Removal of Dividend Tax Credits:
What it means for Gift Aid

Are some of your donors facing an unexpected bill?

Changes to the taxation of dividends were well publicised in April 2016. Much of the coverage at the time focused on the new 7.5% tax rate for dividend income falling in the basic rate band and the replacement of the dividend tax credit with a £5,000 allowance.

Commentators generally felt that the new allowance was generous enough that most individuals holding a portfolio of dividend paying investments would not be badly affected.

However, most did not consider the potential consequences for charitable Gift Aid donations, both for the donor and the charity.

The impact

Impact on individual donors
Individuals making Gift Aid donations are declaring that they have paid enough tax in the year to cover the tax that will be reclaimed by the charity from HMRC. Before the abolition of dividend tax credits, donors could use these credits to “frank” their Gift Aid donations, even if they paid little or no other income tax.

Many of these individuals are retired. Their pension income is covered by the personal allowance and they receive some dividend income from investments. These individuals could safely make Gift Aid declarations prior to April 2016. If they continue to make charitable donations after this date and the charities claim Gift Aid, the donors may face an unexpected bill from the taxman to settle the overclaimed Gift Aid.

There are also a number of wealthy individuals who make substantial charitable donations and whose annual income comes mainly from dividends. These individuals may find their post-tax income significantly lower now that they cannot rely on tax credits to frank their donations.

Individuals likely to fall into these scenarios should think carefully before ticking the Gift Aid box when making future donations. They should review the Gift Aid declaration status of any existing regular payments made to charities and advise the charities if they no longer qualify.

Impact on charities
Charities who make Gift Aid claims on donations given by individuals with insufficient tax credits to cover the claims are unlikely to have their claim denied by HMRC, as the liability will legally revert back to the donor.

However, the relationship between the charity and the donor could suffer when this liability comes as a surprise, especially if the donor feels the charity has not provided adequate information before accepting their donation.

What should charities do?
Charities should take the time to review the wording in their fundraising packs, sponsorship forms and online processes and consider highlighting this issue in their communications with supporters.

We can assist charities by reviewing existing communications around Gift Aid and suggesting improvements to cover the risk around the removal of dividend tax credits.

Contact us

If you would like advice, have any questions about the changes or wish to discuss this in more detail, please contact:

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