief (which itself could be given to charity) because they either are not aware that they can claim; because they perceive it to be too complicated or for one or two other reasons.

The aim of this paper is to raise awareness of the extra relief available in the hope and expectation that it may also promote greater generosity and, at the same time, to set out the relative simplicity of the claims process.

2.3 How 'the system' works

The manner in which basic tax relief is given is somewhat complex, leading to conceptual difficulty in donors understanding the extra relief for HR and AR taxpayers. For those that are interested in the technical derivation, reference should be made to the Appendix to this paper.

2.4 Examples of the extra tax relief for HR and AR taxpayers

As explained above, an HR Gift Aid donor can reclaim the difference between the HR (40%) and the basic rate (20%) on the **gross** value of their **net** cash gift. In a similar vein, the AR donor can claim the difference between the AR (45%) and the basic rate.

2.5 Example – HR donor

Hugh, a higher rate taxpayer, makes a donation to charity of £800. The deemed gross equivalent of the donation for Gift Aid purposes is £1000 because Hugh deducts basic rate tax from his gross donation of £1000 (£1000 x 20%) and hands the balance of £800 to the charity.

Hugh can now make a claim for personal tax relief on the gross donation amounting to £200 (£1000 x (40% less the 20% basic rate to be claimed by the charity)).

The gift of £800 has therefore cost Hugh £600 whilst enabling the charity to benefit by £1000 (£800 + £200).

The outcome, in total, is the same as if Hugh had been able to give £1000 to charity and the £1000 he earned then being exempted from income tax.

2.6 Giving the tax relief back to charity

If Hugh decided, out of generosity, to give his £200 repayment to charity, further relief would be available:

Repayment donated to the charity by Hugh	£200
Basic rate repayment to the charity by HMRC (£200 net + £50 = £250 gross) at 20%	£50
Received by the charity	£250

In this way, the original net of tax gift of £800 has led to total resources to the charity of £1250.

Of course, the further gift by Hugh will qualify for extra (HR) tax relief and the whole process could be repeated!

2.7 Example – AR donor

Anne, an additional rate taxpayer, makes a donation to charity of £800. As for Hugh (2.5 above), this equates to a gross donation of £1000.

Anne can now make a claim for personal tax relief on the gross donation amounting to £250 (£1000 x (45% less than 20% basic rate to be claimed by the charity)).

The gift of £800 has therefore cost Anne £550 (£800 - £250) whilst enabling the charity to benefit by £1000 (£800 + £200).

The outcome is the same as if Anne had been able to give £1000 to charity and the £1000 she earned then being exempted from income tax.

2.8 Giving the tax relief back to charity

If Anne decided to give the £250 repayment to charity as well, further relief would be available:

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

In this way, the original net of tax gift of £800 has led to total resources to the charity of £1312.50

Of course, the further gift by Anne will qualify for extra (AR) tax relief and the whole process could be repeated!

2.9 Gift Aid- tax planning points

2.9.1 Making gifts to charity can be affective in reducing a donor's top rate of income tax, especially if total income, before making those gifts, falls marginally into the higher or additional rate tax band. For tax purposes, the value of the gifts (as grossed up at the basic rate) is deducted from total income.

2.9.2 The gross equivalent of charitable donations also acts to reduce assessable income for **tax credit purposes**. For some HR taxpayers, this may reduce the taper and enable a higher award to be granted.

2.9.3 Taxpayers whose rates of tax vary between the BR, HR or AR bands, year on year, are able (in some circumstances) to ask HMRC for a donation made in one tax year to be treated as made in the previous tax year. If a higher rate of tax was payable in the previous compared to the current year, this may increase the value of the personal tax repayment.

We describe this planning opportunity more fully in our briefing paper Gift Aid Carry Back.

2.10 Claiming the extra HR/ AR tax relief

The method of claiming the extra personal tax relief described is paragraphs 2.5 and 2.7 will depend on:

- whether or not all of your income is taxed under PAYE
- whether or not you complete a self assessment tax return each year

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If all of your income is dealt with under PAYE you can simply telephone your usual tax office and ask them to adjust your PAYE code in order to give you your personal tax relief. You can do this even if you normally complete a self assessment return.

