

Deed of Covenant (to a charity)

Guidance

The covenant must to be completed by a Jersey taxpayer.

This is a scheme where an individual (the donor) signs a deed of covenant under which they promise to pay to a charity a sum net of Jersey income tax for a period of (at least) five years.

The charity in turn reclaims, upon presentation of the appropriate certificate, the tax deducted from the payments it receives.

If a covenant provides that an individual Jersey taxpayer pays £100 pa to the **Hautlieu School Trust Fund** the Trust can reclaim £25 pa from the Tax Office and further benefit the Trust.

Example 1 an individual covenants £500 for five years. The individual will pay to the charity this annual sum. The charity will then receive from the taxes office, upon submission of the relevant paperwork, an additional £125 each year over the period of the covenant. This is called the 'tax deducted'.

Example 2

150 people paying £120 means that the benefit to the Trust is actually benefitted by £22,500 (£18,000 from the taxpayer & £4,500 in reclaim of tax).

What if the donor doesn't pay tax?

An individual who does not pay Jersey income tax will not benefit from the deed of covenant scheme. The reason for this is that the taxes office will seek to recover from the individual the tax deducted under the covenant.

In the example above if the donor paying the £500 is exempt to tax, they will receive a tax demand of £125 from the taxes office (being the amount of tax deducted). So overall they will have paid out £625.

The charity, however, still has the right to their reclaim of £125.

Which charities benefit?

The charity must be established in Jersey, the United Kingdom or Guernsey and have been given exemption under the Jersey Income Tax Law. It follows that Jersey residents should not deduct Jersey income tax from any covenant payments made to charities established outside these jurisdictions.

The legislation

The right to deduct tax from the annual payment under the deed is covered in Article 87A of the Income Tax (Jersey) Law 1961. The charities must be formally exempted under Articles 115(a), 115(aa) or 115(ab). (Income Tax (Jersey) Law 1961 and amendments)

The Information required on a deed of covenant

The original deed of covenant should include the following information:

- the date the deed of covenant is made
- the name and address of the person making the deed of covenant
- the total annual amount to be given to charity, with the wording 'after deduction of income tax at the standard rate'
- the period of the covenant (this must be for a minimum of 5 years)
- the date the first payment is to be made.
- The deed of covenant should then be signed by the person making the covenant and independently witnessed.

Submitting the deed of covenant

The original deed of covenant should be forward to the taxes office by the charity's administrator.

It will be authorised and returned to you, the payee.