

Tax Efficient Gifts In-Kind

Your business can get tax relief if it makes a gift of equipment or trading stock to a charity or Community Amateur Sports Club (CASC). 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.

Gifts of Trading Stock

If you donate goods that your business makes or sells - your 'trading stock' - to a charity or CASC, 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.

Staff Help

If your business lends or temporarily transfers an employee to work for a charity (but not a CASC) 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.

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.

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.

For further information see:

<http://www.hmrc.gov.uk/businesses/giving/gifts-in-kind.htm>

HMRC Charities Helpline: 0845 302 0203