

Dear Reader,

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This newsletter aims at summarizing a number of incentives the UK tax system provides for both individuals and businesses for giving to charity.

Individuals:

Following are the ways in which individuals can give to charity tax effectively;

1. **Payroll Giving:** Payroll Giving is a simple, tax effective way to give to charity from one's pay. Payroll Giving provides tax relief at source for individuals who give to charity by direct deduction from their pay. *The agreed deductions one's employer makes from one's pay are done before one pays tax. For example, if one pays tax at the basic rate it will only cost one £7.80 to donate £10.00 to the charity of one's choice.* Once an individual has signed up to the scheme, the employer simply deducts the relevant amount from his pay before deducting tax under PAYE (but after deducting NICs) and sends the payment to an approved payroll giving agency. The agency then distributes the amounts donated to the charities selected by the individual.

2. **Gift Aid:** Individual donors can make payments, large or small, regular or one-off to UK charities under Gift Aid. The donor simply gives the charity a declaration, which can be in writing or oral. The declaration requires the donors to confirm that they will pay an amount of income tax or capital gains tax, equal to the tax that the charity claims on their donations, for the year in which the donations are made. Please note that tax can only be reclaimed on donations made by individuals who pay UK income or capital gains tax at least equal to the amount reclaimed on their donations in the current tax year.

Gift Aid allows the charity to reclaim the basic rate tax on the donation from the H M Revenue and Customs. This means that the donation is worth an extra 28% to the charity. Donors who are liable at the higher rate of income tax can claim the difference between the higher rate, of 40%, and the basic rate of 22% on the grossed up donation.

3. **Gifts of Land, Buildings, Shares or Securities:** Tax relief is available to encourage gifts of land, buildings and certain shares and securities to charity. This includes selling of an asset to a Charity at less than market value.

Individuals can claim a deduction for the gift against their income for income tax purposes. This is in addition to the exemption from capital gains tax, which is available for gifts of investments to charity.

The amount of relief you claim is the market value of the qualifying investment at the time you give or sell to charity, plus, any incidental costs (for example brokers fees or legal fees), less, any disposal proceeds or other money, or value of the other benefits you or a person connected with you (such as a relative or connected company) receive in consequence of you giving or selling the qualifying investment to Charity.

Donors may need to retain documentary evidence of their donation of (or sale at under-value) the investments to a charity. This evidence would normally include a copy of the dated stock transfer document and any correspondence in connection with the gift. For gifts of land and buildings one needs to obtain a certificate from the charity. Outright gifts and bequests are completely free of inheritance tax.

Businesses:

Businesses can also give to charity tax effectively in a number of ways: -

1. **Gift Aid:** Businesses can get tax relief when they give money, whether as a one-off or regular payment, under the Gift Aid Scheme. There is no longer a separate tax relief for payments to charity under a deed of covenant. There is no limit to the amount that the business can give, but the way you get tax relief will depend upon whether the business is a company, a sole trader or a partnership. Moreover, there are limits that apply separately to each donation.

The company can then deduct that amount as a charge against its profit for corporation tax purposes for the accounting period in which the donation was made. The company does not have to give a Gift Aid declaration.

Wholly owned subsidiaries of charities can make donations to their parent charity and carry back the deduction, up to 9 months, into an earlier accounting period. Sole traders, or partners in a partnership can make Gift Aid payments as individuals, as set out above.

2. **Gifts of land, buildings and certain shares and securities:** Companies can claim a deduction for a gift of land, buildings and certain shares and securities as a charge against their profit for corporation tax purposes, equal to the value of the investment donated. This is in addition, to the exemption from corporation tax on chargeable gains, which is available for gifts of investments to charity.

They can claim the reliefs if they give or sell at less than market value, a "qualifying investment" to a UK Charity. However, companies cannot get relief for gift of their own shares.

The amount of relief a company can claim is the market value of the qualifying investment at the time it gives or sells to charity, plus, any incidental costs (for example brokers fees or legal fees), less, any disposal proceeds or other money, or value of the other benefits it or a person or company connected with it (such as a relative or connected company) receives in consequence of its giving or selling the qualifying investment to Charity.

Evidence of the gift of shares or securities having been made to the charity may be in the form of a copy of the stock transfer or a letter from the charity acknowledging receipt of the gift. For gifts of real property, it will need a certificate from the Charity that must contain (a) a description of the qualifying interest in land, which is the subject of the disposal (b) the date of the disposal (c) a statement that the charity has acquired the qualifying interest in land.

The amount of gift should be entered on Self-Assessment return.

3. **Giving business assets:** Relief is available to businesses for a gift of an article to charity that is either an item manufactured or sold in the course of the trade, or machinery or plant used in the course of the trade. The relief is available to companies, sole traders and trading partnerships.

When a business gives away an article manufactured or sold in the course of its trade, the normal treatment is to include the market value of the gift as a trading receipt when calculating profits for tax purposes. *Where such articles are given to a charity, nothing is included as a trading receipt. In that way it gets relief for the cost of the article in calculating the taxable profits of the trade.* In the case of machinery or plant used in the course of its trade, treat it as having been disposed of at "nil" value for capital allowances purposes (rather than at market value, as would otherwise be the case).

Any costs incurred by the business in connection with the employment of a person on secondment to a charity (including salary payments) should be treated as a business expense when calculating chargeable profits for tax purposes.

Trading companies, sole traders or trading partnerships sponsoring a charitable activity can claim relief for sponsorship payments, provided the payments are made wholly and exclusively for the purposes of their trade and are not of a capital nature.

We inform you that any UK tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax related penalties, or (ii) promoting, marketing or recommending to another party any tax related matters addressed herein.

We appreciate and value your feedback very much. Let us know how we can help make this communication vehicle and the learning resource more valuable to you.

You can always e-mail us at resources@saboee-solutions.com or call at 1-646-435-7887(USA) or 020 7993 8870(UK) or 91 33 2236 5173 (India).

Sincerely,

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