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## Summary

This pack is designed for use by professionals who provide estate or financial advice to their clients. We believe that the services on offer from County Durham Foundation will be of great relevance and help to some of your clients, and therefore also useful to yourselves as professional advisors.

County Durham Foundation is the ideal vehicle for people who are looking to put something back into the communities in which they have lived and worked. By channelling funds directly into grass roots community projects County Durham Foundation aims to improve the quality of life of disadvantaged people across County Durham and Darlington.

To date County Durham Foundation has distributed £10 million to thousands of projects, directly touching the lives of 80% of people in County Durham and Darlington.

Unlike other charities, we have the flexibility to support a wide range of causes from children to the elderly, from the arts to the environment. Uniquely, we look to match the interests of our supporters with the needs of the community, and to offer donors a say in how their gift is used.

County Durham Foundation can accept gifts in many ways including cash, shares and legacies. This document aims to illustrate ways of maximising charitable giving whilst minimising your clients tax bills and to highlight the role County Durham Foundation can play for both your clients, and for the communities of County Durham and Darlington. In all cases County Durham Foundation offers your clients:

- A non bureaucratic process to establish a fund – it is easy and quick, with no expensive legal procedures to go through and our administration charges are very low, normally just 1% per annum.
- Professional management of our investments, currently by Gerrard, that have consistently outperformed the market.
- Advice on the most tax efficient ways to give.
- A guarantee that their gift will be used locally and in accordance with their wishes.
- Proven expertise in grant making, with an excellent track record and an in-depth knowledge of local needs. As such we can target gifts very accurately.
- Regular updates on the work of County Durham Foundation and our grant making programmes. We can also arrange for supporters to visit some of the project they have helped.
- An opportunity, through our endowment fund, to make a gift that will benefit the community forever.

## Who are we?

Established in 1995, County Durham Foundation is an independent grant-making charity. Our purpose is to support community-based projects that make a real difference to the quality of life for local people who are disadvantaged. We act as a vehicle for individuals, families and companies to put something back into their local community. All of our grants are funded by direct donations to the Foundation or by the interest generated and any capital growth from endowment held by our fund-holding partners.

We support a wide variety of causes by giving grants to local people, groups and projects, with our fund holders or local committees making the decisions over who to support from their own fund, set up with the minimum bureaucracy, fuss and cost. So our fund holders can have as much or as little say in how their fund is used as they wish. With the added security of knowing that each grant given is backed up by a detailed 7-stage assessment process delivered by us, using our professional expertise and knowledge of the local community to ensure that their support only goes to those that really need it.

Since our launch in 1995 we have grown rapidly. This year we will distribute over £3 million in grants, primarily in County Durham and Darlington.

County Durham Foundation is striving to build an endowed fund for the people of County Durham and Darlington. We currently manage endowments valued at over £4 million.

We are here to promote local philanthropy and to provide a service to those who wish to give. We have a great deal of local knowledge, providing a voice to sections of the community that all too often go unheard, and a means of reaching out for those who wish to help.

## **The benefits of giving through County Durham Foundation**

### **Flexibility**

County Durham Foundation can provide a tailor made service to reflect the wishes of each benefactor. This covers all aspects of the fund's operation, from targeting areas of special interest to the extent to which a benefactor may wish to be involved in the grant making process. Through the County Durham Foundation gifts may be made to any charitable project that benefits the local community.

### **Convenience**

Named funds can be set up quickly and easily. Much of the work involved in registering a new charitable trust and the consequent time and expense can be avoided, as the County Durham Foundation already has the people and the framework in place. Only a simple written agreement is needed, which can be amended later if so desired. County Durham Foundation undertakes all the day to day work involved in administering the grant making programme, from handling enquiries to making decisions, as well as fulfilling all the accounting and reporting requirements.

### **Meeting needs**

In any community, many of the needs are hidden from view, with a great deal of vital work being undertaken by smaller, less well-known groups. It can be difficult to find out about local charities and projects that need support. County Durham Foundation's local knowledge can help to identify suitable recipients and therefore reach those who might not otherwise fund the funds they need. We can guarantee that money donated to us will only be spent locally – and in support of any charitable, educational or benevolent purpose.

### **Expertise**

County Durham Foundation is governed by a Board of Trustees from a variety of backgrounds, with a wide range of skills and experience, and an extensive knowledge of the local community and its needs. It has established comprehensive grant making policies and procedures, ensuring each application is dealt with efficiently and assessed carefully. County Durham Foundation also has access to professional advice, for example, in managing its growing investments (County Durham Foundation currently uses Gerrard as investment advisors).

### **Permanence**

County Durham Foundation is here to stay. By building a substantial, multipurpose endowment fund for the community, County Durham Foundation is not only helping to tackle today's needs, but also developing the means to address the needs of future generations. Anyone who is considering establishing a fund or leaving a legacy to the local community can be assured that County Durham Foundation will ensure that their charitable wishes are honoured in perpetuity.

