



Gifts to Charity made by Limited Companies

Welcome to our guide on 'Gifts to Charity made by Limited Companies'.

We have tried to keep this an easy read, but please feel free to contact us without any obligation if you need anything clarifying. We'll do our best to explain things further.

If you are an individual, sole trader, partnership or LLP, the tax rules are different so please ask for one of our other guides.

We are delighted to support the Forget Me Not Children's Hospice.

Happy reading!

Debbie Peter

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Sleigh & Story Ltd



**forget me not
children's hospice**

Sleigh & Story are a local Brighouse based firm of qualified accountants, tax and business advisors.

Claiming Corporation Tax Relief on Gifts to Charity

Gifts of money made to a charity by your company should be paid gross, before tax is deducted. These donations are deductible from the total profits of your business when calculating Corporation Tax.

The charity doesn't need to make a Gift Aid tax repayment claim because no tax has been paid. The charity can claim exemption from tax on company donations.

Donations that Qualify for Corporation Tax Relief

Your company can claim relief as long as the donation is a payment of money that is not a distribution of profit such as a dividend.

For donations to qualify, any benefits provided to your company or a 'connected' person must be below the following limits:

Amount of Donation	Benefit Value Limit
£0 - £100	25% of the donation
£101 - £1,000	£25
above £1,000	5% of the donation
above £10,000	£500

A person is 'connected' if they are:

- The donor's husband, wife, civil partner or linear relative - for example son, daughter, parent, grandparent, or grandchild.
- Any linear relative of the donor's wife, husband or civil partner.
- A company under the control of the donor, or under the control of any of the above.

Donations that Don't Qualify for Corporation Tax Relief

The following will not count as qualifying donations:

- Gifts that come with a condition about repayment.
- Gifts where your company or a person 'connected' to your company has received a benefit over a certain value in return.
- Gifts that come with a condition or arrangement that the charity will purchase property (other than as a gift) from your company or a connected person.

How to Claim Corporation Tax Relief

When your company makes a qualifying donation to a charity the amount paid is treated as a 'non-trade charge' - this means your company can make a claim in its Company Tax Return to set the amount of the donation against its taxable profits.

Your company should keep normal accounting records to support entries on your Company Tax Return along with any other relevant documentation, for example correspondence with the charity in relation to the donation such as a 'thank you' letter.

You must keep your tax records for at least six years after the end of the accounting period to which they relate. If HM Revenue & Customs (HMRC) makes any enquiries about your Company Tax Return you will need to keep the records until the enquiries are completed.

Charitable donations can't be used to create or increase your company's trading losses, and they can't be carried over from year to year. So if you make a donation of more than your taxable profit, the excess is not tax effective. However if your company is part of a group of companies the excess can be used as group relief.

You can also make donations if your company is non-resident within the UK but is part of HMRC's Corporation Tax regime. This will generally apply to companies trading in the UK through a branch or agency.

Time Limits for Claiming Corporation Tax Relief

You should claim the relief in the accounting period in which your company makes the donation.

However there are special rules for companies that are wholly owned by one or more charities. As long as a donation is made to the parent charity within nine months of the end of a particular accounting period, the company can choose to treat it as if it was paid in that earlier accounting period. A claim to carry back a gift in this way must be made within two years of the end of the accounting period to which the gift relates.

Gifts to Charity of Company Equipment, Trading Stock or Staff Help

Your business can get tax relief if it makes a gift of equipment or trading stock to a charity. You'll be able to reduce the taxable profits your business makes by the cost of the gift made so you'll pay less tax. This applies whether you're in business as a sole trader, a partnership or a company.

Your business can get tax relief for the costs of temporarily transferring an employee to work for a charity - on 'secondment'.

Gifts of Equipment

If you're in business as a sole trader, a partnership or a company, you may be able to benefit from full capital allowances on the cost of equipment that you give to a charity. You must have used the equipment in your normal business activities for it to qualify, and it must be considered plant and machinery for capital allowance purposes - this could include things like office furniture, computers and printers, vans and cars, tools and machinery.

Gifts of Trading Stock

If you donate goods that your business makes or sells - your 'trading stock' - to a charity, you can claim the cost of these goods in your business accounts. This applies whether you're a sole trader or in business as a partnership or company. You don't have to include anything in your sales income for the value of the gift. So you can reduce your business's taxable profits by the full cost of the goods.

Secondment of Employees

If your business lends or temporarily transfers an employee to work for a charity you'll be able to treat the cost as a business expense in your accounts. If your business carries on paying that employee, you'll be able to set the cost against your business's taxable profits as if they were still working for you. The cost includes their wages and any business expenses. Your business will need to carry on operating PAYE (Pay As You Earn) on their wages.

Volunteering

The same applies if any of your employees are volunteering in work time. Your business can continue to claim tax relief for the costs of employing them such as salary and employer's national insurance. These costs can still be treated as a business expense when calculating chargeable profits for your business.

VAT Implications

If your business buys goods to donate to a charity this isn't counted as a business activity for VAT purposes. You won't have to account for VAT on the items you've purchased to give away.

If your business is VAT-registered you won't be able to reclaim the VAT you paid when you bought the goods. This is because you can only reclaim VAT on things that you buy for business purposes.

VAT and Donations of Trading Stocks

If you donate goods that you make or sell in your business - known as your trading stock - to a charity, this counts as a taxable business supply for VAT purposes.

If you're VAT-registered you'll need to account for VAT on the goods you give away at the appropriate rate, depending on what the items are - either the standard rate (20 per cent), the reduced rate (5 per cent), or zero rate.

However, you can zero rate your supply - even if normally the goods are standard-rated or reduced-rated - if your company makes the donation specifically so that the charity can:

- Sell the goods
- Hire out the goods
- Export the goods

This means that if you're VAT-registered your company is entitled to reclaim the VAT on the purchase of the trading stock that you donate.