

## THE LEEDS COMMUNITY FOUNDATION

### A GUIDE TO TAX EFFECTIVE GIVING FOR INDIVIDUALS

This guide provides an introduction to the five main ways in which individuals can give tax-effectively. This can make it cheaper for you to give to us, and can benefit us as well. If you are a company considering making a donation, please ask for our Guide for Companies.

They include:

- making a donation under Gift Aid
- gifts of shares, land or property
- leaving a legacy
- payroll giving
- donate your tax refund

#### 1. GIFT AID

A donation can be made under the Gift Aid scheme by any individual UK taxpayer – 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, no matter how large or small, 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.

To make a donation under Gift Aid you 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](http://www.leedscommunityfoundation.org.uk)) or can be posted to you on request. This then covers all future donations you make to the Foundation, without the need to sign any further forms.

#### Example

A supporter 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 the donor can also reclaim 18% of the whole gross gift through their 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 them £770.

They might be persuaded, therefore, to give £1,300 to the Community Foundation, knowing that they will get a refund of £300 and the final cost, to them, will only be £1,000 yet the Foundation will receive £1,666.

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.

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

Sole traders and partnerships can make payments under the Gift Aid scheme but other companies need to make their donations "gross" and are not able to recover income tax. (See information on tax effective giving for companies).

There is a limit to the level of benefits you can receive in return for a payment under the Gift Aid scheme which is:

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

## **2. GIFTS OF SHARES, LAND OR PROPERTY**

Since April 2000, giving land, property, shares and securities to charity has become even more attractive as individuals are able to get tax relief on the gift. This relief is in addition to the existing relief on capital gains for gifts to charity of gifts, securities and other assets.

Income tax relief is based on the “market value” of the investments at the time of the transfer to the charity and is given against an individual’s income for the year in which the gift is made. It is claimed by completing the details in your self-assessment return (or by requesting an amendment to your PAYE code).

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

There are many reasons why these types of donations might appeal to you. You might hold windfall shares that make little difference to you, but could make a big difference to a charity. You may have inherited some shares which generate more paperwork than income. You might own some land or property that you no longer use and would like to donate to us. These types of gifts could be turned into something of real value to others by donating them to the Leeds Community Foundation.

Tax relief will apply where an individual makes a disposal (by gift or sale at under-value) of certain types of investment to the Leeds Community Foundation. This is known as “a qualifying investment” and includes:

- 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

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.

You may choose to dispose of the shares or securities yourself and make a donation to us. This can still qualify for tax relief but we will need to arrange for a transfer of letters between us to confirm your intentions. The decision will depend on your own individual circumstances and whether you are an individual or corporate donor.

### Examples

A local man decides to transfer some shares directly to the Leeds Community Foundation. At the date of transfer they are worth £1,000. He is then able to off-set £1,000 from the total income for the year end in question thus saving 22% as a basic rate tax-payer (i.e. £220) or 40% for higher rate tax-payers (£400). No capital gains tax arises on the transfer of shares and the Leeds Community Foundation has £1,000 worth of shares which it can either hold as an investment or sell to realise their value. If he had chosen to sell the shares they would have incurred £320 of capital gains tax so, in effect, by donating £1,000 of shares to the Foundation he has actually saved up to £720 (£320 CGT plus £400 income tax savings)!!

A Leeds employee decides to donate some shares to the Leeds Community Foundation but wants to realise some value on them as well. His 1,000 shares are worth £4.50 each but he decides to sell them to us for £2 a share. In return we give him some tickets for a concert valued at £100. He can claim tax relief on a total sum of £2,400 representing £4,500 (value of shares), less £2,000 (amount we pay him for them) less £100 (value of concert tickets).