## **What is an endowment fund?**

Establishing an endowment fund with County Durham Foundation is a way of guaranteeing a permanent source of grant revenue for worthwhile causes in County Durham and Darlington. Every pound donated is carefully invested to generate earnings that are used to fund a variety of community programmes and services each year. Over time, a contribution used in this way will generate revenue many times the value of the original gift. An endowment fund allows a supporter's gift to last forever.

Many contributions received by County Durham Foundation are pooled into a general or "unrestricted" fund from which grants are made to a wide range of causes. This fund is very much the life blood of County Durham Foundation since it allows our highly experienced grants staff to respond not only to current needs within the local community, but also to be adaptable as needs change over time.

It is not unusual, however, for a major benefactor to want to specify a particular area of interest that they are keen to support. This may be a specific project or group, a general theme such as helping children, a geographical area within County Durham and Darlington or a combination of all three.

Equally, the benefactor may choose to become involved in the grant making process, either by sitting on a grants committee or by asking us to research suitable projects and report back with funding suggestions.

In such cases we would recommend a minimum contribution of £50,000. This can be paid over a number of years and may well attract tax benefits (see following section). We can arrange for such a fund to be "named" in order to carry forward the name of the benefactor or that of a relative or friend.

In all cases, County Durham Foundation offers supports a simple, cost effective and efficient way of putting something back into their community, whilst at the same time removing the burden of administration that is usually associated with establishing a charitable fund.

## **Setting up a fund**

Establishing an endowment fund with County Durham Foundation is a very straightforward process. The following steps are involved:

### **Named fund**

The benefactor elects a name for the fund, e.g. the A J Thomas Fund.

### **Purpose**

The general criteria for the fund are agreed, for example to support projects that benefit young people in County Durham and Darlington.

### **Investment**

The funds are invested within County Durham Foundation's general endowment fund in order to maximise the annual returns available for grant making. Whilst donations are pooled for investment purposes, grants made from "named" funds will be clearly identified.

### **Size of fund**

Obviously, the larger the fund the greater the annual grant making power. Clearly, there are no upper limits to an individual fund. However, County Durham Foundation would recommend a minimum fund size of £25,000. Funds may be built up over a maximum of five years.

### **Tax recovery**

Charitable donations may be offset against tax, which can reduce the "real" cost of giving by 40% if you are a higher rate tax payer (see tax benefits section, page 7).

### **Charges**

County Durham Foundation makes a 1% endowment fund management charge, which covers investment management, grant making and administration. In special circumstances, with prior agreement of the donor, we recharge at cost direct administration expenses such as printing. In most cases, however, this is covered by the 1% charge.

## Tax benefits

### For individuals

#### Gift Aid

With effect from 6 April 2000, the minimum donation requirement of £250 has been abolished so that any gift, regular or one off, large or small, now qualifies for Gift Aid providing that a donor completes a Gift Aid Declaration. This declaration can be completed by post and does not involve any complicated procedures. Once executed, the declaration operates for all future donations to County Durham Foundation by that individual if desired.

If the donor is a basic rate taxpayer no further tax relief is due, as on making the cash donation to the charity the donor is treated as making the payment net of basic rate, currently 22% and the charity reclaims the tax paid by the donor.

If the donor is a higher rate taxpayer, the additional tax relief may be claimed on the difference between tax at the higher rate and the basic rate, i.e. 18% (40% – 22%) in their annual Self Assessment tax return. With effect from 17<sup>th</sup> April 2002, this may be carried back to the previous year.

#### **Example 1**

A donor makes a payment under the Gift Aid scheme of £780 to County Durham Foundation. (This sum is treated as a gift made net of basic rate tax.)

#### *Tax benefits for the donor*

If the donor is a basic rate taxpayer, then no further tax relief is due to the donor. If the donor is a higher rate taxpayer then tax at the higher rate less the basic rate may be claimed by the donor on the grossed up equivalent of the payment.

$$£780 \times 18/78 = £180$$

The “real” cost of the £780 gift to the donor is £600 (£780 – £180).

#### *Tax benefits for County Durham Foundation*

County Durham Foundation receives £780 from the donor and can reclaim the basic rate of Income Tax from the Inland Revenue.

$$£780 \times 22/78 = £220$$

Therefore County Durham Foundation receives £780 + £220 = £1,000.

Or in other words, County Durham Foundation receives a donation of £1,000 which costs a higher rate taxpayer £600.

## **Example 2**

A gift of £250 would cost a higher rate taxpayer £192.31 and result in a total gift of £320.51.

*Tax benefits for the donor (higher rate taxpayer)*

$$£250 \times 18/78 = £57.69$$

The “real” cost to the donor is £192.31 (£250 – £57.69).

*Tax benefits for County Durham Foundation*

$$£250 \times 22/78 = £70.51.$$

Therefore County Durham Foundation receives £320.51 (£250 + £70.51).

