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The Charity Tax Group August Newsletter 2024

Balancing the books?

It is not at all unexpected, but it is very clear that the mantra of the new Chancellor is very much about balancing the books. In practical terms the first obvious manifestation of this is in the promised removal of VAT exemption, from private school fees and plans to adjust business rates, such that private schools which are charities are excluded from relief. We discuss both points in this newsletter and in the same vein also think about how charities might be balancing their own books and some pitfalls there.

We have written to the new minister responsible for taxation, seeking the opportunity to explain how tax impacts the charity sector, what some of our own priorities for reform are, and how those can support Government Policy. We will let you know how that develops.

In the meantime, we hope that you are enjoying the recent spell of sunny weather and, if you are going on holiday, that you have a relaxing and enjoyable time.

Richard Bray, Chair, CTG

£6 billion pounds

Part of the equation, in balancing the books, is understanding how much the various tax reliefs are worth, including those reliefs given to charities and their donors. Members may be interested in this **publication** by HMRC which reveals their estimates of how much some key tax reliefs were worth to charities and their donors. The eye-catching figures show that charity funds were boosted by £1.6bn of gift aid payments and that their expenditure was reduced by £2.56bn through relief from business rates. Donors (and their estates) benefitted from £750m of relief from inheritance tax and £690m of tax relief went to higher rate taxpayers.

This emphasises, if any emphasis were needed, the importance of ensuring that the Government's planned review of business rates does not adversely affect our sector and that we must continue our work with HMRC to improve and modernise the Gift Aid system.

We should also keep in mind that these figures include only a sub-section of the tax relief given to charities. As HMRC freely admits in the publication, it is not possible to easily quantify the benefit of various VAT and Corporation Tax reliefs.

Goodbye Mr Chips?

For those of you who are puzzled by the title, 'Goodbye Mr Chips' is a book, subsequently converted to the big screen, about the life and times of a schoolteacher at what was presumably a private school. Its connection with tax? Well, much like Mr Chips, the VAT exemption for education provided by schools, many of which are charities, is about to be a thing of the past.

The change will be effective from 1 January 2025, with a mechanism to also apply VAT if prepayments are made for this period. HMRC have published a **technical note** setting out how the legislation will be applied. Other key points include continued exemption for pre-school nursery places and continued exemption for supplies, such as school meals which are closely related to education, but with VAT applied to boarding charges.

For those who are interested in the very technical detail, the draft legislation can be found **here**.

The Government also intends to remove business rates relief for private schools which are charities with effect from April 2025. More detail will follow on this after the budget in October.

The technical note includes a consultation but only for a limited period with a closing date of **15th September.**

At CTG, we will be asking for a follow up session with HMRC to talk through the draft legislation and highlight any practical difficulties. We also intend to respond to the consultation.

Please help us with this by sending any comments you have on the consultation and your views on any practical difficulties that this will present to **expert@charitytaxgroup.org.uk**. We are also interested to hear from anyone who would like to join a working group for a couple of sessions to look at this in more detail.

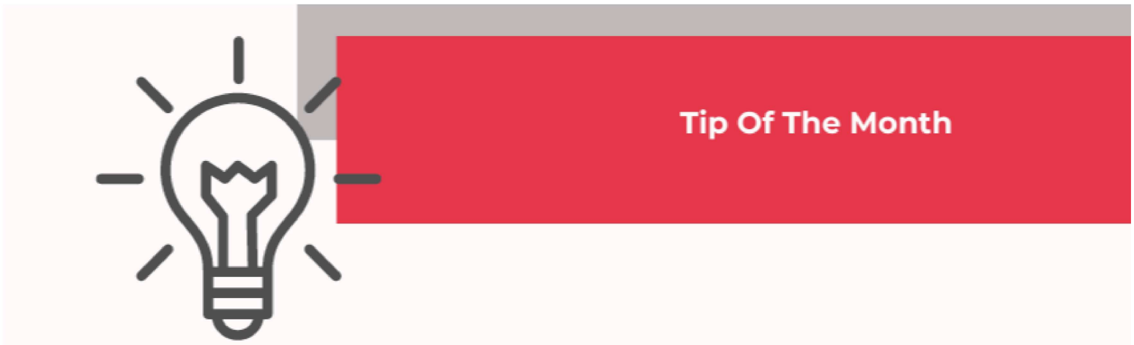
Is it worth the sacrifice?

Alongside taxing of private schools, one of labour's flagship policies is to improve workers' rights. Part of this package includes a material increase to minimum wage, now known as National Living Wage. This will of course put a strain on some small businesses and charities. But it also brings about other risks.

Whilst many employers have to date been unable to offer their staff pay rises, they have introduced other 'reward packages', many of which are based around salary sacrifice. Whilst the increase in NLW is good news for the basic pay of lower paid employees, it may exclude some lower paid employees from favourable salary sacrifice arrangements. As employers, members should take the time to review any salary sacrifice arrangements that they have in place as the penalties for non-compliance with NLW are high, and HMRC also ‘name and shame’ employers who default.

Staying with salary sacrifice, it is also worth noting that several commercially marketed schemes have made it onto HMRC’s radar. The most recent of which is a scheme for nursery places. It seems that **HMRC are of the view** that the scheme does not meet the requirements of the tax legislation. Whilst the promoters of these schemes will provide assurances of compliance, we would urge members to proceed with caution if they do enter any of these arrangements and consider the consequences if the scheme is not effective.

Lastly, before leaving NLW, there is a sobering Tribunal decision **here**. The employer set up a holiday fund and the employees agreed to make deductions from their salary to put into the fund and draw later. The deductions took them below NLW. The judges noted that although the intentions of the employer were benign, NLW rules were nonetheless applicable, and the employees would effectively end up being paid twice because of the decision.



Tip of the month

We intend in this and future newsletters to bring you something topical or important that you might want to look at over the next month. Following on from this, our top tip this month is to review your salary sacrifice arrangements, if you have them. Two questions to ask. (1) Are you happy that they have been implemented properly and that they meet HMRC’s requirements? (2) Do they in any way compromise your obligations to pay national living wage? Remember NLW is calculated on the amount paid after any deductions under salary sacrifice arrangements.

Future events

In the September newsletter, we are going to send a poll to all members to get your views on how we should develop our strategy, and how we can support you in tax. Look out for this and tell us what is worrying you, what we can help you with and what you think our focus should be.

Look out for invites to expert insight sessions in the last quarter of the year on Business Rates, improving taxation for people with disabilities and wading through the complexities of charity tax returns.

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charity tax group

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