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charity tax group

Budget Bulletin

Autumn Budget Update 2025

A welcome relief?

Given the much discussed financial pressure on the country, this never was going to be a budget in which the Chancellor handed out substantial new tax reliefs for charities. In fact, in the main budget document the term 'charity' appears just 6 times.

We are nonetheless very pleased to see that the Government intends to introduce VAT zero rating relief for goods which are donated to charities to distribute to their beneficiaries or to use for their own purposes. Alongside others, we have campaigned for this for a long time, and it is pleasing to see that the compelling logic of the relief has finally been embraced albeit with restrictions and complexities which are intended to ensure that the relief is not subject to abuse.

Other areas of specific interest to the sector will include tweaks to inheritance tax and 'tainted charitable donation' rules to reduce avoidance and the planned removal of Vehicle Excise Duty on search and rescue vehicles.

As was widely predicted, the value of salary sacrifice schemes for pensions which can benefit from national insurance relief is being capped at £2,000 per year from April 2029. There were also some minor changes to tax on other benefits.

And now for the detail…

Richard Bray, Chair, CTG

Zero rating for donated goods

Following a consultation earlier this year, the Government has responded to calls for VAT zero rating to be allowed for goods which are donated to charities for distribution to their beneficiaries or for their own use. This will be effective from 2026.

The finer details are yet to be published, but some key points are that there will be a limit of £100 per item donated, with a list of higher value essential items where the limit will be £200. There is no limit to the number of goods which a retailer can donate, provided that each individual item is less than the values shown above. The relief will be restricted to donations to charities which are registered with HMRC and it is likely that charities will be required to produce a certificate to confirm eligibility for the relief. More details and guidance will be published in due course.

Charity compliance

There have been extensive discussions since the last budget about the expressed intention to improve charity compliance. This budget confirms what we already knew which is that there will be new legislation to strengthen the charity tax rules on tainted donations, approved investments and non-charitable expenditure. These changes will take effect from 6 April 2026.
We have covered these points throughout the year in our newsletters.

Inheritance tax changes

In line with other taxes, IHT charity exemption will be restricted to gifts made directly to UK charities and community amateur sports clubs. Gifts to trusts which do not meet the required charity or club definition will not be exempted as they may not have UK jurisdiction or be regulated. This change does not affect the separate IHT regime for property held in trusts. We will be speaking to HMRC over the next few months to understand the finer details of this and explore any unintended consequences.

VAT treatment of land intended for social housing

Our members who are involved in providing social housing will be pleased to see that the Government is looking at ways of incentivising the development of land for such uses. Hopefully this will remove much of the complexity which currently exists in this area. If you operate in this sector, please make sure that your views are heard when the consultation is published.

Search and rescue vehicles

A change which will affect some of charity members is that from April 2027 the Government intends to introduce an exemption from vehicle excise duty for search and rescue vehicles. Inevitably this will require a consultation with stakeholders to ensure that the scheme is workable without giving rise to opportunities to avoid tax.

National living wage (NLW)
The budget announced included a proposal to increase the NLW to £12.71 per hour from April 2026, with a higher percentage increases for younger people. This is really good news for those affected and will hopefully lift more people out of poverty. However, as we noted last year, at the same time, this will increase pressure on many charity budgets as unlike businesses, there is usually little scope to pass on additional costs to customers. The increase in NLW will also exclude more employees from participating in salary sacrifice arrangements and increase the tax risks associated with them.

Pension salary sacrifice
The value of salary sacrifice schemes for pensions which can benefit from national insurance relief is being capped at £2,000 per year from April 2029. This measure will increase the cost of employment, and as with the increases in NLW, will put further pressure on charity budgets.

Corporation tax penalties
The current corporation tax return filing penalties were set back in 1998 and have become victims of fiscal drag. The government will now double the current rate of penalties from April 2026. The initial penalty for a first late return is now £200, increasing to £2,000 after three successive failures and where the return is more than 3 months late.

End of homeworking relief but a welcome easement for reimbursement of some costs
Whilst the Government has removed the homeworking allowance deduction of £6 a week unless reimbursed by the employer, this is matched by a welcome easement whereby employers can now reimburse their employees for items which are already tax free where provided directly by an employer. This wider relief covers eye tests, flu vaccines, and home working equipment which is often essential to meet health and safety requirements. Both changes take effect from April 2026.

We hope that this summary of the main tax points is useful. If you have any comments or technical points you would like to raise, please e-mail expert@charitytaxgroup.org.uk

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