## **Gift Aid declaration**

The amount of information required on a Gift Aid declaration is to be kept to a minimum but must include:

- The donor’s name
- The donor’s address
- The charity’s name
- A description of the donations to which the declaration relates
- A declaration that the donations are to be treated as Gift Aid donations

An example of a Gift Aid Declaration form is attached at the end of this document on page 24.

## **Deeds of Covenant**

Deeds of Covenant now operate under the Gift Aid scheme and no longer qualify for separate tax relief. Where a Deed of Covenant was in existence at the 5 April 2000 deadline, that covenant is protected until its expiry date and no separate declaration needs to be completed to claim tax relief.

## **Gifts of Lands or Buildings**

As of 17<sup>th</sup> April 2002, gifts of land or buildings will be entitled to income tax relief based on the market value of the land or buildings at the time of the gift.

## **To find out more...**

If you would like more information about tax implications the Inland Revenue has produced a booklet about giving to charity. You can contact the Inland Revenue direct by telephone on 0845 9000 404 or visit their site [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk).

## Tables: Real value of gift aid donations to donors and County Durham Foundation

### All taxpayers

Basic rate of tax 22%			Higher rate taxpayers only	
Cash donation from post tax income	Basic rate tax reclaimed by charity	Total amount received by charity	Reclaimed by taxpayer 18% (40% – 22% of gross)	Net cost to taxpayer
£	£	£	£	£
100.00	28.21	128.21	23.08	76.92
250.00	70.51	320.51	57.69	192.31
500.00	141.03	641.03	115.38	384.62
1,000.00	282.05	1,282.05	230.77	769.23
5,000.00	1,410.26	6,410.26	1,153.85	3,846.15
6,000.00	1,692.31	7,692.31	1,384.62	4,615.38
7,000.00	1,974.36	8,974.36	1,615.38	5,384.62
8,000.00	2,256.41	10,256.41	1,846.15	6,153.85
9,000.00	2,538.46	11,538.46	2,076.92	6,923.08
10,000.00	2,820.51	12,820.51	2,307.69	7,692.31
11,000.00	3,102.56	14,102.56	2,538.46	8,461.54
12,000.00	3,384.62	15,384.62	2,769.23	9,230.77
13,000.00	3,666.67	16,666.67	3,000.00	10,000.00
14,000.00	3,948.72	17,948.72	3,230.77	10,769.23
15,000.00	4,230.77	19,230.77	3,461.54	11,538.46
20,000.00	5,641.03	25,641.03	4,615.38	15,384.62
30,000.00	8,461.54	38,461.54	6,923.08	23,076.92
40,000.00	11,282.05	51,282.05	9,230.77	30,769.23
50,000.00	14,102.56	64,102.56	11,538.46	38,461.54
100,000.00	28,205.13	128,205.13	23,076.92	76,923.08

County Durham Foundation, Jordan House, Forster Business Centre, Finchale Road, Durham DH1 5HL  
 Tel 0191 383 0055 Fax 0191 383 2969  
 Contact: Gillian Stacey, Email: [gillian@countydurhamfoundation.co.uk](mailto:gillian@countydurhamfoundation.co.uk) Website: [www.countydurhamfoundation.co.uk](http://www.countydurhamfoundation.co.uk)

## **For companies**

### ***Donations by limited companies***

From 1 April 2000 donations are no longer eligible for Gift Aid but must be paid to County Durham Foundation gross. The amount of the donation can, however, be offset against Corporation Tax so long as it is included in the company's tax return.

**For example**, (assuming your company pays Corporation Tax at the full rate of 30%) the company is now required, in order to make an effective donation of £10,000 to County Durham Foundation to actually pay £14,286 and then to reclaim from the Inland Revenue £4,286 by means of relief against Corporation Tax.

### ***Payroll giving***

The upper limit of £1,200 pa has now been abolished so that an unlimited amount can be contributed via payroll giving. In addition, the Government will now supplement all donations made by an additional 10%.

### ***Gifts of land or buildings***

With effect from 17<sup>th</sup> April 2002, gifts of land or buildings will be entitled to corporation tax relief based on the market value of the land or building at the time of the gift.

### ***Gifts of shares***

A gift of qualifying shares to County Durham Foundation is not subject to Corporation Tax at 40% and the value of those shares can be claimed as a deduction against the profit chargeable to Corporation Tax of the company.

While the savings are substantial, they are not as great as for individuals because the full corporate tax rate is only 30% as compared to the top Income Tax rate of 40%.

### ***Example***

Your company owns quoted shares worth £500,000 that cost £25,000.

Either your company could sell and pay up to £190,000 (£500k - £25k x 40%) Capital Gains Tax,

or

You could donate the shares to County Durham Foundation and your company would then receive a Corporation Tax deduction of up to £150,000 (30% of the value).

### ***Result***

Your company donated £500,000 to County Durham Foundation and it has cost only £160,000 in real terms (£500,000 - £190,000 (you would have paid in Capital Gains Tax liability) - £150,000 (Corporation Tax relief you qualify for at 30%)).

