

THE LEEDS COMMUNITY FOUNDATION

A GUIDE TO TAX EFFECTIVE GIVING FOR COMPANIES

This guide provides an introduction to the main ways in which companies can support our work in a tax-efficient manner. If you are an individual considering making a donation, please ask for our Guide for Individuals.

The various ways of donating include:

- making a donation
- donating shares, land or property
- donating items of equipment or stock
- secondment of staff
- Sponsorship
- payroll giving

1. MAKING A DONATION

As a business you can get tax relief when you make a donation of any amount, whether as a one-off or regular donation. You simply make the donation as a Gift Aid payment and classify it as a charge on income when calculating your corporation tax liability. You do not need to deduct any tax from the payment and there is no need to complete a Gift Aid Declaration. The amount of tax relief you receive will depend on your tax rate which is usually 19% (small companies' rate) or 30% (full rate). We, as the recipient charity, cannot claim any tax back.

Some types of businesses (sole traders and partnerships) can make donations under the Gift Aid scheme and enable the Foundation to also claim some tax back. This applies to donations of any amount, whether one-off or regular payment. In order to qualify, the individuals concerned must be paying tax – be that income tax, capital gains tax or tax paid on savings or other income. You need to have paid enough tax in the year to cover the amount we will be reclaiming on your gift. There is a limit to the value of benefits that you can receive in return for any donation made under this scheme.

Donations made under Gift Aid are increased by 28% by the Inland Revenue. This means we benefit by an extra £28 for every £100 donated, at no extra cost you. Higher rate taxpayers can reclaim the difference between standard and higher rate tax in their self assessment return.

Sole Traders: if you are trading on your own account you can make a charitable donation under Gift Aid as any tax-paying individual would. You just need to complete and sign a simple Declaration form and return it to the Leeds Community Foundation. The form can be downloaded from the website (www.leedscommunityfoundation.org.uk) or can be sent on request. This then covers all future donations you make to the Foundation, without the need to sign any further forms.

Partnerships. Any gift made by a partnership is treated as being made by the individual partners, in equal amounts, unless otherwise specified. The Foundation will claim back the basic rate tax from the Inland Revenue and the individual partners, if they are higher rate tax payers, can claim a rebate accordingly. If one partner has power (under the partnership agreement or other document) to sign on behalf of the partnership they can do so. If not then each individual partner will need to sign the form. We are happy to provide a special Gift Aid declaration for you if you let us know how many signatures you will require.

Example

A sole trader makes a gift of £1,000. By completing a Gift Aid declaration form, the Community Foundation is able to claim back a further £280 from the Inland Revenue.

As a higher rate taxpayer he can also reclaim 18% of the whole gross gift through his annual tax return (the difference between higher rate tax at 40% and basic rate at 22%) which is £230. A gift worth £1,280 to the Leeds Community Foundation has, therefore, only cost John £770. He might be persuaded to donate £1,300 knowing he will get a £300 rebate so his final cost will be £1,000.

The actual calculation is as follows. A ready reckoner tax calculator can be found on the Foundation's website if you would like to work out how much your donation might be worth.

$$\text{£ 1000 (donation)} \times \frac{22 \text{ (Basic rate of income tax)}}{78 \text{ (100 minus the basic rate)}} = \text{£280 tax relief to charity}$$

There is a limit to the level of benefits that anyone can receive in return for a payment under Gift Aid as follows:

£0-£100	25% value of the gift
£101-£1,000	£25
£1,000-£10,000	2.5% value of the gift

2. GIFTS OF SHARES, LAND OR PROPERTY

Businesses can get tax relief for gifts to charity of what is called a "qualifying investment." This includes certain shares, securities, land and property. This is in addition to the relief you can claim for them when calculating capital gains. You can claim this relief if you donate a qualifying investment or sell it, to a charity, at less than market value. A company cannot, however, get tax relief on the gift of its own shares.

Qualifying investments include:

- Shares or securities that are listed or dealt in on a recognised stock exchange (i.e. UK Stock Exchange, the Alternative Investment Market or an overseas-recognised stock exchange)
- Units in a UK authorised unit trust
- Shares in a UK open-ended investment company (OEIC)
- Holdings in certain foreign collective investment schemes
- Certain interests in offshore funds
- Land or property in which you have a qualifying interest

The amount which can be deducted is:

- the full market value of the shares, securities or property on the date of disposal
- plus any incidental costs incurred in transferring the investments (broker's or legal fees etc)
- less any disposal proceeds or other money, or the value of any other benefits, that the donor or a person connected with the donor (i.e. relative) received in consequence of the disposal

With a gift involving the transfer of shares you need to sign a transfer form which you should be able to get from the registrars of the company. Before you send it to us please keep a copy as you will need this as evidence. The value of the shares is calculated as being the value on the date of transfer.

