

Charity Tax Group Annual Review 2012–13



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April 2013

2012/13

“CTG is an excellent organisation providing us with informative briefings and information about charity tax issues.”

Sara Osborne, Head of Policy Development, CRUK



“The Charity Tax Map is a valuable and useful document for any staff involved in managing a charity.”

David Warrellow, Fiscal Services Manager, National Trust

“Membership of CTG makes me connected with VAT and tax developments in the charity world, mainly through being able to work with CTG and its members to make a real impact on the charity tax landscape.”

Graham Elliott, Withers LLP

Charity Tax Map



Charity Tax Group



“CTG is very helpful as a forum which provides useful advice and gives charities a platform to raise issues affecting the whole sector.”

Eleanor Meeking, Financial Accountant, Macmillan Cancer Support



Welcome to this year's CTG Tax Conference. We hope that you find today's range of practical and policy updates on the most important and topical tax issues affecting charities useful. With over 150 charities and advisers expected to be present it shows how important tax issues continue to be for charities.

Last year's Conference celebrated the thirty-year anniversary of the Charity Tax Group. The Conference provoked lively debate with highlights including presentations from the then Minister responsible for charities, Chloe Smith MP; outgoing Permanent Secretary for Taxation at HMRC, Dave Hartnett CB; and YouTube sensation Pamela Greener and her 'VAT ditty'. The battle to reverse the "charity tax cap" proposed in Budget 2012 dominated the Conference. Thankfully common sense prevailed and the Chancellor agreed to exempt charities from the cap following a powerful sector-wide campaign, although the removal of the VAT zero rate on approved alterations on listed buildings is a long-term blow for the sector.

We are delighted that the Economic Secretary to the Treasury, Sajid Javid MP, will be giving the keynote speech at this year's Conference. Mr Javid is the third EST in as many years, but has already shown a commitment to help the sector, despite the difficult financial climate. CTG continues to maintain strong working relationships with HMRC and HM Treasury, and the involvement of so many officials in panels and presentations today highlights the importance of working together throughout the policymaking process. We do not always agree, but there is a mutual respect and recognition of expertise on the technical tax issues charities face.

The last year has seen a number of other important tax developments for charities. At a policy level, charities have worked with Government to negotiate the detail of new schemes such as Charities Online and the Gift Aid Small Donations Scheme, as well as successfully pressing for reform to digital giving and social investment. On a practical level, charities have been required to prepare for these major changes to the administration of online Gift Aid claims and new rules relating to small cash donations and donated goods. CTG played an active role in all of these developments and kept members up-to-date with a record number of e-mail updates, working group sessions and practical and policy update events throughout the UK.

In the coming year, CTG will continue to work with HMRC during this implementation stage to ensure a smooth transition to the new arrangements and maximum take-up among charities. CTG will also continue to lobby hard for the extension of VAT rebates for UK charities providing certain activities in the public good, building on the positive recommendations in the *Fair Playing Field Review* and by the European Commission. We are delighted to inform members that we have secured additional funding from the Nuffield Foundation to build a new interactive Charity Tax Group website with a digitised, searchable Charity Tax Map portal.

CTG depends on your support and I am grateful for the willingness of Charity and Observer members to share their experience, expertise and sense of humour. You always enliven CTG's meetings, discussions and working groups and continue

*representing
charities on tax*

to respond to calls for support and evidence when needed. But without financial support from its members, CTG simply could not continue its important work on behalf of the sector. If you have not yet made a contribution for 2013, I would urge you to do so.

I would also like to thank Helen Donoghue and her team at CLC for co-ordinating the excellent policy updates, events and campaigning efforts over the last year. Enormous thanks are also due to CTG's technical adviser Peter Jenkins as well as Nick Kavanagh and David Warrellow who continue to give active support and advice to CTG.

