

Gifts of Shares to Charity

The Chancellor's Budget in April 2000 introduced a new relief for donations to charity covering gifts of shares. The donor benefits from tax relief on the value of the shares donated against their income tax liability. The tax relief is a generous one, and is likely to appeal to wealthy individuals and their tax advisers.

How does this work?

Donors should have enough taxable income to cover the value of the shares donated. For example, an individual with gross earnings of £100,000 has some shares currently worth £10,000 which they wish to donate to a charity. They will have personal allowances and relief for pension contributions to take off their gross pay first, then the value of the shares can be deducted before calculating the tax due. The value of the tax relief is 40% of the share value, so £4,000 in this case. In effect, it has actually only cost the donor £6,000 to donate the shares to the charity.

In addition, the donor will not have to pay capital gains tax on the disposal, whereas normally, a disposal at undervalue attracts a tax bill. However, the donor cannot claim loss relief either. For donors planning their charitable giving, they would be advised to sell or retain the shares that have lost value since acquisition, but choose shares that have gained in value for charitable donation.

What does the donor have to do?

The donor should decide on the date of the donation and then complete a stock transfer form on that day. This is a form that is used for UK quoted shares to document a sale or transfer of ownership. It has to be signed by the donor and then sent to the charity.

The donor claims the tax relief by making an entry on their tax return for the relevant tax year. They should retain proof that the transfer to a charity was made, normally a copy of the stock transfer form. They should keep a note of the value of the shares on that day.

What does the charity have to do?

The charity has to sign the stock transfer form when it receives it and send it to the company. The company secretary will update their records to show the charity as the owner of the shares. There is no tax to reclaim and no entries to make on tax returns. The charity should record the value of the shares donated in its accounts as a gift in kind- it is both a donation and an investment acquired.

Alternatively, the charity may wish to pass the shares to their investment manager or stockbroker for immediate sale after the transfer into the charity's ownership has been registered.

The decision to keep or sell is one for the charity to take in the light of its investment policy and may depend on the nature of the shares and the volume received in the donation.

Do the shares have to be on the UK stockmarket?

No, shares can be quoted on any exchange recognised by H M Revenue and Customs (HMRC), which covers most internationally known markets. The relief also covers donations of unit trusts

Can the donor sell the shares to the charity?

Yes, the donor will still get tax relief if he/she sells the shares at under-value to the charity. The proceeds from selling them will be deducted from the full market value to arrive at the amount that is eligible for tax relief.

Any benefit given to the donor by the charity should also be deducted, such as free tickets to an event.

What about transaction costs?

The donor and the charity may incur some transaction costs. The donor may incur a costs when transferring the shares to the charity. This cost may be added to the value of the shares being donated when calculating the tax relief.

The charity is unlikely to incur costs when registering their ownership, but there will be transaction costs if they decide to sell the shares. These costs just have to be absorbed by the charity.

Our charity does not have investments, so we are not sure about receiving gifts of shares.

Any charity can receive donations in this way, and can arrange to sell them quickly so that there is little risk and the donations are similar to donations of cash. You can ask potential donors to sell the shares for you before transfer, but make sure that there is a letter or similar evidence to show that the donor gave the shares to the charity first, and then acted as the charity's agent in selling them, passing the cash over once realised. Otherwise the donor will not be entitled to the tax relief.