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# Client briefing



## Grant Making Charities

### Philanthropy Note (5)

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If you are keen to put money aside for charitable purposes but have not yet decided which causes to support, you may wish to consider creating a grant making charity.

### What is a Grant Making Charity?

It is quite simply a charity that makes grants/donations as its sole form of charitable activity.

Instead of having a defined group of beneficiaries, it will have defined objectives (objects), which typically allow the trustees to apply the funds held for such other charities or charitable projects as they may in their discretion determine.

### Why set up a Grant Making Charity?

It provides a means of making an immediate charitable gift (with immediate tax advantages – see below) but at the same time retaining control over how funds should ultimately be applied.

As with all charitable gifts, the funding of the charity will be:

- exempt from inheritance tax;
- not subject to capital gains tax (if, for example, shares or property standing at a gain were gifted to the charity); and
- in the case of cash gifts, eligible for gift aid (provided certain conditions are met), which allows:
  - the charity to claim back the basic rate of tax on the amount gifted, increasing the value of the donated sum by 25%; and
  - a higher rate tax-payer to personally claim back the difference between higher and basic rate tax on the sum donated.

For many families, however, setting up a grant making charity is not just about giving or benefiting from tax relief (for those it is, a Donor Advised Fund may be more appropriate – see philanthropy note 1). It is a way of engaging the wider family in matters of genuine personal interest whilst at the same time encouraging the next generation to develop a greater understanding of social value, financial responsibility and decision-making principles.

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## How do you create a Grant Making Charity?

The process will broadly follow that which is detailed in Philanthropy Note 3, as follows:

- 1 Legal structure
  - (a) In the past, the majority of grant making charities have taken the form of trusts, which is often appropriate as the charitable activity undertaken usually means there is minimal risk (thus making corporate protection unnecessary).
  - (b) A Charitable Incorporated Organisation (a CIO) may, however, now be worth considering as:
    - (i) A CIO can be immediately registered with the Charity Commission, avoiding the need to open and fund an account first (see philanthropy note 6 for issues associated with that); and
    - (ii) A CIO offers the same protection as a corporate structure (without the additional compliance – see philanthropy note 4 for more information) which, if not immediately required, may become advantageous depending on the assets the charity acquires and the direction taken.
- 2 Trustees
  - (a) The trustees will be responsible for the ongoing management of all assets held and for selecting which charities/charitable causes should benefit.
  - (b) Careful thought should be given to who will be the initial trustees and how trustees will be appointed and removed in the future.
- 3 Objects
  - (a) It will be necessary to consider whether the intention is for the charity to have broad objects (offering flexibility) or a more focused approach (perhaps concentrating on health or education for example).
- 4 Governing document
  - (a) Once the above points have been considered and decisions made, the governing document (the charity “rule book”) can be prepared (see philanthropy note 4 for more information on structures).
- 5 Funding
  - (a) If the charity takes the form of a trust or company, an account will need to be opened to provide evidence it has received at least £5,000 (see Philanthropy Note 6 for more information), before registration can proceed.
- 6 Charity Commission registration
  - (a) Registration will require the completion of a detailed online form to which a grant making policy should be attached setting out how the trustees will choose to exercise their discretion when deciding which charities/charitable causes to benefit and how potential applicants may apply for funding.
- 7 HMRC registration
  - (a) Once registered with the Charity Commission, the charity can then be registered with HMRC (important for claiming gift aid on donations for example).

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