Lastly, thank you to my colleagues on the CTG Management Committee who volunteer their time and expertise again and again. On behalf of all CTG members, I wish to pay tribute to Andrew Webster, who has retired from the role of Honorary Treasurer after 16 years of expert support. We wish Andrew all the best and hope that he enjoys his retirement.

I hope that you enjoy the Conference and I look forward to working with you over the coming year. Together we can achieve a fairer and simpler tax system for charities.

John Hemming
Chairman

Recent charity tax developments

Charities Online – is your charity ready?

Charities Online is the new way that charities are required to claim tax back from HMRC from 22 April 2013. Charities Online is the biggest change to Gift Aid in years and will significantly change the way Gift Aid is claimed by charities. No charity should underestimate the impact the new system will have on its claims process. The claiming process will be quicker but will also require charities to provide more information for each claim. By planning now, charities can minimise the risk that Gift Aid claims will be delayed or reduced in value.

Making a claim: The current R68i repayment form will be replaced by three options for making Gift Aid claims. Charities can claim using more than one option at the same time.

- Claim using an online form
- Claim through your own database
- Claim using a paper (ChR1) form

Following representations by CTG and other sector bodies HMRC has announced a transition period until 30 September 2013 in which it will continue to accept the current R68i form. Charities are encouraged to get their Gift Aid claims, records and declarations as up to date as possible before they switch over to Charities Online.

Plan for the change: It is imperative that charities plan for the change and read the information that HMRC has released about Charities Online. The latest guidance on the HMRC website is extensive and includes a useful series of FAQs and technical information about the new Gift Aid schedule spreadsheets and software requirements. If charities still have queries they should contact the HMRC Charities Helpline (0845 302 0203).

Gift Aid Small Donations Scheme

The **Gift Aid Small Donations Scheme (GASDS)** is a new scheme that allows charities to claim a top-up payment on cash donations of £20 or less without the need to collect Gift Aid declarations, subject to certain eligibility and Gift Aid matching criteria being met. Charities will generally be able to claim on small donations of up to £5,000 per year (resulting in a repayment of £1,250 for the charity). There are certain circumstances in which charities can claim top-up payments if they have eligible community buildings. Charities must remember that payments under the GASDS can only be claimed using Charities Online

CTG was a key member of the HMRC Working Group on the scheme and was asked to give expert evidence to the Commons Public Bill Committee. CTG's proposals on relaxing the eligibility and matching criteria were accepted by Government.

HMRC has published helpful guidance on the GASDS which includes a number of flowcharts to help charities work out whether they are eligible for the scheme and how much they can claim. CTG is working closely with HMRC on making this guidance as clear as possible to ensure maximum take-up.

Budget 2013 and Finance Bill 2013

Budget 2013 contained very few announcements immediately relevant to charities. Nevertheless, measures including the announcement of consultations on **improving Gift Aid for digital giving channels** and on a **new social investment tax relief** were welcomed by the sector. While it was not a charity-specific measure, charities will be entitled to the £2,000 **Employment Allowance** towards their employer NICs bill and HMRC estimates that this will be worth £45m to 35,000 charities. However, the Budget also confirmed the

removal of research supplied between eligible bodies from the scope of the VAT exemption for education.

It is essential that there be adequate transitional arrangements for research programmes that commence prior to 1 August 2013. This is crucially important because the imposition of VAT on future costs could mean that the research will have to be curtailed if additional funding cannot be found.

Finance Bill 2013 also saw confirmation of **a charity exemption from the annual tax on enveloped dwellings** which will be chargeable on UK residential properties valued at greater than £2 million.

Updates from the Charity Tax Forum

In Budget 2012, HMRC announced **new rules for claiming Gift Aid on the proceeds of donors' goods sold by charity shops**. Since the announcement, CTG has been part of an HMRC working group tasked with agreeing what form this simplification would take. The new processes, which are optional for shops and donors, will allow donors to authorise the gift of up to £100 of sales proceeds (for goods sold by a charity operating the shop directly) or £1,000 of sales proceeds (for goods sold by a trading subsidiary of the charity) without the shop needing to seek the supporter's permission to claim the tax relief. The charity will need to write to the donor only when sale proceeds exceed the amount. This should lead to a real reduction in administration and bureaucracy for charities and significant cost savings. HMRC is expected to publish detailed guidance on the new procedures by May 2013.

