

Charitable bequests

Bequeathing money to a charity in your Will not only leaves a positive legacy, but it can have tax benefits for other beneficiaries, too. Here's how to do it. Words: Leanne Macardle



▲ Deciding which charities to donate to often comes down to personal preference. PHOTOGRAPH: GETTY

Those who have the means often consider including a charity donation in their Will. But how do you decide which charities should benefit, and are there any financial implications? All difficult decisions to make when it's your money on the line.

"Think about particular sectors you're interested in, such as animal welfare, overseas aid, medical research, children's support and so on," advises Stephen Beck, director at law firm Whitehead Monckton.

"You might have particular charities in mind or may wish to think about these broader categories first, and then look at the charities within that sector that interest you. The Charities Commission website allows you to look into the work carried out by each charity, as well as its financial records, which are open to public inspection."

This last point can be particularly important if you want to make sure that your donation will have a genuinely positive impact. The records allow you to "see how much of [the charity's] income goes on operating costs and how much actually goes to the cause itself," explains Miriam Spero, head of the private client department at Branch Austin McCormick. "Giving to a smaller charity can have more impact, as £1,000 to a local charity with an annual income of £50,000 is obviously more significant than one with an income of £50m."

Financial benefits

Luckily, the financial implications are broadly positive — particularly when it comes to tax. "If you leave a gift to a UK or EU charity, the gift is exempt from inheritance tax," explains

Miriam. She points out that this also reduces the size of your taxable estate, so if you were to leave £5,000 to charity, the tax due on your estate would reduce by the same amount.

Stephen adds, "Another benefit of gifting to charities is that if you leave at least 10% of your estate to charities in your Will, then the rate of inheritance tax your estate will pay on the remainder is reduced from 40% to 36%."

"This means the taxman gets less, your charity gets a legacy and it costs your taxable beneficiaries very little," adds Miriam.

Be specific

Then you just need to make sure your money is distributed as you wish it to be. Stephen explains, "Write a Will that clearly identifies the charity, usually including its address and registered charity number, and say how much [it] is to receive. This could be a specific amount of money or instead a percentage share of the estate, depending on your wishes."

And it can make a huge difference to the charities in question. Indeed, many get a significant proportion of their income from such gifts, including national pet charity Blue Cross.

"More than half of our income comes from money left in our supporters' Wills, and a gift of any size can help us to continue our work helping sick, injured and homeless pets," says Emma Colborne, head of legacy administration at the charity.

"Giving money to charities in Wills is a very effective, welcome and tax-efficient way to help contribute to the work of those causes that are closest to your heart," concludes Stephen, highlighting the benefits for all concerned.

What's the best way to pass on your wealth?

It's only natural to wish to pass on your wealth to benefit your loved ones, or create a lasting legacy by giving to charity. But what's the best, most tax-efficient way to do so? Simon Mitchell, a partner at law firm Thomson Snell & Passmore, explores some options

Gifts

An outright gift is one of the simplest ways to pass on your wealth. These may be chargeable to Inheritance Tax (IHT) if you die within seven years of the gift. Each person can give away £3,000 a year, which is immediately exempt from IHT and outside the seven-year rule. You can also roll forward one year's allowance if it wasn't used to give up to £6,000 away in one tax year with no tax consequences. Finally, you can also give up to £250 to an unlimited number of individuals each year.

If you wish to give money or assets, but would like to retain some control, a transfer into a trust may be more appropriate, though there are tax implications to consider. If you have a large amount of available cash, a Family Investment Company may be an appropriate vehicle.

Charitable giving

Any money passing to a registered UK charity, whether through a lifetime gift or as an inheritance, is exempt from IHT. A lower IHT rate of 36% also now applies, provided that 10% of the residuary estate passes to charity (though inevitably the rules are more complex than this).

Charities can also benefit by way of a post-death variation. Even if no gift to charity is made under the deceased's will, the beneficiaries of the estate can posthumously redirect

some of their inheritance to charity in this way and have a two-year window, starting with the date of death, in which to carry out a variation.

Charitable trusts

If an individual doesn't know which charity they would like to benefit, they could consider setting up a charitable trust, which can be established during life or on death. As long as they are properly run and registered with the Charity Commission if necessary, tax reliefs will be available when gifting to a charitable trust founded by the individual making the gift.

We generally advise only establishing a charitable trust if you have the time to run one and are intending to gift at least £500,000 to the trust.

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