Some donors choose to sell shares below the market value. Take the example of a local woman who is a higher rate taxpayer. She has quoted shares that she paid £10,000 for in 1990 which are now worth £30,000. She agrees to sell them to the Foundation for £10,000 and, in effect, donate the increase in value of £20,000. She receives a payment of £10,000 from the Foundation and income tax relief of £8,000 (40% of £20,000). She also avoids having to pay a £7,200 CGT liability on the untapered gain of £18,000 (i.e. 90% of £20,000),

A donor may decide to donate their second property to the Foundation. It is valued at £90,000 and the donor is charged £400 for valuation fees. They are thus able to claim tax relief on a total of £90,400

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](http://www.inlandrevenue.gov.uk). A copy of the leaflet can be found on the Leeds Community Foundation's website.

### **3. LEAVING A LEGACY**

Many people want to remember friends and families in their will but they are also, increasingly, leaving a portion of their estate to help other people. Leaving a legacy to the Leeds Community Foundation lets you leave something to the community of Leeds that will be used to benefit people for generations to come.

You can choose to use a legacy to set up your own named fund with a minimum gift of £10,000. This will be in a name of your choice and you can specify any broad areas or issues that you would like to benefit from your fund such as youth, poverty etc. If you are able to leave a significant legacy, normally over £50,000, we would be happy to set up a committee of your friends and family who can be involved in helping to take the decisions about which causes to support. You can even list the specific charities you would like to benefit and we will make sure that the income on your gift is distributed to these charities or, if they no longer exist, to similar causes

Alternatively you can choose to leave a legacy to support our work in general or to be put towards one of our own themed funds such as Environment, Health, Youth, Elderly etc.

We suggest you consult a solicitor for the exact wording of your will but we are happy to offer advice as well, particularly if you are thinking of setting up a named fund. If you have already made a will it is very easy to make a variation to include a charitable contribution, merely by signing a Codicil.

There are a number of different types of legacies as detailed below. Charitable legacies are exempt from inheritance tax, and this reduces the total amount of tax paid on a donors' estate.

- A Cash or Pecuniary Legacy. This is a fixed amount specified in your Will - I would like to make a gift of £10,000 to the Leeds Community Foundation. It is free of tax, which adds considerably to the value of your gift.
- A specific legacy. This allows you to pledge a specific item to the Foundation – shares or some other investment, land, property etc.
- A Residuary Legacy. This is the remaining value of your estate when all other bequests to family and friends have been made.
- A Reversionary Legacy. This allows the surviving partner to benefit from your estate during his or her lifetime and then for the balance of the estate to be passed to Community Foundation.
- The final example is where you have actually received the legacy yourself, within the past 2 years. You can choose to donate this to the Leeds Community Foundation by signing a “Deed of Variation” and, by so doing, you can avoid paying any related inheritance tax.

#### **4. PAYROLL GIVING**

Provided your employer is already registered with a payroll giving agency, any employee or pensioner can join the scheme. If they are not registered it is quite straightforward to set up, so why not suggest they contact us for further advice? Alternatively ask them to phone the Inland Revenue helpline on 0845 3020203 for an information pack. 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.

Payroll Giving represents a win – win situation for everyone involved. The good news is that there is no restriction on the amount that can be given through the scheme and every penny we receive from you will go towards supporting local people. You choose how much you would like to give. This is then deducted from your salary before calculating Pay As You Earn (PAYE) tax. This way you automatically get tax relief on the value of donations at your top rate of tax. There is no limit on the amount that can be given under the scheme, tax free, up to an employee's maximum taxable earnings. You can choose to stop making a donation at any time.

The deduction is then processed through a payroll-giving agent approved by the Inland Revenue. The agency will then distribute the money to the Leeds Community Foundation.

#### Example:

John and Polly decide to make a monthly donation of £10 to the Leeds Community Foundation through their company payroll giving scheme. John's £10 gift is made before tax is deducted so the actual cost to him is £7.80 per month. Polly is a higher rate (40%) taxpayer so her gift only costs her £6.00 per month.

#### **5. DONATE YOUR TAX REFUND**

If you have completed a self-assessment tax return and are due a repayment, you can choose to nominate the Leeds Community Foundation to receive this as a donation. There is a box to tick, on your self-assessment form, indicating which charity you would like to benefit and you need to quote our code which is EAR54QG.