## Giving shares and securities

Following the introduction of additional incentives in April 2000, giving shares has become even more attractive. The combination of available benefits makes it a highly tax-effective way of giving, and worthy of full consideration as part of the tax planning process.

### Example 1 - Outright gift of shares

Andrew, a higher rate taxpayer who has used up his annual Capital Gains Tax exemption, decides to give £10,000 worth of ABC shares that he purchased some time ago for £5,000.

He receives Income Tax relief (40% of the market value of the shares) of £4,000.

He also avoids paying Capital Gains Tax (40% of capital gain value £10,000 – £5,000) of £2,000.

The net cost to Andrew is therefore £10,000 minus £6,000, i.e. £4,000.

Meanwhile, the charity receives shares with a market value of £10,000.

He is therefore able to make a gift that is worth 2.5 times more to charity than it costs him.

In general, the higher the capital gain, the greater the potential benefit to the donor.

For example, Andrew also has £10,000 worth of XYZ shares, which he bought for only £2,000. He could opt to give these shares instead.

He would receive Income Tax relief, as before of £4,000

He would also avoid paying Capital Gains Tax of £3,200

£7,200

His gift of £10,000 is now worth 3.6 times more to charity than the £2,800 it cost him.

## Example 2 - Sale of shares below market value

Chris, a higher rate taxpayer who has already used up his annual Capital Gains Tax exemption, wants to get back the £10,000 he paid for some shares that are now worth £20,000, donating the increase in their value, as a way of starting to build a named fund at his community foundation.

He sells the shares to County Durham Foundation at the original cost price, i.e. he makes a donation of the full amount of the capital gain.

County Durham Foundation receives shares worth £20,000 at a cost of £10,000, i.e. a gift of £10,000.

Chris receives tax relief for the £10,000 gift at 40% of £4,000.

He also avoids paying Capital Gains Tax of 40% on £10,000 capital gain of £4,000.

Tax relief plus Capital gain = £8,000.

Chris also has the proceeds from selling the shares to County Durham Foundation of £10,000.

Total gain for Chris £18,000

The full after-tax cost of making a £10,000 gift is thus £20,000 minus £18,000, i.e. £2,000.

By donating the full amount of the capital gain, Chris can make a gift that is worth up to five times as much to County Durham Foundation as it costs him. This is just as tax effective, therefore, as an outright gift of shares that were originally received free of charge.

Further examples can be found in Inland Revenue leaflet IR 178 "Giving Shares and Securities to Charity". You can contact the Inland Revenue direct by telephone on 0845 9000 404 or visit their site [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk).

**Table: Illustration of share gifts of differing values and with varying Capital Gains relief**

Value of shares to charity A	Original cost to donor	Capital gain	40% of capital gain	40% of value of gift	Actual cost to donor B	Multiplier* A/B
10,000	0	10,000	4,000	4,000	2,000	5
10,000	5,000	5,000	2,000	4,000	4,000	2.5
25,000	10,000	15,000	6,000	10,000	9,000	2.8
25,000	20,000	5,000	2,000	10,000	13,000	1.9
50,000	10,000	40,000	16,000	20,000	14,000	3.6
50,000	30,000	20,000	8,000	20,000	22,000	2.3
75,000	25,000	50,000	20,000	30,000	25,000	3
75,000	50,000	25,000	10,000	30,000	35,000	2.1
100,000	30,000	70,000	28,000	40,000	32,000	3.1
100,000	70,000	30,000	12,000	40,000	48,000	2.1
200,000	100,000	100,000	40,000	80,000	80,000	2.5
200,000	150,000	50,000	20,000	80,000	100,000	2

\* For example, if a higher rate taxpayer makes a donation of shares that have doubled in value since he purchased them, then his gift may be worth 2.5 times more to charity than it cost him.

(This is based on a table produced for the *Craigmyle Guide to Charitable Giving and Taxation*.)

## **Questions & Answers**

### **Question 1**

When does tax relief apply and how is it claimed?

#### **Answer**

Tax relief can be claimed by individuals and companies who give, or sell, at less than market value, any qualifying investment (see Q3) to the charity. Individuals should claim relief in their Self Assessment tax returns and companies should claim via their Corporation Tax Self Assessment.

### **Question 2**

What records should be kept?

#### **Answer**

Acceptable records would include detailed stock transfer forms and correspondence in connection with the gift, such as a thank you letter from the charity concerned.

### **Question 3**

What are qualifying investments?

#### **Answer**

- Shares and securities listed on the UK stock exchange (including the AIM).
- Shares and securities listed on recognised foreign stock exchanges.
- Units in an authorised unit trust.
- Shares in UK investment companies.
- Holdings in certain foreign investment schemes.

### **Question 4**

How shall the shares be valued for the purposes of tax relief?

#### **Answer**

This should be the market value of the shares at the time that they are given to the charity.

### **Question 5**

Can the cost of disposing of the shares be included in tax relief?

