

Give shares to charity instead of money

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Editor's note: although Amin is a member of UKSA's Policy Team, he is writing in a personal capacity.

UKSA members are of course shareholders, almost by definition! Many of us will give to charity. However, few of us are tax specialists.

As a tax specialist, I have known about the relief for giving shares to charity since it was first legislated. I used it for the first time in November 2000 when I gave some shares to the Manchester Grammar School Bursary Appeal and have used it subsequently for further gifts to Manchester Grammar School and Clare College Cambridge.

Despite that, I still come across individuals who don't know about the relief, or who are unfamiliar with the implications.

The attraction in giving shares to charity instead of cash is very simple. It avoids eventually suffering capital gains tax ("CGT") when you sell the shares.

If you would pay CGT on selling the shares, (1) below always gives a better answer than (2).

1. Giving the shares to charity.
2. Selling the shares, paying the resulting capital gains tax, and giving the remaining cash to charity.

How the tax rules work

It helps to look at the tax rules in stages.

Scenario 1 - Give cash to charity

If you are not a taxpayer, the tax implications are very simple.

1. You give £1 to charity.
2. You receive no tax relief, obviously, so you are £1 poorer.
3. The charity receives £1.

In the later calculations, I compute something which I call the "Benefit ratio." That is the amount of benefit the charity receives divided by the net of tax relief cost to you the donor.

Here the benefit ratio is very simple. $\text{£1 divided by £1} = 1.0$

In this example, the donor does not give a Gift Aid certificate to the charity. When you are not a taxpayer, if you provide a gift aid certificate, HM Revenue and Customs will charge you tax equal to the Gift Aid refund received by the charity.

If you had given the charity a Gift Aid certificate, it would receive a 25p refund, but you would get a tax bill for 25p. Incidentally, the benefit ratio would still be 1.0, being £1.25/£1.25 .

The figures become slightly more complicated when you are an income taxpayer. There are three different rates of income tax, 20% (paid by most people), 40% and 45%.

I have done the calculations for each case and recommend downloading the file "[Scenario-1-cash-gift.pdf](#)".

The calculations show what happens when you give £8,000 being someone who pays tax at 20%, 40% or 45%, computing both the net cost to you after tax relief and the amount received by the charity.



Obviously, the higher your tax rate, the greater the tax relief to you. That is the mirror image of the fact that if you earned an extra £100, the higher your tax rate the more tax you would pay.

The benefit ratio ranges from 1.25 for someone who pays tax at 20% up to 1.82 for someone who pays tax at 45%.

Scenario 2 – Sell shares, pay CGT, give the balance to charity

The calculations become more complicated if you own shares where there is an inherent capital gain; in other words, the market value of the shares is greater than your base cost.

Each person has an annual capital gains tax exemption; the figure for the tax year 2021-2022 is £12,300. However, I suspect most UKSA members are already using this exemption for other gains, so I ignore it in the calculations.

The amount of inherent capital gain will vary depending upon how much you paid for the shares and how much they are worth now. Obviously, the smaller the capital gain, the less capital gains tax you will pay.

To illustrate the figures, I have done some calculations in the file "[Scenario-2-sell-shares-give-net-of-CGT-cash.pdf](#)".

I assume that you have some shares worth £10,000 which cost you £2,000. For each income tax rate, I compute what happens when you sell the shares, pay the capital gains tax rising, and give the cash left over to charity.

The benefit ratios are lower in each case, being 1.06, 1.11 and 1.17.

They are lower because the CGT paid is "dead money." It is money that is lost to you but does not reach the charity, being paid to HM Revenue and Customs.

Scenario 3 – Give shares to charity

In this scenario, I assume that you own the same shares as in Scenario 2. They are worth £10,000 and cost you £2,000.

In this scenario you give the shares, as shares, to charity. Once the charity owns the shares, it will almost certainly sell them to get cash but that is up to the charity to decide.

Giving shares to charity has two important tax consequences:

1. No capital gains tax arises on the gift.
2. You receive a deduction from your taxable income equal to the market value of the gift.

Accordingly, people who pay income tax at 20%, 40% or 45% save income tax of £2,000, £4,000 or £4,500. The calculations are set out in the file "[Scenario-3-give-shares.pdf](#)".

The benefit ratios are 1.25, 1.67 and 1.82.

These are the identical benefit ratios to Scenario 1 where you give cash.

The key point is that there is no "dead money", since you are not paying any capital gains tax.

Why give shares rather than cash?

Having done the calculations, there is still a residual question. Assuming you have a reasonable amount of cash as well as owning shares, should you:

- Keep the shares and give cash?
- Keep the cash and give shares?

The reason you should give shares is very simple. You cannot spend shares!

Accordingly, for substantial gifts, I believe that it is always better for your personal cash flow planning to give shares.

Obviously, if you are giving a small amount of money such as £100, it is simply not worth the hassle of giving shares.

That applies even if you have more than enough cash for the next few years of spending. If you give £10,000 worth of shares to charity, you will have £10,000 worth of cash retained which otherwise you would have given to the charity instead.

If you invest at £10,000 buying some shares, those newly acquired shares have a base cost of £10,000. The shares you gave away, in our example, had a base cost of only £2,000. Accordingly, when you sell these new shares in the future, your capital gain will be £8,000 less than if you had kept the shares and given cash to charity.

In passing, if you do this, you need to be careful which replacement shares you buy, or when you buy them.

Buying back the identical shares within 30 days will not uplift your base cost due to some complicated anti-avoidance rules introduced to counter "bed and breakfast sales". These rules are explained [here](#) on the HMRC page "CG51560 - Share identification rules for capital gains tax from 6.4.2008: the 'same day' and 'bed and breakfast' identification rules".

The effect would be to treat you for CGT purposes as having given to charity the shares you bought afterwards within 30 days, and as having kept your original low-base-cost shareholding.

How easy is it to give shares to charity?

That depends upon the charity. Both Manchester Grammar School and Clare College Cambridge have sizeable investment portfolios, so they already have a firm of stockbrokers who can handle the transaction very easily.

In both cases, I simply completed some paperwork and the charity's stockbrokers liaised directly with mine to transfer the shares concerned to charity. Once the transfer was completed, I received a letter from the charity telling me the market value of the shares transferred. I put that figure onto my tax return to receive the associated income tax relief.

However, many charities do not have a stockbroker. Fortunately, there is a charity called [ShareGift](#) whose purpose is to facilitate giving shares to charity.

I first came across ShareGift about 20 years ago when they were mentioned in the magazine "Investors Chronicle" which I subscribe to. Investors are often left with small shareholdings which are inconvenient, and not particularly practical to sell. For example, either I or my wife had a shareholding where we had elected for scrip dividends. That means each time the company paid a dividend, instead of receiving a cash dividend we received a few more shares of value equivalent to the dividend.

We had sold the main shareholding and then received a few months later the scrip dividend, since there is often a reasonable delay between the date you become entitled to the scrip dividend and the date you receive it.

Having some shares worth about, say, £20 is a complete nuisance. Each year, you would receive a few pennies of annual dividends. If you sell the shares, about half of the sale proceeds would disappear in stockbroker's charges.

Instead, we gave away the shares to ShareGift. We had the satisfaction of knowing that charity would benefit by £20, we received tax relief on the £20, and there were no associated costs. In that case, although the £20 value goes to charity, we had no control over which charity it went to.

However, I recently discovered that for larger gifts (defined by ShareGift as being over £500), ShareGift allows you to nominate the charity that will receive the cash after ShareGift has sold the shares that you have given to ShareGift.

I intend to start using this facility for intermediate size donations where historically I have given cash.