

Making personal and company charitable donations and sponsorships

Contractors can qualify for corporation tax relief and may enjoy personal tax relief by making charitable donations. And under most circumstances, sponsorships can also qualify for tax relief, as well as delivering publicity for a contractor's business.

"Contractors enjoy a range of benefits from making charitable donations and paying for sponsorship, not least of which is the feel-good factor of contributing to worthy causes," says **James Abbott**, owner and head of tax at contractor accountant **Abbott Moore LLP**.

"But there are pitfalls that could leave a contractor's payments open to challenge by HMRC, so it is important to understand and adhere to the rules."

Charitable donations - company and personal

A contractor's limited company can make a charitable donation directly to a registered charity and benefit from corporation tax relief. There are no strings attached, as long as it is a donation and the beneficiary is a registered charity. The charity benefits from the donation and the contractor benefits by avoiding **taking the money as a dividend**.

"When a contractor makes personal contribution of say, £80, the charity can claim £20 via **Gift Aid**, which is HMRC's scheme allowing charities to reclaim the tax paid by its donors," continues Abbott.

"Higher rate taxpayers making a personal donation enjoy tax relief. So, if a contractor paying the higher rate of tax donates £80, their basic rate allowance increases by £100, providing them with effectively an extra £100 of higher rate tax relief, and the charity can still claim gift aid of 20%."

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Sponsorship - commercial and non-commercial

Contractors can also make sponsorship payments to organisations that may not be registered charities. HMRC's rules on tax deductions are more complicated and there are potential pitfalls. Abbott explains: "Contractors have to demonstrate the business benefit of the sponsorship. If HMRC identifies a dual purpose, then sponsorship payments will not be tax deductible.

"For example, a contractor who specialises in supplying IT security systems to major financial institutions may find it difficult to justify the business benefit of sponsoring the football team their son plays for in the local village."

What's more, HMRC could even argue that the contractor sponsoring his son's football team is enjoying the benefit of the money, and not the company, and may face a benefit in kind charge as result.

"But sponsoring a motocross team that competes nationally at major venues where potential clients may be watching would be tax deductible," adds Abbott. "Sponsorship in exchange for publicity benefits is treated like any other marketing cost."

'In-between' donations

Abbotts says that many higher earning contractors with major blue chip clients often find themselves being asked to support their client's charity events, such as charity dinners. In these situations, contractors have to tread a fine line between what is tax deductible and what is not.

"Let's say a contractor is invited to take a table for ten guests at a client's charity ball. The contractor is paying well over the odds at, say, £150 per head," says Abbott. "The ticket price might actually be broken down into, for example, £70 for the food and entertainment element and £80 for the charity. The compulsory tax treatment of the cost is then further complicated by who is invited."

If clients are invited, then the cost is classified as entertainment, and is not tax deductible. But if a contractor invites friends and family, then the benefit is not for the company, so the contractor could be facing a benefit in kind charge.

According to Abbott, the way around this is to have a suggested donation per head for each guest: "A contractor may have a suggested donation for each guest of £80 for a £150 ticket.



James Abbott

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James Abbott is the owner of Abbott Moore LLP and often speaks on freelancer / contractor tax matters. He has his own growing portfolio of contractor clients.

Abbott Moore LLP are PCG Accredited Accountants and specialise in providing tax advice to freelancers as well as dealing with their year end accounts and tax returns. [Read Full Profile...](#)

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"In practice, the contractor is not going to ask guests to pay so the contractor limited company will pay the full amount. That results in £80 becoming a charitable donation and being tax deductible, and the remainder classified as **entertaining**, which is not tax deductible but is paid from pre-tax income."

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