New Quadrant

Private Office – Legal, Tax & Trusts

Building a lifelong relationship of trust with you, your family and future generations

Tax Benefits of Charitable Giving

Many people like the idea of leaving something to charity in their will. It's a meaningful way to support causes you care about and create a lasting legacy. What's less well known is that charitable gifts can also bring valuable Inheritance Tax (IHT) advantages, helping more of your estate pass to the people and organisations you care about. Here's a simple guide to how it works.

1. Charitable gifts are tax efficient

Any gift left to a UK registered charity in your Will is 100% exempt from Inheritance Tax. This means:

- The value of the gift is deducted from your estate before IHT is calculated, and
- That portion of your estate is not subject to the 40% IHT rate.

For example, if you leave £10,000 to charity, the whole £10,000 is taken off the value of your estate before IHT is assessed.

Gifts to charity are capital gains tax free if you gift shares or investment assets to charity during your lifetime.

Lifetime gifts to charity can qualify for Gift Aid (charities can claim an extra 25% on your donation) and higher-rate or additional-rate taxpayers can reclaim further tax. If an additional rate taxpayer gives £10,000 to charity the charity can receive £12,500 and only cost you £6,875.

2. You can reduce your IHT rate from 40% to 36%

If you leave at least 10% of your net estate to charity, your estate may qualify for a reduced IHT rate of 36% instead of the standard 40%.

The advantages of this are twofold:

- The charity receives a legacy
- Your beneficiaries may receive more overall because of the reduced tax rate

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For example, assume an estate has a taxable value of £500,000. Without charitable giving, IHT could be 40% of £500,000 = £200,000.

With a 10% charitable gift (£50,000), the remaining estate will be taxed at 36%, reducing the IHT bill to £162,000.

In some cases, a client who wants to give fixed amounts which are slightly less than the 10% it may be beneficial to increase the gift with the result that the family receives more even after accounting for the charitable gift.

3. You remain in control

Charitable giving can be very flexible. You can:

- Leave a fixed amount
- Leave a percentage of your estate
- Gift specific assets (such as shares or property)
- Create a charitable trust

4. You can support multiple charities or local causes

Your charitable legacy doesn't have to go to a single large charity. You can:

- Support small local charities, community groups, or hospices
- Split your legacy across several causes
- Donate via our Donor-Advised Fund (DAF) if you want flexibility or anonymity
- Create an ongoing charitable trust to continue giving long-term

This allows you to tailor your giving to your values and priorities.

If you're considering charitable giving as part of your will or estate planning, we can help you. Feel free to get in touch if you'd like personalised guidance or a review of your current plans.