

Charities

A. Introductory Note

1. Charities may claim exemption from tax on most types of income and capital gains provided that these are applied solely for charitable purposes. In general the reliefs provided for charities are:
 - Income/corporation tax - exemption in respect of income applied solely to charitable purposes. Profits of a trade are exempt, provided the profits are applied for charitable purposes only and either the trade is exercised in the course of carrying out a primary purpose of the charity or it is carried out by beneficiaries of the charity. In addition there is a de minimis limit for tax relief on small amounts of profit from non-charitable trades (see paragraphs 12-14).
 - Capital gains tax and corporation tax on gains - exemption for gains by charities provided the gains are applied for charitable purposes.
 - Inheritance tax - exemption for charitable trusts from the normal charges on discretionary trusts.
 - Stamp duty land tax - exemption of instruments effecting conveyances, transfers or leases to charities so long as the property is used by the charity in furtherance of its charitable objects or held as an investment.
 - Stamp duty reserve tax - exemption for purchases of chargeable securities by charities.
 - There are also some reliefs from Value Added Tax (see paragraph 21) and national non-domestic rates (see paragraph 20).
2. Some of the income of charities is received after deduction of income tax at the basic rate. Charities have to make a claim to Her Majesty's Revenue and Customs (HMRC) for repayments of basic rate tax. This section gives information about claims by charities for tax deducted from income received under Gift Aid. Information is also provided about the amounts donated by Gift Aid and payroll giving and the associated cost of tax relief.
3. Information is not available about investment income received by charities without deduction of tax. Payments received gross include rent, interest on bank and building society accounts and gilt interest. In recent years changes have been made to facilitate gross payments, one example of this is the new arrangements which allow everyone to receive gilt interest gross. No allowance has been made for the additional tax relief these gross payments to charities represent. Therefore, the repayments information in this section should not be considered as giving a complete picture of the cost of all income tax reliefs received by charities.
4. Payment of tax credits to charities on dividends of United Kingdom companies was abolished for dividends paid on or after 6 April 1999. However, charities received transitional relief payments, classed as a public expenditure, to help offset the loss of tax credits. This comprised payment to a charity of a percentage of the dividends it received and was phased out over a five year period.

B. Donations to Charities Qualifying for Tax Relief

Gift Aid

5. Since October 1990, Gift Aid has enabled individuals and companies to obtain tax relief on gifts of money to charities. For individuals and close companies, originally gifts of at least £600 and no more than £5 million a year after deduction of basic rate income tax qualified for relief. The upper limit was abolished from 19 March 1991. The minimum limit had been £250 from 16 March 1993, but was removed entirely from

April 2000. For Gift Aid donations, payments are treated as made net of basic rate tax, which the charity can claim back from HMRC. Information on repayments can be found in tables 10.1 to 10.4. In order to give charities time to adapt their finances to the lower rate of payment for Gift Aid claims, Transitional Relief was applied for three years following the reduction in the basic rate of income tax from 22 per cent to 20 per cent in 2008. Classed as public expenditure, it comprised a 2% top up on the rate of tax, repaid to the charities – in effect, charities continued to receive the tax repayment at 22%. Transitional Relief ran for three years and applied to all donations made between 6 April 2008 and 5 April 2011. Since claims may result from donations made in past years, some residual Transitional Relief will be paid after 5 April 2011, but only on donations made before (or on) that date.

6. Higher rate taxpayers may claim additional relief from their own tax office against income tax (or capital gains from April 2000) on the grossed-up amount of payments. Since April 2003 they have been able to elect to have certain donations treated as paid in the year before they were actually paid. Information on relief to higher rate taxpayers can be found in table 10.2.
7. Donors are able to join the Gift Aid scheme by giving a declaration either in writing, by phone or over the internet. Donors may complete a single declaration to cover a series of donations. From April 2000 the rule requiring donors to pay basic rate income tax was relaxed and donors are eligible for the scheme provided the amount of tax paid on their income or capital gains, whether at the basic rate or at some lower rate, is at least equal to the basic rate income tax that the charity reclaims on their donations.
8. Up to April 2000 companies deducted basic rate income tax from the payments they made to charity but had to account for the tax, which could be reclaimed from HMRC by the charities. Companies could claim the gross amount of the payment as a deduction against the company's profits for corporation tax. This requirement to deduct basic rate income tax from Gift Aid donations by companies was abolished in April 2000: Payments are now simply made gross and there is no need for charities to make repayment claims.
9. Businesses get tax relief when they donate gifts in kind, in the form of stock or used plant and machinery. No figures are available for this relief.
10. A deed of covenant is a legal document by which an individual or a company promises to pay a fixed sum to a specific charity each year. Up to April 2000 covenantors received relief from income or corporation tax on their covenanted donations to charities, provided the covenants could run for more than 3 years. There were no restrictions on amounts donated by covenants. Tax relief for donations made under a deed of covenant is now given under the Gift Aid scheme.

