



FACT SHEET 19

Tax Effective Giving

The main tax effective giving methods for individual donors include Gift Aid, Payroll Giving, Share Giving and Legacies. There are four ways of increasing income through voluntary giving:

1. encouraging donors to make larger gifts
2. attracting more donors
3. increasing the regularity of each donor's gifts
4. Prolonging donor's giving.

Advantages of Tax Effective Giving

Gift Aid enables donors to increase the contribution that they make to charity, thus enabling them to make larger gifts than may not otherwise be possible;

Payroll Giving opens up giving to audiences that might not otherwise have considered it and promotes a regular, reliable income stream;

Share Giving can encourage larger gifts

By leaving a **Legacy**, donors can continue their giving even after their death.

GIFT AID

This is the most successful of the four methods, with over one third of givers now using Gift Aid. It is for UK income tax payers and enables the charity to reclaim the basic rate of income tax. In 2004/5 donations of £2.8billion were recorded, with £625 million tax being paid back to charities. However, it is estimated that **£600 million** is left unclaimed each year! The tax is claimed back from HMRC (H M Revenue & Customs).

Gift Aid is worth an extra 28p for each £1 donated, meaning that each donation can be increased by nearly 1/3 for FREE! But donors must pay at least as much Income or Capital Gains Tax as is being reclaimed.

Higher Tax payers are entitled to claim back the difference in tax paid (40%) and the tax reclaimed by the charity (22%), which in short means that higher tax payers benefit from a return of 23p for every pound donated, with around £310 million being claimed back each year. If they so wish, they can now donate this additional tax benefit to the charity by completing section 19a of their tax return.

Donors must complete a **Gift Aid Declaration** which includes:

- Donors name
- House Number & postcode
- Name of the charity
- Confirmation that the gift is a Gift Aid donation
- Confirmation that the donor is a UK taxpayer

Top Tips:

- With a donor's permission, organisations can reclaim Gift Aid on the donor's donations over the last 6 years;
- Permission to Gift Aid can be given over the phone on-line, via text message or face to face, so long as the charity keeps the appropriate records;
- Charities using this scheme can use the Gift Aid logo to increase awareness of their involvement (logo available from Institute of Fundraising website);
- Remember to give donors the opportunity to tell you they are NOT taxpayers by giving them an opt-out tick box;
- Gift Aid should be added to sponsor forms but PLEASE NOTE that an event participant cannot put all sponsor money into a single cheque and claim Gift Aid on the total, as Gift Aid is money from individual sponsors and is claimed back from their tax;
- Keep records of all Gift Aid donations (these can be stored on paper, CD-ROM; Disc; recording a telephone call, etc) in case of an audit visit from HMRC. The audit trail may consist of Gift Aid declaration; correspondence to/from donor; charity bank statements; donation records, etc.

PAYROLL GIVING

This method allows people to make an automatic donation to the charity of their choice straight from their pay packet. Their company makes the deduction, before tax and other deductions are calculated, so that they do not pay tax on the income they are donating.

To facilitate Payroll Giving, an employer signs up to a Payroll Giving Agency who will administer the donations on their behalf.

This form of tax effective giving enables the charity to promote committed giving to donors, who may give more generously due to the immediate tax relief. For example, a £10 donation only costs the employee £7.80 (due to the immediate tax relief). This figure drops to £6 for higher tax payers.

To encourage more employers to make the scheme available to staff two incentive programmes have been drawn up:

1. Payroll Giving Grants Programme: (Available until December 2006). Cash grants of £300-£500 are available to persuade employers to offer payroll Giving to their staff depending on the size and number of staff. Employees whose employer is eligible for a grant will see the first £10 they give each month matched £ for £ for 6 months or until the end of the programme in March 2007 (whichever comes first), giving the charity an enormous financial boost. This is funded by the Home Office and run by Institute of Fundraising (IoF) and supported by Business in the Community. Visit www.payrollgivinggrants.org.uk for more information.
2. Payroll Giving Quality Mark: This new scheme enables employers to demonstrate their commitment to good causes through the use of a logo and certificate. Awards are given to those that achieve target participation levels. This is funded by government and is run by IoF. Visit www.payrollgivingcentre.org.uk for further details.