CTG has continued to raise a number of **concerns about the new model Gift Aid Declarations**. It is still not clear whether the latest HMRC example wording is a requirement or guidance. While it is recognised that HMRC needs to be able to link Gift Aid repayments to tax paid the need to refer to CASCs is cumbersome and irrelevant for most charities, and references to the fact that Council Tax and VAT do not apply are unnecessary and serve only to confuse donors. There are also ongoing **discussions on Gift Aid higher-rate relief and proposals for a universal or localised Gift Aid database**. CTG is also working with HMRC to review the current rules on donor benefits, following concerns raised by members.

Charity Tax Forum members have helped to implement two important tax breaks for giving announced in Budget 2011. The **Cultural Gifts Scheme**, which allows a tax reduction for gifts of art and other heritage objects to the nation, is now live, as is a scheme which allows donors to claim **Inheritance Tax (IHT) relief on gifts to charities**.

The Government recently consulted on **Payroll Giving** asking charities to comment on how the system could be reformed, both to increase take-up and make it a social norm to give through the scheme. In its response CTG welcomed some of the recommendations, but argued that the consultation had not gone far enough and that a more radical approach was needed.

VAT round-up

CTG warmly welcomed the commitment by the Secretary of State for Health to look again at the case for extending VAT refunds to the non-business activity of charitable providers of NHS services, following the recommendation by Monitor, in the *Fair Playing Field Review*, that the Government should report on the case for extending **VAT refunds** to some charitable NHS-funded healthcare providers by Budget 2014. CTG is co-ordinating meetings with key stakeholder groups including hospices and HM Treasury to realise this important recommendation.

For charities, funding can be a grant, or income related to a contract for services. When public bodies outsource the provision of services to charities, the VAT considerations are often misunderstood or ignored. CTG is aware of charities being charged VAT when their "grant" turned out to be a contract for service. CTG is working with members and HMRC to develop a **table of indicators**, which can be used to **determine** whether an **agreement** is a pure **grant** or a pure **contract** for services. While no single factor is determinative, it is hoped that such indicators can be a useful tool for charities.

After a seven-year campaign led by CTG, the VAT **cost-sharing exemption** was finally introduced into UK law in Finance Act 2012. While its implementation is welcome and the guidance is generally helpful, CTG has found that, in practice, HMRC is not always willing to apply the exemption as flexibly as was hoped. CTG is now working with HMRC to ensure charities can benefit from the scheme.

Since 2 April 2012, there has been **VAT on all bulk mailings**. This has inevitably led to additional irrecoverable VAT for charities. CTG highlighted one possible way of mitigating this cost: Downstream Access (DSA) services. CTG has reviewed the impact of the change and has

conducted a case study on the viability of DSA services for smaller charities. In the short term, DSA arrangements appear to be a solution for some charities but CTG is aware that these arrangements could face further challenge in the European courts.

CTG continues to support a sector-led challenge of HMRC's **VAT treatment of temporary workers** following the *Reed Employment* case. If successful, VAT would be charged only on the commission element of temporary workers, not on the total costs, a change which could save the charity sector £20m a year.

In the coming months CTG will be calling on charities to support a forthcoming legal case against HMRC, which will claim wrongful imposition of VAT on **e-books**.

