Charitable giving: are you maximising your impact?

Research by the Charities Aid Foundation (CAF) suggests that a quarter of UK adults donate to charity on a monthly basis. But besides the 'feel good factor' and the importance of supporting a worthy cause, there are also financial incentives for the donors themselves.

When we talk about charitable giving, we are most often thinking about 'cash' donations. This includes everything from sponsoring a marathon-running friend to setting up a monthly direct debit to your favourite charity. Charities in the UK are usually able to reclaim 'gift aid' on these donations – an additional 25p for every £1 donated.

"This is clearly a fantastic scheme for charities, and the government supports it at great expense," says Mark Collins, Head of Tax at Handelsbanken Wealth Management, "But it can also give back to the donor too, in the form of tax incentives."

If you are a higher or additional rate income tax payer, that part of your income which is taxed at the basic rate of tax will also be increased by the amount you have donated, plus gift aid. For example, if you donate £1,000 to charity, and the charity reclaims £250 gift aid, the upper limit of your basic rate would increase from £50,000 to £51,250.

"More and more people are taking advantage of this tax-efficient way of giving," Mark notes. "According to HMRC, higher rate tax relief as a result of charitable donations totalled £520m for the tax year 2018/2019."

However, if a very limited amount of your income is subject to income tax or capital gains tax, you must take care. Mark elaborates: "Donors must ensure that they have paid enough income or capital gains tax to cover the gift aid claim before adding it to any donation."

A second way to share some of your wealth with charities is by donating 'quoted' assets (e.g. publically listed shares) or property. Gift aid is not an option here, but there are other tax incentives. Mark explains: "Donated assets like these are exempt from capital gains tax, and result in a deduction from taxable income to the equivalent value of the donation. So donating £1,000 in shares means income tax relief on £1,000 of your income!"

> “With so many ways to give, and a number of tax incentives in play, we encourage charitable givers to ensure they are maximising the impact of their donations - for both themselves and the charities they want to support.”

Besides lifetime giving, significant incentives are in place to encourage donors to remember a charity in their will. The ‘nil rate band’ (the tax-free threshold for inheritance) is currently £325,000; when someone leaves 10% of their net estate to charity, the rate of inheritance tax paid on the estate value above £325,000 automatically drops from 40% to 36%.

However, care is needed. Recent history has borne witness to some high profile disputes over donor’s wills, including the legal case between The Woodland Trust and the family of Mrs Valerie Smith. Mrs Smith’s will stated that an inheritance equivalent to the nil rate band should be gifted to her children and grandchildren, with the remainder of her estate going to The Woodland Trust.

When Mrs Smith made her will in 2001, the nil rate band was not transferable between spouses; The Woodland Trust could therefore reasonably expect to inherit the remainder of the estate above £325,000. But, in 2008, tax laws changed; the nil rate band of a deceased partner could be added to that of their surviving spouse. When Mrs Smith (a widow) died in 2014, her family successfully argued in court that the nil rate band in this instance was £650,000 – Mrs Smith’s nil rate band plus that of her late husband.

“The legal challenge brought by the charity was no doubt distressing to Mrs Smith’s family,” says Mark. “However, we have to remember that charity trustees have a duty to protect what they perceive to be their rightful assets. We would urge anyone leaving a charitable donation in their will to seek robust legal advice, ensure that their will is tightly drafted and regularly reviewed, and keep a keen eye open for any changes in tax law.”

As we begin a new decade, CAF claims that 10% of UK adults want to give more to charity in 2020. Mark concludes: “With so many ways to give, and a number of tax incentives in play, we encourage charitable givers to ensure they are maximising the impact of their donations – for both themselves and the charities they want to support.”

To find out more about charitable giving and tax-efficient investing, please contact the tax team at:

tax@heartwoodgroup.co.uk

The value of investments and any income from them can fall and you may get back less than you invested.

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