

# Donating should be a financial decision, not a knee-jerk reaction

By [Duncan Luke](#)

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In a time of crisis, such as the current Covid-19 pandemic, people's willingness to donate money increases significantly, however, the beneficiaries of these donations, such as funds and non-profit organisations, are often less than transparent about the tax implications for donors.



Duncan Luke, CEO of The Social Collective

Equally, most people seem ignorant of the rules that govern donations, especially with the fast-changing financial policies government is implementing in response to Covid-19 support – whether in the case of private donations, or payroll giving – and that these can be used as a way to claim tax deductions or reduce your payable tax, based on supporting various approved section 18A causes, or the Solidarity Fund.

Giving is a critical part of society, it's what makes society more just and pleasant. However, it is worrying when charity funds pop up, especially during a time of crisis, and simply appeal to people to donate, with the promise of a tax benefit.

But we need to be clear, as society, about what tax deductions are allowed and how this works, especially in times such as these when people feel that it is important to give towards a cause. It's an emotive issue, but it cannot be based on a knee-jerk reaction. Donations should form part of your financial planning. A tax calculator can help you determine what tax rebates you can expect from donations.

It is highly misleading to set up a fund and declare that all donations are tax deductible, without laying out the parameters and regulations that govern donations, as per Section 18A of the Income Tax Act.



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In South Africa, companies that wish to donate funds need to know that legislation only allows for an amount of R10,000 a year to be used to gain a tax rebate. Above that amount, the donation will get taxed at 20% on their donation, however Section 18A approved organisations with a public benefit organisation status are exempt from this limit. This is a separate tax and is managed as such. In the case that you give an employee R12,000 as a donation (from the R10,000 limit), you will be required to pay 20% on the R2,000. If the donation is to a PBO, then the amounts donated are exempt from the limit, however the claim amount is capped at 10% of taxable income per year, and if amounts are given over the 10%, the 'tax saving' will be carried forward to the next financial year.

Similarly, individuals can give up to R100,000 a year tax-free, after which they will also have to pay tax 20% for non-deductible donations between R100,000 to R3.5m and then a tax of between 20-25% applies on any amount donated above the R100,000. Donations to SARS-approved Section 18A public benefit organisations are excluded from the limit too, and again other limits do apply on your 'tax saving' planning for donations, such as the 10% that can be claimed per year. Donations to the Solidarity Fund have a limit of 20% and the donation cap for employees, giving through payroll giving, may be going up from 5% to around 33%, which is a substantial tax saving for the donor.



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It is, therefore, important to dispel the initial confusion that is created by funds and Section 18A approved organisations that are marketed as tax deductibles when people are not savvy enough to know the limits. In fairness, people should be given a chance to decide how much they can donate, and manage their tax more effectively.

Perhaps some of the confusion around donations and tax rebates speaks to the underlying regulation around taxation, and that it is not really followed in a lot of cases. The legislation has been around for as long as NGOs have been collecting donations. Yet, only a few of them manage their Section 18A certificates diligently, others will only do it when asked. This means that society is missing out hugely on tax savings.

## Building relationships

Becoming more savvy about the tax implications of donating money and donating amounts that allow donors – both individual and corporate – to take advantage of tax rebates is not only good for the taxpayer, but also for the beneficiaries. If donations are based on sound financial planning, it allows people to build relationships with causes and support them in the long term. While you get your tax benefit, the beneficiaries can plan their work better, based on expected donations.

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I would also call for more transparency from the side of NGOs and charity funds. In many cases, money is given, but then there is no one to account for where this money goes or what exactly it is being used for. Funds donated should contribute to several key issues in South Africa. Donors don't need to know where the funds go, however transparency in this regard will go a long way in further donations. Yet, despite protocols being in place for donations, numbers are often misrepresented, and money is seldom accounted for at the level required.

Companies, regulators, charities and individuals need to work together to get greater clarity in this area, and this conversation needs to happen soon. In some respects, the regulations are unclear, yet we expect people to continue donating.

During a time of crisis, charities and funds become our go-to places to help others. Perhaps we should start looking at the business of donating a bit more seriously.

## ABOUT THE AUTHOR

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