Europe in focus

CTG chairs the European Charities Committee on VAT (ECCVAT) which was established in 1992 to make representations to the EU institutions and national governments on behalf of the sector. In recognition of its role as the leading representative on charity tax issues ECCVAT has been granted Observer status on the new European Commission **VAT Expert Group**. This is an important platform from which CTG can influence policy discussions on VAT issues affecting charities at the European Level. The Commission recently published the **Copenhagen Economics Report** on the VAT treatment of public bodies. ECCVAT representatives were invited to speak at a Commission Conference on the Report to make the case for a VAT solution for charities (including rebate schemes) and to highlight problems with other possible reforms (including a full taxation model which would see the removal of all VAT exemptions).

2012/13 in numbers



32

Meetings with HMRC officials

5

ECCVAT meetings

22

Meetings with sector representative bodies

1

Tax Conference

7

Management Committee meetings

4

Observer Member meetings

8

Members' seminars on issues including Charities Online, RTI and temporary workers

15

Technical Working Groups

5

Regional meetings

6

Meetings with Government Ministers

20

Meetings with HM Treasury officials

3

Meetings with European Commission officials

What does CTG do for charities?

Representing charities on tax

CTG is well-represented on HMRC's Charity Tax Forum and its technical subgroups. CTG has regular discussions with Ministers and officials responsible for charity taxation. Through CTG you are part of that process.

Access to the Group's Charity Tax Helpline

Run by CTG's technical adviser Peter Jenkins (former head of Global Indirect Tax at Ernst & Young) and members of the CTG Management Committee, this free service helped over 50 charities resolve some complicated tax queries last year and gave specific information to many others.

Information updates

Members receive regular e-mail updates on charity tax developments, ensuring that they are up-to-date on the issues and the lobbying work that CTG is undertaking on behalf of the sector. Charities can also follow developments as they break on our Twitter feed @CharityTaxGroup

CTG website

Members can keep up to date with the comprehensive issues tracker, consultation tracker and member updates as well as the Charity Tax Map on the CTG website www.charitytax.info.

CTG membership

Without financial support from its members, CTG simply could not continue its important work on behalf of the sector. Charities are asked to make a donation to cover the costs of our campaigning work. Please give as much as you can to help us achieve a fairer, simplified tax deal or all charities. Professional members pay a fixed subscription dependent on the size and location of the organisation.

Charity Tax Map

CTG has published the second edition of the Charity Tax Map, which includes the latest legislative, policy and case law developments. The Charity Tax Map details the taxes that charities pay, the reliefs they get and the compliance burdens they face. In 2013, CTG will be developing a dedicated online Charity Tax Map portal.

Meetings

- Annual Tax Conference – CTG Conferences are regularly addressed by Treasury Ministers responsible for charity taxation and key HMRC officials.
- Members' Meetings – CTG provides regular technical update meetings for members, often in partnership with other organisations in the sector. CTG holds up to four Observer member meetings each year. Sessions this year have focused on Charities Online and RTI.
- Technical Working Groups – CTG organises sector-wide technical Working Groups on topical direct and indirect tax issues. These groups are crucial in shaping CTG's campaign strategy and consultation responses.
- Regional Meetings – CTG holds policy and practical updates for charities in cities throughout the UK.

"I had an RTI query so my Finance Director recommended contacting the Charity Tax Group. She wasn't wrong; the response from the helpline was very informative."

Jacky Wesley, Payroll & Pensions Supervisor, The Scout Association

"CTG is a fantastic resource for charities trying to negotiate an increasingly complex tax environment. We've found the helpline invaluable on a number of occasions, and appreciate the detailed and prompt response we have received each time."

Adam Pentelow, Head of Financial Accounts, Save the Children UK

The Charity Tax Group (CTG) is dedicated to improving the tax position of charities and campaigns on the key issues affecting the sector.

CTG is the only organisation to work exclusively on tax issues and is funded entirely by donations from charities and support from charity advisers.

CTG continues to persuade the Government to introduce new tax reliefs as well as successfully campaigning to protect existing concessions, saving charities many millions of pounds.

For more information about CTG please contact us at info@charitytax.info or on **020 7222 1265**.

Alternatively, visit our website www.charitytax.info or follow us **@CharityTaxGroup**

