

Charitable Giving



When thinking about charitable giving it's very easy to focus on the 'how' rather than the 'why'. Structuring and tax efficiency are important of course but the real point to consider is why might you want to give (or give more) in the first place? It is important to think carefully about what you are looking to achieve before planning to do this in the most effective way.

Making a difference

Most of us give something to charity, sometimes our time, sometimes our money or both. We might be tempted to do more if we felt that by doing so we could make a real difference. For those who are able to make substantial gifts this will be an easy conclusion to reach whereas others might feel that the amounts they could give would not be sufficient to have any impact. In fact, we are all likely to find ways in which what we can give (in money or time) will really count for something if we can obtain the right guidance.

Making a difference means having an impact in the areas we choose to focus on, so being able to see (and ideally measure) this impact is important whatever the amount we give. There are some really good, and often inspirational, organisations who can help us with this; at a local level, Community Foundations exist to help those who want to support causes in their own communities to find great charities to work with. These charities often survive on a very modest annual income so relatively small amounts can make a big difference to them. More widely, the Charities Aid Foundation (CAF), for example, provides both a mechanism for efficient giving (see below) and also advice on how to use your charitable funds effectively.

Giving while living

Giving in our wills can be tax-efficient and for most of us it is easier to make bigger gifts when we die than during our lifetime when our own financial security comes first, and giving is usually focused on the family. But where we are able to do it, giving while we are alive means that we can see the impact our gifts can make which provides real satisfaction.

Giving while living can also be very tax-efficient (see below) and this is particularly the case if we give while earning as our income is usually at its highest during our working lives, and tax efficiency is maximised where gifts can be offset against income. Because of this, many of our clients aim to maximise their giving while they are still earning, sometimes by creating a charitable vehicle which will be used to make distributions mainly when they have more time after their retirement.

Tax efficiency

Gift aid

The gift aid scheme is designed to encourage people to give money to charity by enabling them to make donations in a tax-efficient way. A payment to charity will qualify for gift aid so long as it is a 'voluntary donation'; if you receive something in return for the gift it may not be eligible for tax relief. There are certain exclusions from this rule (e.g. entry to historic buildings or gardens) but it is an area where care is required.

Who can use gift aid and how does it work?

Anyone can make a gift aid donation but you must have paid sufficient UK tax to 'frank' the gift with a basic rate (20%) tax credit. The gift you make is treated as having been made net of basic rate Income Tax. This means that the charity can reclaim a basic rate tax credit from HM Revenue & Customs (HMRC), which effectively increases the value of your gift to them by 25%. For example a gift of £800 would enable the charity to reclaim Income Tax of £200, making a total gift of £1000.

If you are a higher rate taxpayer (40%) or additional rate taxpayer (45%) you can claim further tax relief on the gift through your tax return. In the above example, a higher rate taxpayer would claim relief of a further £200 and an additional rate taxpayer £250.

To claim tax relief on your gift aid donation you must provide the charity with a valid gift aid certificate. This should generally be in writing (though this is not always necessary) and most charities will provide you with a simple form to sign at the point at which your donation is made.

Carry-back of gift aid donations

When you make a cash gift to charity (but not an in specie gift – see below) you can elect to have the gift treated as if it was made in the previous tax year so long as the gift is made before you complete your tax return for that year (at the latest 31st January following the tax year end). By this means you can achieve tax relief sooner and sometimes at a higher rate, depending on your income level and tax rates in the relevant years.

Gifts of qualifying assets

It can sometimes be particularly tax-efficient to make a charitable gift by transferring assets rather than cash to the charity. Where the gift consists of shares or other qualifying investments or a ‘qualifying interest in land’ Income Tax relief is available on the full market value of the gifted asset. Additionally, you will not pay capital gains tax (CGT) on any inbuilt gain so the combined rate of Income Tax and CGT relief can sometimes be very high.

Usually it will be appropriate for the charity to sell the gifted asset shortly after receipt so as to use the proceeds for charitable purposes or invest in a more diversified portfolio. This is a process which we often facilitate for our clients.