### **Answer**

Yes. Any incidental cost incurred in making the donation can be added to the valuation figure used for tax relief.

### **Question 6**

What if the shares are sold to the charity below market value?

### **Answer**

The amount of relief claimed will be based on the market value at the time of sale minus the price paid by the charity. Again, incidental costs may be taken into account.

### **Question 7**

What is the Capital Gains position if the shares are given or sold at the same value as when they were purchased?

### **Answer**

Since this transaction results in neither loss nor gain, there is no relief available to the donor.

### **Question 8**

What is the tax position if the charity asks the donor to sell the shares and then pass on the proceeds?

### **Answer**

As long as there is satisfactory evidence that the charity asked for the shares to be sold on its behalf by the donor, then entitlement to relief will not be affected.

The Inland Revenue have produced a leaflet called IR 178 "Giving Shares and Securities to Charity". To receive a copy contact the Inland Revenue direct by telephone on 0845 9000 404 or visit their site [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk).

## Checklist for professional advisers

### ***Determine the size, identify and form of the donation***

*Size:* does the donor have a specific sum in mind, in terms of either the cost to him or herself, or its value to the charity?

*Identify:* if there are various shareholdings, which would be of greatest benefit? (For example, because they carry the greatest capital gain.)

*Form:* does the donor want to make an outright gift, or to sell the shares below their current market value and receive a share of the proceeds?

Contact the charity, or ensure that the donor does so, in order to clarify the wishes of both parties on two key issues:

The form of the gift:

- Is the donor happy for the charity to sell the shares whenever it wishes, and would the donor be happy if the charity opted to receive cash instead?
- Is the charity happy to receive the shares, or would it prefer the donor to arrange a gift and immediate sale, and receive cash (for example, because the shares would not fit well within its overall portfolio)?

The purpose of the gift:

- Does the donor wish to express any preferences about how the gift is used (for example, to set up a named fund at County Durham Foundation)?
- Is the charity happy to receive such a gift, i.e. does it fall within its objectives?

### ***How will the gift be made?***

Ensure that the appropriate procedures are initiated for the gift to be made:

- *Gift of shares:* the donor sends the appropriate letter to the charity, together with the share certificate (if applicable).
- *Gift and immediate sale, or sale below market value:* the appropriate letters are exchanged between the donor and the charity, before the sale of shares takes place.

Record details of the gift for inclusion in the donor's next tax return.

## Turning shares into an investment in the community

### *The stories of two community foundation donors*

- 1) A London man bought shares in an IT company, which subsequently soared in value. He was on a high salary and likely to receive an Income Tax bill in the region of £12,000.

He decided to keep shares to the value of twice the original purchase price, and give the rest to the South East London Community Foundation. As he specified that the income from this investment should be used to benefit the people of Lambeth, the community foundation set up a separate named fund in order to fulfil his wishes.

By giving away £30,000 of shares, he cancelled out his £12,000 tax bill. He also avoided Capital Gains Tax, having paid less than £12,000 for the shares in the first place.

The beauty of the scheme was that it enabled him to turn a relatively small amount of money into a much more substantial donation. By giving away shares he did not need and would otherwise have kept, he missed out only on the divided income from the shares (say 2–3%). Instead of writing a cheque for £1,000 and feeling he had done what he could, he gave up income of £900 a year and increased the community foundation's assets by £30,000!

This shows that, in effect, people who have enough capital in shares need not pay Income Tax year after year; instead they can calculate their tax bill and give away sufficient shares to cancel it out. Better still, they can also say, like our man in South East London, that his tax is being spent in Lambeth on the kinds of projects that matter to him.

- 2) A lady in the south of the country has agreed to sell 10,000 shares at cost (£1.80 each) to the Wiltshire Community Foundation. As the share price is in the region of £5.80, the value of the gift to her community will be around £40,000.

She decided to do this because she is interested in supporting local charities, and sees the community foundation as a way of coordinating this. The gift will be used to establish a fund in her family name.

The donor was also impressed by the tax arrangements; not only do they enable her to realise some cash (£18,000 sale price for the shares), but she can also claim tax relief on the full value of the gift (i.e. around £40,000).

## Legacies

### Types of legacy

A legacy to the County Durham Foundation is a simple way in which individuals can leave money to the local community in which they may have lived and worked for many years.

***County Durham Foundation welcomes legacies of all kinds, including:***

**A pecuniary legacy** – by which an individual leaves a specific sum of money to County Durham Foundation. There is no minimum requirement and all donations now benefit from Gift Aid, which means that, for every £1 donated, County Durham Foundation is able to claim an additional 28p.

As a result, a legacy of £2,5000 would benefit local causes (at current tax rates) by just over £3,205.

**A specific legacy** – for example a gift of property, or of shares to County Durham Foundation. Not only will the individual donor receive Capital Gains Tax relief, but as a result of recent changes to the tax system, they would be able to claim Income Tax relief, in the final tax return filed after their death for the market value of the shares on the date of the gift.

