Powys Association of Voluntary Organisations

Your local county voluntary council

7. Finding and getting money

7.10 Tax effective giving

There has been a long tradition of charitable giving amongst the UK public and it remains widespread – it's estimated that the total amount given by UK adults to charity in 2009/10 was £10.6 billion. In a typical month 56% of the public – almost 28.4 million people - made a donation (NCVO/CAF). However these donations are not always being made tax-effectively – HM Revenue and Customs estimates that charities are missing out on around £750 million in Gift Aid alone each year.

Tax-effective giving is often discussed in the UK as if it is a single brand but there are actually a number of different tax-effective giving mechanisms which operate in different ways, for example payroll giving is automatically tax-effective with the tax benefit to the donor whereas Gift Aid requires a Gift Aid declaration to have been made by the donor for the charity to reclaim the tax, with the tax benefiting the charity or the charity and donor. Many donors and charities alike are unaware of the range of generous tax incentives which are available. A recent report by CAF (2009) found that there is room to improve awareness and reduce the confusion around what tax-effective giving really is, especially among the young and those in lower income social classes. It is up to charities to educate their donors about the range of tax-effective giving mechanisms available to them.

The CAF report also found solid reasons to believe that once donors engage with tax-effective giving mechanisms they remain committed to them so tax-effective giving can provide important sources of unrestricted, sustainable income.

This information sheet sets out the main features of the different tax-effective giving mechanisms for individual giving.

Gift Aid

In terms of awareness and usage amongst the public Gift Aid is the dominant tax-effective giving mechanism.

Gift Aid works by allowing charities to take a donation (which is money that the donor has already paid tax on), and then reclaim tax on its 'gross' equivalent (its value before tax was deducted) at the basic rate. This is 20 per cent from 6 April 20011.

In practice this means that for every pound donated to charity using Gift Aid the charity can claim an additional 25 pence from HM Revenue and Customs (HMRC).

Gift Aid can apply to one-off donations or to a series of regular donations.
Once registered with HMRC to reclaim tax, the administration is simple. Donors provide evidence that they would like the charity to reclaim the tax relief on their gifts and the charity claims the tax relief on behalf of the UK income tax paying donors. Gift Aid can be claimed on donations made over the past four years Imagine what a difference this could make to your charity. To find out about the five simple steps to Gift Aid see information sheet 7.10.4 Introduction to Gift Aid.

Payroll giving

Enables employees to give to charity through their employer's payroll before tax is deducted so a £10 donation will cost a basic rate taxpayer £8, a higher rate taxpayer only £6, and the highest rate (50%) taxpayer only £5.

Currently valued at around £106 million per year (UK), the sector benefits greatly from this regular, reliable and unrestricted source of income. It is easy to set up and donations often continue for many years or until the individual's employment ceases.

This form of committed giving provides real incentives for donors as they receive immediate tax relief on their monthly gifts.

Payroll Fundraising involves building relationships with local employers to promote the cause to its employees, this method of fundraising often leads to new supporters and many other indirect benefits.
For further information, see information sheet 7.10.1 Introduction to payroll giving.

Legacies

A bequest from a donor's will is one of the more traditional forms of giving to charity and remains a very significant source of income. Many charities and religious organisations are reliant on these.

Charitable donations in a will are free from inheritance tax. Legacy fundraising has enormous potential. Many people die not having written a will so a good start to promoting legacies is to encourage people to write wills and consider leaving a bequest to charity. You can work with local solicitors to promote making a will. Make sure that you let your supporters know that you welcome legacies and show how you have used previous legacies and the difference they have made.

Share Giving

The average share gift is £7,000 and more than eleven million people in the UK own shares of various quantities. Fundraising for shares is clearly a valuable option.
The main incentive to give shares is that it can cost donors less to give shares than it costs them to give cash, the donor can also receive Income tax relief on the value of the shares and exemption from Capital Gains Tax. This can amount to a substantial tax break.

Further information

Giving Wales
Helpline 0800 2888 329
givingwales@wcva.org.uk

Payroll Giving Scheme
www.charitablegiving.co.uk

Institute of Fundraising
www.tax-effectivegiving.org.uk

HMRC Charities
Helpline 0845 302 0203
charities@hmrc.gov.uk
www.hmrc.gov.uk

References

NCVO/CAF (2010) *UK Giving 2010 An overview of charitable giving in the UK in 2009/10,* NCVO/CAF

CAF (2009) *The public bond with tax-effective giving in the UK*
A survey of public awareness and usage of tax-effective giving methods

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