



GREENFINGERS CHARITY-17/01/17

Tax Efficient Ways for Limited Companies to make Donations

While Corporate Gift Aid donations do not attract further tax relief for the charity, there are tax incentives available to the donor company, which may encourage companies to consider making charitable donations to particular causes or charitable projects.

A limited company will pay less Corporation Tax-20% when it gives the following to charity:

1. **MONEY**-deduct the value of donations from total business profits before paying tax. The donations must be made gross. This is treated by the Company as a Non-trade charge. There must be a paperwork trail.

Payments that do not qualify are:

- (a) Loans that will be repaid by the charity
- (b) Made on the condition that the charity will buy property from the company or anyone connected with it
- (c) A distribution of company profits (e.g. dividends)

If the company is given a benefit in return (e.g. tickets to an event) for a donation it must be below a certain value:

Donation Amount	Maximum Value of benefit
Up to £100	25% of donation
£101-£1,000	£25
£1,001 and over	5% of the donation (up to a maximum of £2,500)

This applies to benefits given to any person or company connected with your company, including close relatives.

2. EQUIPMENT and/or TRADING STOCK

A limited company pays less Corporation Tax if it gives equipment or items it makes or sells ('trading stock') to a charity.

Giving equipment

The Company can claim full capital allowances on the cost of equipment.

To qualify, the equipment must have been used by your company. This includes things like:

- o office furniture
- o computers and printers
- o vans and cars
- o tools and machinery



Giving trading stock-If the Company donates its trading stock to a charity it does not have to include anything in their sales income for the value of the gift. This means the company gets tax relief on the cost of the stock it's given away.

VAT

If the company is VAT-registered, it will need to account for VAT on the items it gives away. However, it can apply zero VAT to the items - even if it normally charges the standard or reduced rate - if the company makes the donation specifically so that the charity can:

- sell the items
- hire out the items
- export the items

This means the company can reclaim the VAT on the cost of the trading stock donated. If the company can't zero rate the items, it should use the VAT rate normally applied to them.

3. LAND, PROPERTY and SHARES

A limited company could pay less Corporation Tax if it gives or sells any of the following to charity:

- land or property
- shares in another company

You can't claim for gifts or sales of shares in your own company.

Contact your chosen charity first to make sure it can accept your gift.

What you get

If you give these to charity (including selling them for less than they're worth):

- you won't have to pay tax on capital gains
- you can deduct the value of the gift (its 'market value') from your business profits before you pay tax

Work out the market value

You'll need to know how much the gift would sell for in an open market (its 'market value') to calculate your tax relief.

You must keep documents relating to the donation to show that you've made the gift or sale and that the charity has accepted it. You must keep these records for at least 6 years.

Land or property

You must get a letter or certificate from the charity which contains:

- a description of the land or property
- the date of the gift or sale (the 'disposal date')



- a statement confirming that it now owns the land or property

Shares

You must fill in a stock transfer form to take the shares out of your company's name and put them into the charity's name.

Selling land, property or shares on behalf of a charity

When a company offers a gift of land, property or shares, the charity may ask you to sell the gift on its behalf. You can do this and still claim tax relief for the donation, but you must keep records of the gift and the charity's request. Without them, you might have to pay Corporation Tax.

4. SECONDING EMPLOYEES

The Company can deduct any costs as normal business expenses if:

- it temporarily transfers an employee to work for a charity (known as a 'secondment')
- an employee volunteers for a charity in work time

Your company must continue to pay the employee and run PAYE on their salary. The company can set the costs (including wages and business expenses) against its taxable profits as if they were still working for it.

5. SPONSORING A CHARITY

Charity sponsorship payments are different from donations because the company gets something related to the business in return. Sponsorship payments can be deducted from business profits before paying corporation tax by treating them as business expenses.

What qualifies:

Payments qualify as business expenses if the charity:

- publicly supports the company's products or services
- allows the company to use their logo in their own printed material
- allows the company to sell your goods or services at their event or premises
- has a link from their website to your company website