

Making charitable donations from pre taxed income

Introduction

Donating money to charity via your company can be a very tax efficient way of supporting your chosen cause. This article explains the rules and regulations associated with charitable donations.

Tax Relief

Any business can get tax relief when they give money to charity, whether it is a "one off" payment or a regular Gift Aid Scheme.

There is no longer any need to make payments under the old Deed of Covenant Scheme in order to obtain tax relief.

What/who qualify as a charity?

To claim tax relief under the Gift Aid Scheme, the payment must be made to a registered or other charitable organisation. Special rules apply for special situations, including educational school trips, church collections, educational trusts, membership subscriptions and adventure fund raising events. You cannot however donate money and obtain tax relief if the receiving party is "connected", i.e. direct relative, business partner, etc.

Charitable Donation or Gift

If your payment does not qualify as a charitable donation, it may be possible to still claim tax relief if it may be considered a business or staff gift. See "[Buying Gifts for Employees and Clients](#)".

Donation Limits

There is no limit to the amount of charitable donations that a business can give, although the mechanics of obtaining tax relief differs, depending on whether you are operating via a limited company, as a sole trader, or a partnership.

Limited company rules

The majority of contractors trade via a limited company and the simplest method of donating is therefore through the Gift Aid Scheme.

The amounts paid to the charity are dealt with as a "charge" when working out company profits for corporation tax purposes. The company makes the full payment to the charity. No deductions are made for tax from the payment and the charity does not claim back any tax on the gift.

At one time, it was necessary to provide Gift Aid certificates to the charity or provide a form of declaration but this is no longer required under the current scheme. If your company has no corporation tax liability for the accounting period in which the donation is made, there are special rules regarding how any loss created by the donation can be used.

Contractors Using Umbrella Schemes

If the umbrella company will co-operate, you could ask them to make the donation and adjust your salary accordingly. If they will not co-operate, you would need to make the donation personally and then claim Gift Aid Relief through your tax return.

Contractors Caught By IR35

Donations can still be made for those contractors caught by IR35. See the [Inland Revenue website](#) for details.

HMRC Enquiries

In the event of a HMRC query/enquiry, it may be necessary for you to show evidence of the payment to the charity.

Most charities will issue a receipt for payments made and these should be kept on your file like any other expense records. However, a receipt is not required in order to obtain Gift Aid Relief. The clearance of your cheque and a copy of the Gift Aid certificate which the charity will require is sufficient.

The vast majority of gifts to charity will be monetary donations but special rules apply if the donation is of land, buildings, shares or other non cash assets. If you are intending to make such a donation, you will need to obtain professional advice in respect of the tax relief arising and any capital gains tax implications.

Sponsorship payments

Your company may choose to sponsor a charitable activity and can claim relief for any sponsorship payments, provided the payments are made wholly and exclusively for the purposes of your trade and is not of a capital nature.



Qualifying sponsorship payments are deducted from trading profits for corporation tax purposes and not treated as a "charge" as above in the case of charitable donations.

No relief is available for sponsorship payments unless the "wholly and exclusively" test is met.

For example, if you make a sponsorship payment to a charitable activity, e.g. your local church or sports club, you cannot deduct the payment when calculating your trading profits of the business for tax purposes. Even if the payment is partly for commercial reasons and partly for charitable reasons, you cannot deduct it in calculating your trading profits of the company for tax purposes. You may however be able to obtain relief for such payments if they are made as Gift Aid donations.

Further Information

Questions in respect of specific types of donation or charities generally can be addressed to the HMRC charity helpline on 0845-302-0203 (option 3), which is open from 8:30am to 6:00pm Monday to Friday.



David Colom
Principal
D J Colom & Co Chartered Accountants

David Colom qualified as a Chartered Accountant in the City of London in 1981 and is the founder and principal of D J Colom & Co Chartered Accountants established in 1989.

Started specialising in serving IT contractors in 1993 and is now one of the longest standing suppliers of accountancy services to computer contractors. [Read Full Profile...](#)

[View all our experts](#)

Published: Monday, August 14, 2006

[Tweet](#)

© 2011 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#). If you want to use any content you have seen on this site then please [request our media pack](#) and ask for details of our Content Licencing Service.

Readers Comments...



Be the first to comment on this article

Also of interest...

Related Guides:

- [Buying gifts for employees and clients - what you can claim](#)
- [Valid Expenses as a Contractor - What You Can Claim](#)

Related Calculators:

- [Contractor Calculator](#)
- [Contract Comparison Calculator](#)



ABCe verified website - last audit confirmed **130,682** monthly unique visitors

© Copyright 2011 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)