Overseas factors

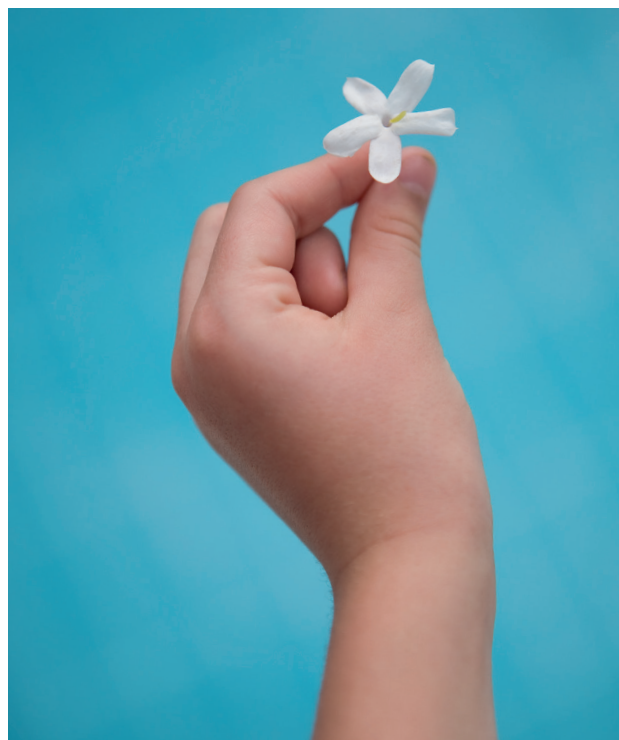
While giving by UK residents to UK registered charities is usually straightforward from a tax perspective, overseas considerations can sometimes arise:

- If you want to make a gift to a charity which is not registered in the UK great care is required. Such a gift will not generally qualify for tax relief, though in principle gifts to a charity registered in other EU countries could qualify.
- US citizens resident in the UK need to think about their US tax position as well as UK tax. Donor Advised Funds (DAFs) can sometimes facilitate relief in both countries.
- If you are UK resident but non-domiciled it can be particularly tax-efficient to make charitable gifts from offshore income, which may still qualify for tax relief in the UK. Care is required on how this is achieved.

Charitable trusts and other structures for charitable giving

It is important to think carefully about how you want to

structure your charitable giving to have the greatest impact. This will not be dictated by tax considerations as tax reliefs are the same whatever mechanism you use. So what are the different options?



- The most straightforward approach to giving is to make a donation to an existing charity, whether this be national or local. However large or small the amount you want to give, this is likely to be the best approach if there is a charity that already focuses on the area you would like to impact, so long as they are doing this well.
- At a local level, Community Foundations usually have ‘flow through’ funds to enable you to give to one or more organisations in your community operating in your area of interest. They will help you to decide how best to do this, which can include visiting some of the organisations you might choose to help, making giving more tangible for you.
- If you would like to set aside some cash for giving over a period of time, either by giving a lump sum or by way of a monthly standing order, it can sometimes be most efficient to do this through an account with CAF who will provide you with a ‘charitable cheque book’. They will claim back the tax deemed to have been deducted at source when you make a cash gift to them. So if you save £800 into a CAF account you will be able to write cheques to other charities totalling £1,000 (less CAF’s charges).
- If you are thinking about setting aside a larger amount (say £100,000 plus) and want to use this over the long term for local causes, an Endowment Fund with a Community Foundation is one option to think about. The funds you give can be invested in a managed portfolio and grants to local charities can be made from this on an annual basis, with the guidance of the Foundation.

- Where a larger amount is involved and your focus is not entirely local, the most appropriate structure to use will often be a Donor Advised Fund (DAF). A DAF is very similar to a charitable trust and provides a vehicle which can receive gifts from you (either cash or in specie) to be applied for charitable purposes over a long period of time – generally by making grants to other charitable organisations (including for example schools or other educational establishments).
- While a DAF will often be the best vehicle to use even if you are thinking of giving a very large amount, an alternative to consider is establishing your own charitable trust (often referred to as a foundation). While a DAF will usually be the option which involves least administrative effort, a private charitable trust can provide greater control and a feeling of ownership which may be important to those who see charitable giving as part of their expression of family values and one in which they would like to involve their children or other family members. Where the conclusion is that a private charitable trust is the right vehicle for them, we can help our clients through all aspects of the establishment process and deal with the ongoing administrative work for them, leaving them to focus on what really matters – making an impact.

We are here to help

At Handelsbanken Wealth Management, our aim is to understand our clients, what matters to them and what they see the funds available to them as being there for. This will of course always include their personal financial security and helping their family in the way they think best. But often charitable giving will also have a part to play and this is an area of advice often neglected by financial advisers. It is not always obvious what you can or should do to make a difference in the areas which matter to you or what is the most efficient way of doing this in your circumstances. The expertise which we have in-house, the experience we have built up through advising our clients over the years, coupled with our knowledge of what is happening in our local communities, through our nationwide network of branches, means that we are well placed to help you. As always, your local Client Director is the person to speak to first and they will often be able to provide the advice you require. Where this is not the case, and particularly if detailed advice is required on structuring or tax efficiency, they will involve our specialist team to work with you.

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

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