**A residuary legacy** – if an individual has living relatives or other causes which they would like to see benefit from their will in priority to County Durham Foundation, then a residuary legacy would ensure that County Durham Foundation received either all or part of their estate after these prior legacies had been paid.

**A reversionary legacy** – no one wants to leave a loved one with insufficient funds to live on after their death. A reversionary legacy would ensure that, following the death of the surviving partner and only then, the balance of any estate would pass to County Durham Foundation.

**A deed of variation** – an individual dies leaving their estate to be shared among a number of relatives. However, this leaves the estate with significant exposure to Inheritance Tax. By means of a deed of variation executed in favour of County Durham Foundation no more than two years after death, the family of the deceased can not only cut tax liability but also provide a lasting benefit to local causes of special interest either to the deceased or the family.

## **Inheritance Tax**

The total value of a person's estate is calculated on their death. Each year in the Government's Budget, the Chancellor of the Exchequer sets the tax threshold. If the estate is worth more than the tax threshold, the amount above the threshold is liable for Inheritance Tax. The current tax threshold (as at 17 April 2002) is £250,000 and the rate of Inheritance Tax is 40%.

No tax is paid on wealth that is passed to a surviving spouse. However, this simply delays paying tax until the spouse dies. Anything that is left to people other than a spouse – children, for example, – will be liable for Inheritance Tax if the estate exceeds the tax threshold. Even money given to friends and relatives before death will be included in the tax threshold if it was given seven years prior to death. The only exceptions to this rule are gifts of £3,000 in each tax year, plus £3,000 from the previous year if this was not used.

Both husband and wife can give this amount each year. Wedding gifts are exempt to the amount of £5,000 from each parent or stepparent, £2,500 from each grandparent and great grandparent, and £1,000 from other friends or relatives.

When a legacy is left to a charity, the gift is totally tax free – regardless of the amount. Moreover, the value of the gift left is deducted from the total gross value of the estate. This may reduce the amount on which tax is payable. For example, if the value of the estate is £10,000 over the tax threshold, £4,000 in tax must be paid. However, if a legacy of £10,000 is left to a charity, no tax is payable on the estate as the legacy is tax exempt and this would bring the estate to below the tax threshold.

### **Leaving shares as a legacy to the community**

Shares and securities may be particularly suitable for this purpose, as assets that can often comprise a larger part of an estate than cash in bank or building society accounts, and can be realised much more easily than property. The donor can still continue to receive the income during their lifetime; moreover, all such gifts can be made entirely free of Inheritance Tax.

If the donor has no intention of selling the shares because, for example, they were inherited many years ago and have been kept ever since, it may be possible to identify the specific shareholding in the will.

Alternatively, it may be possible to express the gift as all of the donor's shares and securities.

Specimen wording for a legacy to County Durham Foundation appears below. If the donor wishes the legacy to add to an existing named fund, a statement to that effect can simply be inserted into this clause. If the donor wishes the legacy to be used to create a new named fund, we would recommend discussion at an early stage, if possible, in order to ensure that it is set up in a way that will fulfil the donor's charitable wishes.

We would recommend that legal advice is always obtained when preparing a will.

## **Specimen letter for a share gift to County Durham Foundation**

### ***Outright gift of shares, where a share certificate is held***

Date

Gillian Stacey  
Director  
County Durham Foundation  
Jordan House  
Forster Business Centre  
Finchale Road  
Durham DH1 5HL

Dear Mrs Stacey

I am pleased to make a donation of XXX shares in XXX plc to County Durham Foundation.

[If appropriate, specify the purpose of the gift, e.g.

“I would like this gift to be used to establish the XXX Family Fund at the Foundation and look forward to discussing this further with you”, or, “I would like this gift to be used to help build the Foundation’s endowment for the community”.]

The shares are listed on the XXX Stock Exchange, are owned by me and are registered in my name [if applicable: under reference number XXX].

A certificate for XXX shares is attached. [If applicable: Please return the certificate for the balance of XXX shares to me in due course.]

A completed CREST transfer form is being forwarded today under separate cover.

With best wishes

Yours sincerely

## Will wording

I GIVE to County Durham Foundation of Jordan House, Forster Business Centre, Finchale Road, Durham DH1 5HL, registered charity no. 1047625

The sum of £...

*or*

*(state fraction of percentage)* of the residue of my estate

*or*

the sum of £... linked to the Retail Price Index from the date of this Will

*or*

the following items of furniture/jewellery/property *(etc)*

*or if the donor wishes to specify the purpose(s) to which the gift is to be put*

to be used by the said charity at its discretion for the benefit of the chronic sick and disabled/the unemployed/youth training *(etc)*

and/or if the donor wishes to specify the area (within County Durham and Darlington)

in Durham/Bishop Auckland *(etc)*

and if the donor wishes to be commemorated or to remember a loved one through the gift

and I request that the said gift shall be known as "the ...Fund"

**Codicil wording**

I ..... of ..... declare that this to be a (first/second/etc) codicil to my will dated ...

