

EXAMPLE 2

Haight's uncle Timothy hears of Haight's gift and mentions this to Barbara, with whom he has been living for the past 40 years. They are now both 70 years of age.

Timothy receives a National Insurance pension and an occupational pension from his work as a chemist with Leary Scientific Discoveries. Barbara has a National Insurance pension and a smaller occupational pension. Barbara has some rare 1960s dresses from Biba that she believes could find a fresh lease of life. A friend has told her that these could be worth about £1,000.

Without the gift aid donation their 2009/10 tax liabilities would be as follows:

	Timothy	Barbara
	£	£
NIRP	4,953	4,953
Occupational pension	<u>22,000</u>	<u>10,000</u>
Total income	26,953	14,953
Personal allowance (age)	<u>7,464</u>	<u>2,490</u>
Taxable	19,489	5,463
At 20%	3,897.80	1,092.60

Note * Calculation of Timothy's age allowance

Total income	26,953
Less income limit	<u>22,900</u>
Excess	4,053
Half excess	2,026
Full age allowance	<u>2,490</u>
Timothy's allowance	7,464

Gift aid relief on £1,000 would make no difference to Barbara's tax liability, she therefore makes a gift of the dresses

to Timothy, who takes them to HASH and (hiding his embarrassment and adopting his deepest tone of voice) asks that these be sold on his behalf as the new owner.

He is subsequently advised that the dresses did sell for £1,000. The charity receives this, plus gift aid relief of £250 and the bonus relief under FA 2008, Sch 19 of £32 (ignoring any commission charged by the shop here).

The grossed-up amount of £1,250 reduces Timothy's total income for the purposes of calculating age allowances.

Calculation of Timothy's age allowance

	£
Total income	26,953
Less gift aid	<u>1,250</u>
Net	25,703
Less income limit	<u>22,900</u>
Excess	2,803
Half excess	1,401
Full age allowance	<u>2,490</u>
Timothy's allowance	8,089

Timothy's personal allowance is therefore increased by £625, reducing his tax liability by £125.00.

Note. On the basis that those at the lower end of the wealth scale tend to give a higher proportion of their wealth to charity than their wealthier brethren, this may also be a good moment to mention that gift aid donations should be advised to HMRC when a claim to tax credits is being made. (Working sheet TC825 gives details of how this should be taken into account.) In the same way as for those entitled to age allowances, the grossed-up gift is deducted from total income when calculating tax credit entitlement.