CHARITABLE GIVING AND TAX LIABILITIES

Receiving a lump sum, whether from the sale of assets or an inheritance, can often have taxation liabilities attached. This case study outlines how philanthropically-minded individuals may use charitable gifts to assist in the management of taxation liabilities.

SCENARIO

- Joan sold her successful marketing company several years ago and following her retirement, enjoys travelling and golf. She finances this lifestyle by drawing a pension from her self-managed superannuation fund together with returns from her investments. She earns a taxable income of approximately $100,000 per annum and pays approximately $27,500 in tax.
- Joan's brother recently died of cancer and left her $300,000. Joan has little need for the money and decides to establish a sub-fund in her brother's memory with Australian Communities Foundation (ACF).
- Joan visits her accountant to clarify the tax ramifications of contributing to the sub-fund.

AIMS/FINANCIAL GOALS

In making the donation, Joan aims to create an endowment fund in memory of her brother and match the level of donations to years in which the greatest tax benefits will be derived.

Joan's accountant advises her that:

- She can spread the donation over a period of up to 5 years. Generally, donations cannot create a tax loss.
- The election to spread the donation must be in writing and specify the percentage (if any) of the donation that will be deducted in each year.

OUTCOME

The table below outlines the difference in tax payable by Joan as a result of making a $300,000 donation to ACF and spreading the deduction over five years.

	No charitable gift made	**Charitable gift**
	Tax payable	Tax payable
Gross Income	$100,000	$100,000
Less: Gift allocation (assumed spread evenly over 5 years)	$0	($60,000)
Taxable income	$100,000	$10,000
Tax on taxable income	$27,599	$6,600
Overall tax year 1 to 5	$137,500	$33,000

Joan has saved approximately $104,500 in tax by spreading the deduction over a period of five years.

AUSTRALIAN COMMUNITIES FOUNDATION

This information is general in nature, it is not financial advice and does not consider your personal objectives, financial situation or needs. Before acting on any information, you should consider its appropriateness and seek independent financial advice.