

Charitable donations

Charitable donations can give you a warm fuzzy feeling that you are contributing towards a good cause. But if you are a higher-rate or an additional-rate taxpayer, they can also help you save income tax.

Here's how it works

If a higher-rate or an additional-rate taxpayer makes a donation with Gift Aid, then they can claim a tax rebate from HMRC which reduces their overall income tax bill.

As an example, let's say Anna earns £70,000 a year. She then decides to make a £150 donation via Gift Aid every month. Over the course of the year, this adds up to £1,800. How does this impact her tax situation?

- First, Anna is a higher-rate taxpayer. When she submits her annual tax return, she needs to include her charitable donation. It's a common mistake to only include your initial personal donation (£1,800 in Anna's case). You need to include the "gross" donation i.e. what the charity receives with the Gift Aid boost (more on this below).
- Anna can claim a tax rebate of £450 when she submits her annual tax return.
- The tax rebate reduces Anna's overall income tax bill by £450, putting £450 back into Anna's pocket.
- Effectively, Anna has donated £1,800, but it cost her only £1,350.

From the charity's perspective, they receive £1,800 over the course of the year and an additional 25% boost from Gift Aid. So they receive £2,250 in total – this is the "gross" donation that Anna would need to include in her self-assessment.

Putting it all together, it means that the charity receives £2,250 whilst it costs Anna £1,350.

Tax saving

The saving on income tax can be more significant for additional-rate taxpayers, instances where the charitable donation takes you into a lower tax bracket or if you are in the dreaded 60% income tax trap (income between £100k to £125k).

Payroll giving

Some employers offer payroll giving where you can donate directly from your salary. This means that the taxable portion of your salary is immediately reduced, and you will feel the tax benefit straight away – no need to complete a self-assessment.

At Raymond James, Fulham, we help families and individuals with their financial affairs. We tend to work with people who are looking to make or have made work optional, who want to ensure that they can fund the lifestyle they want and give the next generation a good start in life. We do this by providing a financial plan and managing our clients' investments.

If you would like to discuss charitable donations or your financial situation in a confidential setting, drop us a line: Fulham@RaymondJames.com

Disclaimer: With investing, your capital is at risk. Tax treatment depends on individual circumstances and may be subject to change.