Firms' charity gifts can bring benefits and reliefs

Tax: Corporate donations could enhance public image of business

BY IAN FORSYTH

What are the tax implications and benefits to businesses donating to charity?

Aberdeen couple Lynne and Robin Parkinson, a director of IT firm Escape Business Technologies, ask: "We are taking part in a £100,000 fundraising campaign for Aberdeen Royal Infirmary, which is in need of brain-surgery equipment for high-dependency neurosurgery ward 40.

"Many businesses have been incredibly generous in donations, but we often get asked what the tax implications are for companies which donate."

Amanda Wilson, a financial planner with Carbon Financial Partners, said: "Gifting to charities can provide a business with a more favourable image, in the eyes of both the general public and the business's employees.

"In addition, there may also be tax benefits of gifting to charity and the reliefs available will depend on whether or not the business is incorporated.

"Companies can claim corporation tax relief on charitable gifts, provided the donation is qualifying. For donations to qualify, any benefits provided by the charity to the company, or a 'connected person', must be below certain limits. A connected person could be a member of the donor's family or another company under the control of the donor or his or her family.

"Donations should be made to the charity gross and corporation tax relief given by deducting the payment from taxable profits prior to calculation of tax.

"The payment is treated as a 'non-trade charge' and it should be supported with any paperwork relating to the gift.

"Charitable donations cannot, however, be used to create or increase a company's trading losses.

"Relief should be claimed in the accounting period in which the company makes the donation, although a special rule applies to companies which are wholly owned by one or more charities.

"This rule enables such companies to 'carry back' a charitable donation to a previous accounting period, provided the donation is made within nine months of the end of that period.

"Charitable gifts made by sole traders or business partnerships are treated as personal donations after deduction of income tax.

"If the gift is made via the Gift Aid scheme, a declaration must be completed and the charity itself can then reclaim basic-rate tax on the gift. The donor can also claim any higher-rate relief via self assessment.

"In the case of partnerships, the Gift Aid declaration must be made in the name of the partnership and the partners should declare their own share of the donation on their individual tax returns."

ON THEIR BIKES: Lynne and Robin Parkinson have been doing all sorts of activities to raise money for brain-surgery equipment