Top Tips

- Payroll Giving grants can be backdated for employers signing up to Payroll Giving since April 2004;
- Matched giving can be backdated to employees that commenced giving from April 2004;
- This scheme can improve the organisation's public image; boost staff morale; aid recruitment & retention of staff and can be linked directly to a local charity. The PR benefit of being a "caring company" works for companies such as Gap & Barclays who match employees payroll giving (in some cases up to £1200 per employee);
- It is a simple process for employees who simply need to sign a mandate (to authorise the deductions).
- Payroll Giving Agencies are registered charities and audited by HMRC. They process all the paperwork, make a small administration charge, provide support to charities and employers in setting up the scheme and provide the charity with a list of donors unless the donors have requested anonymity. Each PGA offers a different level of service for a fee so get to know the PGAs before signing one. Contact Institute of Fundraising for a full list. CAF is a PGA.
- It is important to build a relationship with payroll donors (employers and employees) perhaps by thanking them and asking what further contact they would like. Your charity has the opportunity to build a long-term relationship that may develop other forms of giving. Keep donors informed about the work of your charity and in time, they may consider increasing their gift.

SHARE GIVING

Over 12 million people in the UK own shares, with an estimated value of £200 billion. Each year around £100 million is donated in share gifts, with an average share donation being £7k.

For many giving shares to a charity is an effective way of giving a substantial gift as their donation will be eligible for income tax relief. In addition, Capital gains Tax (CGT) does not apply to donations of shares. Shares can be transferred electronically, by share certificate or when the donor acts as an agent for the charity.

Over 7 million people own "windfall" shares (acquired through privatisation & demutualization of building societies, etc) which can benefit charities, although such small gifts may not be economically viable. In such cases, the donor can still donate these shares to charity by contacting **ShareGift**, an independent charity that processes donations of very small share holdings.

A gift of shares worth £10 000 could cost a basic rate taxpayer just £7 800 as 22% of the value of the shares could be offset against their income tax bill (for higher rate taxpayers, this could cost as little as £6 000).

Top Tips

- Fundraisers are not financial advisers so be aware of your legal limits. It is advisable to get one person in the organisation to be a "share guru" and keep them fully trained;
- Consider trying to recruit a financial adviser as a volunteer;

- Donors should always be referred to their own financial advisers to calculate their personal tax relief as it will depend on their individual circumstances;
- If the donor wishes to claim income tax relief, they should keep a record of the value of the shares on the day of transfer and evidence of their donation;
- It is worth organisations' considering an ethical policy, as it will help you to decide whether to refuse certain share offers;
- In certain circumstances you may also ask the donor to sell the shares, as an agent for the charity, and give you the proceeds BUT ensure that you follow HMRC guidelines correctly!

LEGACIES

This is the easiest and least painful method of Tax Effective Giving.

All charitable bequests are deducted from the value of the estate before inheritance tax is calculated. Although 70% of people say they donate to charity, only 14% of wills include a charitable donation, but despite this figure, one third of voluntary income received by the top 500 charities was in the form of legacies (totalling £1.3billion).

There are two types of legacy bequest:

Pecuniary: when the amount or nature of the bequest is made clear in the will.

The average legacy is worth around £3 000.

Residuary: when a percentage of the estate is left to the charity after all other debts and bequests have been discharged. The average legacy is worth around £35 000.

Top Tips

- Organisations often find that there are many barriers to openly discussing charitable legacies -talking about death is not a comfortable subject. Below are some tips on how to overcome these:
 - Push the benefits of making a will and make it easy for the donor. A Charity offers a guide to making a will, highlighting the benefits of including a charity in your will (visit: www.rememberacharit.org.uk);
 - Emphasise the gift rather than the will, focussing on the great benefits of leaving a legacy. Many people are encouraged by the concept of leaving their mark on the world;
 - Try to encourage people to tell you when they include a legacy in their will perhaps by providing them with added extras.
- Large charities can market legacies to donors through direct appeals, advertising, seminars, etc (even though they are expensive and may be difficult to justify in the short term);
- Small charities can promote legacy giving too using local contacts, articles in local newspapers and legacy stories in newsletters.

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Further Support and Advice is available from Cumbria CVS Locality Offices in:

Barrow: 72-74 Scott Street, Barrow-in-Furness, LA14 1QE. Tel: 01229 823144

Carlisle: 27 Spencer Street, Carlisle, CA1 1BE. Tel: 01228 512513

Eden: 6 Hobson Court, Gillan Way, Penrith, CA11 0DT. Tel: 01768 800350

South Lakeland: Stricklandgate House, 92 Stricklandgate, Kendal, LA9 4PU. Tel: 01539 742627

West Cumbria: Community Resource Centre, 12a Selby Terrace, Maryport, CA15 6NF
Tel: 01900 819191

Visit **Cumbria CVS Website** at: http://www.thirdsectorcumbria.org.uk/support_CumbriaCVS.html

Cumbria CVS Training Course information

Is available on our website: www.thirdsectorcumbria.org.uk/support_cumbriacvs_training.html

Tel: 01900 819191