If your affairs are more complicated and you receive a self assessment return each year, you may not be able to claim by telephone (for example, your income is from self-employment). In this case, make sure that you enter your charitable donations onto your self assessment return. Your claim will then be processed.

If you don't receive a tax return, you can also ask HMRC to send you a form P810 to make your claim, by calling 0300 200 3300.

3 Gifts of shares, securities, land and property

3.1 Introduction

A separate, special relief is available for gifts of qualifying shares and securities, and for gifts of land and buildings. The rules for shares etc. on the one hand and land and buildings on the other largely mirror each other although a detailed analysis of each is beyond the scope of this paper.

3.2 Qualifying shares and securities

Qualifying shares and securities are:

- shares and securities listed at a 'recognised' stock exchange. This includes London and Plus listed in the UK and the main overseas stock exchanges.
- Shares and securities dealt in the UK Alternative Investment Market (AIM) and the PLUS-Quoted market of PLUS markets.
- Units in an Authorised Unit Trust (AUT)
- Shares in a UK Open Ended Investment Company (OEIC)
- Holdings in certain overseas collective investment schemes.

3.3 Qualifying investment in land

A qualifying interest in land is:

- A freehold interest in land in the UK, or
- A leasehold interest in land in the UK which is "a term of years absolute."

To qualify for relief, the donor must dispose of the whole of their beneficial interest in the land, to the charity.

If a qualifying interest in land is held jointly or in common with others, <u>all</u> of the owners must dispose of the whole of their beneficial interest for the relief to apply.

3.4 Income tax

a) Capital Gains Tax

Any outright gift to a charity is exempt from capital gains tax. If you sell the shares, land etc. to the charity at an undervalue, the proceeds actually received may be subject to tax whilst an amount representing the gift element will be exempted.

b) Income tax

The market value of the qualifying asset gifted plus any costs of disposal less any proceeds actually received is deductible from the total taxable income of the donor for the year of the gift.

With the top rate of capital gains tax at 28% and the top rate of income tax at 45%, the theoretical maximum value of the relief is 73% of the amount in b) above. The actual rate of relief will depend on individual circumstances.

3.5 Tax planning

a) No carry back

Unlike cash donations under Gift Aid, there is no facility to 'carry back' a gift of shares, land etc. to the previous year. Therefore, if the value of the relief exceeds the donor's capacity to use that relief against 'in year' taxable income, some or all of the relief will be forfeited.

b) An alternative strategy

Rather than an outright gift to charity in one tax year, the following alternatives are possible:

- In the case of share gifts, consider staggering the gifts over more than one tax year. There are of course other non-tax factors to consider, such as, future market value, urgency of gift etc.
- Consider selling the shares/property for cash, thereby realising a capital gain (and a capital gains tax liability), and then Gift Aid the proceeds over several tax years to shelter some or all of the capital gains tax, bearing in mind the Gift Aid carry back facility (paragraph 2.9.3 above). Professional advice is likely to be needed to establish the most tax efficient option in individual circumstances. Please note that Stewardship cannot give tax planning advice to individual donors.
- For shares, part of a holding can be sold and part gifted. For example, share sales up to the annual capital gains tax exemption could be made, the proceeds gift aided and part or all of the gift aid carried back to the previous year, mindful of the time limits for 'carry back' claims. The value of the part holding gifted would be set against current year tax. The permutations for the timing and split of sales against share gifts are numerous.

4 Payroll giving

4.1 Outline of the Scheme

Payroll giving is a Government scheme whereby an employer enters into a contract with a 'Payroll Giving Agency' (PGA), of which Stewardship is one. With the agreement of participating employees, the employer makes payroll giving deductions from each participating employee's salary and pays these over each month to the PGA. The employee can then nominate the end charity or charities that the PGA should send their payroll deducted donations to.