I give to County Durham Foundation of Jordan House, Forster Business Centre, Finchale Road, Durham DH1 5HL, registered charity No. 1047625 the sum of £... and I declare that the receipt of any of its officers shall be a good discharge to my Executors/Trustees. It is my wish but without imposing a trust that the said sum shall be used for

.....  
.....

signed by me this ..... day of ..... 200...

Signature .....

Signed by ..... in our presence and by us in his/hers

Witness

Witness

.....

Address

Address

.....

.....

**Specimen wording for a legacy gifting shares to the County Durham Foundation**

“I give to County Durham Foundation (registered charity number 1047625) absolutely [specific shareholding] my shares in .....  
[general instruction] all my stocks and shares in any public limited company to be applied by the Foundation for its general charitable purposes at the discretion of the Trustees and in accordance with the terms of its Deed of Trust and I direct that the receipt of the Honorary Treasurer or other proper officer of the Foundation for the time being shall be a full and sufficient discharge to my Trustees.”

## Example Gift Aid declaration for individuals

### Gift Aid declaration

Name of donor: .....

Date: ..... Signature: .....

#### Details of donor

Title: ..... Forename(s): ..... Surname: .....

Address: .....  
.....  
.....

Postcode: .....

#### I want the charity to treat

\* the enclosed donation of £...

\* the donation of £...

\* all donations I make from the date of this declaration until further notice

\* all donations I have made since 6 April 2000, and all donations I make from the date of this declaration until further notice

As Gift Aid donations

\* delete as appropriate

#### Notes

1. You can cancel this declaration at any time by notifying the charity.
2. You must pay an amount of income tax and/or capital gains tax at least equal to that the charity reclaims on your donations in the tax year (currently 28p for each £1 you give).
3. If in the future your circumstances change and you no longer pay tax on your income and capital gains equal to the tax that the charity reclaims, you can cancel your declaration.
4. If you pay tax at the higher rate you can claim further tax relief in your Self Assessment tax return.
5. If you are unsure whether your donations qualify for Gift Aid tax relief, please contact us for further information. Or ask your local tax office for leaflet IR113 Gift Aid.
6. Please notify us if you change your name and address.

## County Durham Foundation as an alternative to an independent charitable trust

You may be deciding to make a large commitment to charity and considering establishing your own charitable trust. We offer an attractive alternative to the expense and administration burden of setting up and maintaining an independent charitable trust. There is no need for lengthy, legal agreements nor will you incur any charges for establishing a Fund with County Durham Foundation. Neither will you have to produce separate accounts and deal with lengthy tax rules – we handle all this. It is widely recognised that establishing an independent charitable trust for less than £250,000 is not cost effective and yet, due to our low cost professional administration, good returns can be realised on any Fund of £25,000 or over. We can also normally establish a Fund virtually immediately as soon as we receive the cheque (in weeks from you first contacting us). It will take considerably longer and possibly years for you to establish your own Trust.

As with our other Funds, you can have as much or as little say as you wish in how your money will be distributed and invested. You can set your own criteria (we will use our local knowledge to help if needed). All grants distributed will be done in the Funds chosen name and you (or your chosen representatives) can be involved at all stages in the decision making process. For the larger Fund, we will produce individual promotional literature and, if required arrange publicity. If you prefer to give anonymously, of course you may do so.

Establishing a Fund with County Durham Foundation instead of an independent charitable trust offers the following advantages:

**Permanence** Running a Trust takes a considerable amount of time and incurs many responsibilities. However much you may wish to undertake the management of your own trust, you cannot guarantee that future generations will feel the same way. Setting up a Fund with County Durham Foundation allows each generation to have as much or as little say in the running of the fund as they wish.

**Experience** County Durham Foundation is experienced and knowledgeable in all aspects of administration concerning the grant application and distribution procedures whilst also being able to ensure that the grants are used wisely and in accordance with your wishes. We can also, of course use our expert knowledge of both local issues and charities to help you direct grants to where they are needed most.

**Local Giving** We are a local charity, so you will be able to see where your money is being spent. We will give regular updates on the performance of your Fund and grants given. We can arrange for you to visit projects you have funded (or potential projects you are considering to fund). If required, we will find projects that will fit your criteria to consider.

**Strength** By establishing a Fund with us, you will help contribute to our wider aim of improving the quality of life for local people, strengthening the help we can offer the community. Because your Fund will be held with the Foundation's other funds, your Fund gains the advantages of higher returns and increased financial stability. We can, of course ensure that the Funds resources are used where they will be most effective.

**Flexibility** You may choose to establish a Fund with us rather than establishing your own charitable trust because of the flexibility we offer. The purpose or remit of your fund can be changed at any time just by writing to the Foundation. Provision can be made for the management of a foundation fund after the holder's death.

