

Creating a private charity

Private charities allow high net worth individuals to provide flexibility and control over their charitable donations whilst also engaging their families in philanthropy, enabling the family to leave a legacy and provide benefits to society as a whole. Here we provide insight into creating a private charity alongside the benefits for both the charity and family.

WHAT IS A PRIVATE CHARITY?

A private charity or foundation is a non-profit charitable entity that is created by a single benefactor – an individual or a business – through an endowment of funds either an initial lump sum investment or via ongoing annual commitments. The aim is to build up an asset base from which an income stream can be established to fund ongoing charitable grants. For a fully private charity to be viable, we recommend an initial minimum endowment of £100,000.

As with all charities and not-for-profit organisations, it must have a charitable purpose. A list of these can be viewed on the Charity Commission's website.

METHOD OF REGISTRATION

To register as a charity, the organisation must complete a model constitution and then a formal application is made to the Charity Commission.

STRUCTURES OF CHARITABLE ORGANISATIONS

Charities can take different legal forms being unincorporated trusts, companies limited by guarantee and Charitable Incorporated Corporation (CIO). Many private charities adopt the structure of a CIO but a review should be carried out to select the most favourable structure. A CIO is a charitable corporate institution with limited liability. It is the most modern structure and is recommended by the Charity Commission which assists when applying for registration.

TIMINGS AND COST

It takes three months to incorporate a charitable company or a CIO and register it as a charity. It takes a further three months to apply for tax relief. The cost of application for both is £2,500 plus VAT. Ongoing costs depend on the size of the charity but will average £2,000 plus VAT per annum.

ADVANTAGES OF CREATING A PRIVATE CHARITY

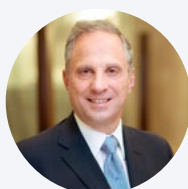
Alongside the financial benefits outlined in this paper, setting up a charitable status gives you credibility when raising funds from certain bodies. It also means you can raise funds from different sources. For example, many bodies that provide funds, such as local authorities, will only grant funds to registered charities.



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FINANCIAL BENEFITS FOR THE CHARITY

Income tax/ Capital gains tax

Charities are exempt from income tax and capital gains tax as long as the income/gain is:

- ▶ applicable for charitable purposes; and
- ▶ actually applied for charitable purposes.

Inheritance tax

Charities are not liable for inheritance tax.

Corporation tax

Charitable companies have the same exemptions from corporation tax in relation to income as charitable trusts have from income tax.

VAT

Charities are not exempt from VAT. However, some zero-rated reliefs and exemptions do apply to charities. Charities can hold one-off fundraising events without being subject to VAT. Charities that are carrying on a business for VAT purposes can claim back VAT paid on supplies and expenses which relate to any taxable supplies made.

Non-domestic rates

Properties owned by a charity can receive domestic rate relief of up to 100%.

FINANCIAL BENEFITS FOR INDIVIDUALS AND COMPANIES GIVING TO CHARITY

Income tax

Gift Aid payments by individuals enable the charity to recover the basic rate of tax already paid by the gift aid donor. This means for each £1 donated, the charity can claim an extra 25 pence. Individuals can also claim higher rate tax relief.

Capital gains tax

Any gain achieved by an individual from selling an asset to a charity is taxable. If an individual wishes to make a gift to charity, they should give assets that have increased in value directly to the charity. If the individual sells the assets themselves and gives the proceeds to charity, they have to pay capital gains tax on any gain before the proceeds can be given.

Inheritance tax

Gifts to charities of any amount are free of inheritance tax whether made during the donor's lifetime or by Will. The usual Inheritance Tax rate is 40%, but this can be reduced to 36% on certain parts of the estate if 10% or more of its net estate value is donated to charity via the individual's Will.

Corporation tax

Companies are given relief from corporation tax on payments made to charity with such donations being deductible from pre-tax profits.



HOW WE CAN HELP

For support setting up a private charity and advice on how you can capitalise on the tax advantages **contact Simon Hosier or Richard Kleiner using the details below.**



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