4.2 Tax relief

Employee deductions are made from gross salary. As such, tax relief is automatically given on the charity donations at the employee's highest marginal rate. There is no need to make a separate claim for higher or additional rate relief. The end net result is, however, in tax terms the same as for Gift Aid.

4.3 Payroll Giving with Stewardship

Further details of Stewardship's Payroll Giving Scheme and for Stewardship as an authorised PGA, please visit:

www.stewardship.org.uk/giving/payroll-giving-1

5 Gift Aid small donations scheme (GASDS)

5.1 Purpose of the scheme

The GASDS is designed to supplement the Gift Aid Scheme where donations are too small or impractical to administer through the Gift Aid Scheme itself. However, whereas Gift Aid is a tax relief, top up payments under the GASDS is public expenditure. Consequently, there is no question of HR or AR relief for donations under the GASDS.

5.2 Resources

Stewardship has published two briefing papers on the GASDS, available from the Resources Section of our website.

6 Making it easy

6.1 Stewardship giving accounts

Stewardship provides a range of giving accounts suited to managing giving and making it easy for donors to give by any of the methods outlined in this paper, including gifts of shares and property.

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6.2 Flexibility in timing of gifts

Frequently we find that very generous donors are seeking to find the best way of organising and making their giving go further, whether by timing gifts for best tax efficiency (for which, see paragraph 3.5 above, for example), or having the flexibility to give now, but to decide on the ultimate cause to benefit at a later date.

This is particularly so in relation to tithing year end bonuses (which can be sizeable) or in securing Inheritance Tax relief from an estate for a charitable gift whilst not yet having settled on the ultimate beneficiaries. By making the charitable gift to Stewardship, the funds can remain in the giving account pending future requests from the donor to give funds onto one or more recipient causes.

6.3 Stewardship Gold account

The Stewardship Gold account is particularly suited to larger charitable gifts requiring both flexibility and investment returns. For more information on the Gold account, please visit:

www.stewardship.org.uk/giving/gold-account

6.4 Other giving accounts

For more information on our range of giving accounts, please visit:

www.stewardship.org.uk/giving/give

appendix

Detailed explanation of Gift Aid higher and additional rate relief

1.1 Rationale for tax reliefs

The idea behind tax reliefs for charitable gifts is that in making a gift a donor has deprived themselves of their income from which their donation is made and, as such, they should not suffer income tax on that income.

1.2 Basic rate taxpayers and Gift Aid

The tax system deems a Gift Aid donation to charity to have been made after the donor has deducted an amount equal to basic rate tax. In other words the donation is net of the tax deducted. This enables HMRC to avoid the need to repay tax relief on Gift Aid donations made by basic rate taxpayers—numerically the majority of UK Gift Aid users:

Income earned by basic rate donor	£100
Donation to charity (net of 20% basic rate tax)	£80
Charity receives	£80
Charity reclaims basic rate tax	£20
	£100

Donor: Tax relief due on income 'deprived' in favour of charity

£100 (gross gift) at 20%: Due from HMRC	£20
Tax owed to HMRC, deducted from gross gift	(£20)
	£NIL

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1.3 Higher and additional rate taxpayers and Gift Aid

Because the Gift Aid system only automatically 'accommodates' the tax relief for basic rate donors, further tax relief is due to both higher and additional rate taxpayers. This extra tax relief needs to be claimed by the donor themselves, rather than the charity:

	Charity	Higher rate donor	Additional rate donor
a) Donor earns £100	-	100	100
b) Donor gives charity £80 (£100 less £20 basic rate tax)	80	(80)	(80)
c) Charity reclaims basic rate tax	20		
	£100		
d) Tax paid on £100 earnings	-	(40)	(45)
e) Tax relief due to donor:		40	45
Less: Tax deducted by donor from donation		(20)	(20)
Actual repayment from HMRC		20	25
Overall net position of donor		NIL	NIL

The effect of the above transactions in total is, in both cases, that the donor has earned £100 income, has given all £100 to the charity, and suffered no net tax at all. In other words, the Government Policy rationale has been achieved: the donor has deprived themselves of the income in favour of charity and, as a consequence, has not paid any income tax on that income.