**Convenience** Establishing a Fund with the County Durham Foundation is convenient and simple. As with our funds, any sum, large or small can be given and the total can be built up over a number of years. We will reclaim any tax paid and, if the supporter is a higher tax rate payer they can benefit from additional 18% (at current rates) higher tax relief. A gift will not be subject to inheritance tax if it is bequeathed as a legacy. We can also receive gifts in the form of shares and property (again as a charity we will not be liable for any accrued capital gains tax).

As the Foundation's Trustees consist of a wide cross section of people, representing all County Durham, you may choose to become actively involved with the Foundation itself. We welcome involvement from supporters in our work.

### **Case study 1**

North East Businessman of the year Guy Readman describes how and why he established the Readman Foundation under the umbrella of his local community foundation. His trust has committed to making grants totalling £150,000 pa for at least 10 years, "to help young people in the North East help themselves".

#### **How did I first get involved with my local community foundation?**

I was very attracted by the idea. At the time, I had just sold my company Tor Coatings (for the first time) and I agreed to set up a £25,000 personal endowment fund with the Foundation pledging to pay £5,000 a year less tax for five years – with the thought that I might well add to it at a later date. Each year, I received a list of projects to help me choose those I wanted to fund and over the next few years I became rather more involved in its development.

#### **Why did I decide to set up a charity in the first place?**

Last autumn, I sold my business Tor Coatings for the second time. I had been thinking about selling for a while but one of my concerns had always been, "what will I do with myself?". From this, the idea of setting up a substantial charitable fund evolved. Partly to give me something to do, partly because I had seen how much good a little extra money can do in our society (certainly in relation to the needs of my by now very comfortably placed family).

## Having decided to set up my own foundation why not as a stand-alone charity?

At first, I was going to set up my own charity independently. I did intend to ask the local community foundation staff as to the detail but was nervous that, unless I remained independent I might end up having the feeling that it wasn't really mine – and I didn't want that and was not prepared to take the risk. I had already done some research and found it really wasn't that difficult to set up and run my own charity. I asked my solicitor to draw up the paperwork – which he did although he did comment at the time, “I know you know all about the local community foundation but why not do it through them?”.

Shortly afterwards, the Director called to see me about another matter. I explained to him that I intended to set up my own independent charity and he immediately asked if he could put forward alternative suggestions. Within 48 hours, he came back with a well thought through written proposal from which it was immediately obvious that there were huge advantages in setting up my own foundation under their umbrella.

The plus points were:

The Readman Foundation could be up and running within a couple of weeks without legal formality and with minimal set up cost. It was not necessary to formally appoint trustees – although we did agree to set up a grants advisory group for the Readman Foundation. The community foundation could actively help me market the Readman Foundation to ensure a good volume of high quality projects to select from.

The community foundation took on board my ideas about design and promotion and did all the legwork with public relation advisors. I didn't have to worry about annual accounts, claiming tax back or what would happen if I went on holiday or even fell under a bus. If I were to develop other interests or get bored, the Readman Foundation would not suffer, as the community foundation would step in as much as required. All written and verbal enquiries could go to the community foundation, be recorded and sent on to me with helpful comments – which is invaluable, as is the fielding of time consuming initial telephone enquires from potential applicants.

*Source: Excerpt from Journal Business Magazine August 1997. Guy Readman established his Fund with the Community Foundation Serving Tyne & Wear and Northumberland, our sister organisation in Tyneside.*

## Case study 2

“I suppose I am charitably inclined. Our firm has always helped out with local causes. There's a lot of poor kids round here. Well, for years we had been talking to lawyers and accountants about setting up a charitable trust, when this friend of mine, who is in accounts said, “what about your local community foundation?”

I love efficiency and hate dithering – we'd been trying for ages to set up our own foundation but what with the Charity Commission and the Inland Revenue, it was likely to take two years with lots of interfering. With the community foundation, it was very simple. I gave them a block of my shares (the company is quoted) with no strings. They can do what they like with them. I see this chap (at the community foundation) every now and then. He makes suggestions and I say yes. Or I come along and say, “I like the look of this”. We sort things out together.

You're far better to be known as a fairly generous company than just a bunch of skinflints. And it's rather a nice feeling. I can't spend all I've got. You can't take it with you. Why not spread a little happiness while you can? I think some people are just mean at heart, miserable – so much the worse for them.

You know, I haven't given that much anyway!"

*Source Creating a charitable trust by Christopher Zealey, published by Directory of Social Change and Association of Charitable Foundations.*

## **County Durham Foundation's story**

County Durham Foundation administers three charitable trusts:

- The Stanhope Castle School Charitable Trust to support the education and training of young people in care or in the support of the local authority.
- The Hylton House Fund, to support the relief of individuals with cerebral palsy.
- The John T Shuttleworth Ropner Memorial Fund, to support the convalescent of individuals across the North East.

We also now operate over 70 different funds, of which a number were established by individual supporters as an alternative to establishing their own charitable trusts. These include Peter & Jayne Cook and Sherwood's of Darlington.