Shares and Securities

11. Income/corporation tax relief was introduced from April 2000 for gifts of qualifying shares and securities. Relief is given to the donor by way of a deduction for the relevant value of the gift in computing income or profits for income tax or corporation tax purposes, in addition to any existing capital gains tax relief. A similar relief was introduced from April 2002 for gifts of real property. Statistics are included in table 10.2.

Other Reliefs

12. From April 2000 all profits of small trading and other fund-raising activities carried out by a charity are exempt from tax. The relief applies where the charity has a reasonable expectation that the turnover will be no greater than either
£5,000, or

the lesser of £50,000 and 25 per cent of the charity's total gross income.

13. In addition to trading profits this relief applies to most miscellaneous income. It is in addition to the existing exemptions for charity trading profits.
14. The profits of certain fund raising events are exempt from tax if they arise from a VAT exempt event and the profits are applied for charitable purposes. The provision was aligned with the VAT exemption for such events, which allows a charity to hold up to 15 events of any one type in any one location during the year.

Payroll Giving

15. Tax relief for donations under payroll giving schemes was introduced in 1987. An employer wishing to set up a scheme contracts with an agency charity approved by HMRC. Employees wishing to take part authorise the employer to deduct amounts from their pay and nominate the charities to which their gifts should go. The employer gives tax relief by deducting the gift from the employee's pay before calculating the tax due under Pay-As-You-Earn. The employer pays the gifts to the agency charity which distributes them to the nominated charities.
16. Initially, gifts under payroll giving could not exceed £120 a year. The limit has been raised from time to time and was removed from April 2000 (prior to this the maximum had stood at £1,200 since April 1996).
17. As part of a campaign to promote the scheme, there was a time-limited 10 per cent supplement on payroll giving donations from April 2000 to March 2004. There was also a payroll giving campaign to encourage people to donate their final hour's pay of 1999 to charity.
18. Employers can get tax relief for the costs of administering the payroll giving scheme as an allowable expense on their business. If they choose to sponsor the payroll giving agency's costs they can also get tax relief for these costs. In addition, employers who choose to match their employees' donations to charity can get tax relief for such matching donations either as an allowable expense of their business or under the Gift Aid scheme.

Inheritance Tax Reliefs

19. Gifts and bequests to charities are generally exempt from inheritance tax. The cost of inheritance tax relief for gifts and bequests to charities is given in tables 1.5 and 10.2.

Capital Gains Relief

20. Gifts of chargeable assets to charities do not give rise to chargeable gains or losses: the transfer is treated as taking place at no gain / no loss. A reliable estimate of the cost of this relief is not available.

Non-domestic Rates Relief

21. Properties used by charities have relief from paying non-domestic rates. Some of this is at the discretion of local authorities

Value Added Tax

22. There is no blanket exemption from VAT for charities. There are, however, some reliefs available on purchase of certain goods and services. There is also relief from

VAT on income from qualifying fundraising events. See our “Tell me about....VAT” page for details of how VAT affects charities and the reliefs available.

C. Further information and updates

23. Contact details of the statistician responsible for charity statistics are available at http://www.hmrc.gov.uk/stats/update_calendar/enquiry_2.htm.
24. Details of scheduled updates to National Statistics on charities become available at <http://www.hmrc.gov.uk/stats/updates/index.htm>.
25. This note is to accompany the statistical tables. For detailed guidance and queries on taxation of charities please go to <http://www.hmrc.gov.uk/charities>.

Notes updated April 2011