If you want to dispose of land or property we need to issue you with a special certificate. You need to be able to give the whole of your interest in any land or property to us, not just a share. If two or more people hold interest in the property, all of the joint owners must dispose of their interest to us for any of them to be able to claim relief. As you need to transfer all your interest in order to gain relief you cannot, for instance, gift a house to us, continue to live in it and claim relief. The value of the land or property is as at the date on which you sign it over to the Foundation.

Companies should deduct the relief as a charge on income for the accounting period in which they make the gift. The amount should be entered on your Corporation Tax Self Assessment return as a charge. Sole traders and partnerships should enter the details on their Self Assessment returns at the end of the financial year.

The tax relief is based on the "market value" of the investments at the time of the transfer to the charity. This is likely to be the date you transfer the shares or the or the date you dispose of your interest in any land or property.

If the disposal is made under a contract (perhaps a sale at below market value) you should take the date on which the contract was made. If the contract is conditional, the date to use is the date on which the terms of the contract were fulfilled.

If you would like more information about tax implications the Inland Revenue has produced a booklet about giving to charity - IR178 Giving shares and securities to charity. You can contact them by telephone on 0845 9000 404 or visit their site www.inlandrevenue.gov.uk. A copy of the leaflet can be found on the Leeds Community Foundation's website.

3. GIFTS OF EQUIPMENT OR TRADING STOCK

A company may manufacture a product, or use machinery or plant that might be of use to the Leeds Community Foundation. If you choose to donate this to us you can claim relief on the gift as long as you are a trading company, a sole trader or a trading partnership.

If you normally give away an article manufactured or sold in the course of your trade you need to include the market value of the gift as a trading receipt when calculating your profits for tax purposes. If you are making this kind of donation to a charity, you do not include anything as a trading receipt and can thus get relief for the cost of the article in calculating the taxable profits of the trade.

If you are donating machinery or plant used in the course of your trade, you treat it as having been disposed of at nil value for capital allowances (as opposed to market value as would otherwise be the case).

4. STAFF SECONDMENT

One innovative way of supporting our work would be to second one of your members of staff to work with us for a period of time. In these cases you can get relief for the employment costs that they continue to incur. You merely continue to classify their costs as a business expense when calculating your chargeable profits for tax purposes.

5. SPONSORSHIP

There will be many opportunities for sponsorship as our work expands. This might include events, publications, promotional opportunities and other examples.

Provided your sponsorship payment is made wholly and exclusively for the purposes of your trade or business, you can claim relief on it by deducting the payment when calculating your trading profits for tax purposes. Sponsorship usually refers to payments made to get publicity for your name or product where the benefits offered provide a reasonable return on your investment.

There are some exceptions to be aware of. If, in return for your sponsorship, you acquire an asset from the charity (equipment, vehicles etc), then you cannot claim relief. Similarly if you are sponsoring something partly for commercial reasons and partly for charitable ones, you cannot claim relief.

6. PAYROLL GIVING

If you do not already run a payroll giving scheme we would encourage you to set one up. They are straightforward to run and provide your employees with a tax-efficient way of supporting the charities of their choice. The government introduced a new scheme, in 2005, that allows small and medium sized companies with under 500 employees to apply for a grant to help them establish a payroll giving scheme.

Your employees decide how much they would like to give. This is then deducted from their salary before calculating Pay As You Earn (PAYE) tax. They automatically get tax relief on the value of their donations at their top rate of tax. They can choose to stop making a donation at any time.

You then process these donations through a payroll-giving agent approved by the Inland Revenue such as Give as You Earn. The agency will distribute the money to the community foundation (less a management / administration fee of c. 4%). You may choose to have the administration fee deducted from the donations your employee makes or can choose to cover it yourself. In this case this charge is also deductible from profits for tax purposes. Some companies choose to match any donations made by their employees, thus demonstrating your own commitment to the local community.

Research shows that companies that offer Payroll Giving believe it improves their image, enhances their community involvement programme and supports employee volunteering. All these factors are increasingly important to enlightened employers.