charity tax group

Charity Tax Group
Budget Submission 2017

22 September 2017

The Charity Tax Group (CTG) has over 500 members of all sizes representing all types of charitable activity. It was set up in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue.

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1. CTG's overall aim is to seek improvements to the tax system that would result in a simpler and fairer tax system for charities and it is glad to support Government steps that move in this direction. CTG would welcome the opportunity to discuss the issues raised in this submission with the Exchequer Secretary to the Treasury and with officials.

VAT

2. Charities continue to face structural distortions from the VAT system that result in charities paying at least £1.5bn a year in irrecoverable VAT. Many charities have taken over, or are willing to take over, the delivery of public services outsourced by governmental bodies, often because they are best placed to do so. However, the current system creates a disincentive to this outsourcing because the charity's charge to the public body will include the charity's irrecoverable VAT thereby increasing the public body's costs by 20%. We urge the Government to consider a wider strategic review of the VAT system to consider what additional support could be provided to charities to enable them to be as effective as possible (both in cost and quality terms) when delivering such services. As an interim step, we have welcomed the targeted help that has been given to specific types of charity through s33 refunds and argue that these could be extended successfully in other areas.

3. Another helpful step would be for the Government to take forward a number of the recommendations in the Office of Tax Simplification's Review of VAT. CTG welcomes many of the recommendations in the Review as a way of addressing long-standing structural obstacles facing charities in the VAT system, be that through the introduction of a special refund scheme for charities in relation to their non-business activities, or by extending the existing reduced and zero rates on supplies to charities to cover *all* supplies to charities. Our response to the Review commented on the specific technical and practical questions raised, on topics including partial exemption, the VAT registration threshold, guidance and penalties, as well as the scope of existing reduced and zero rates and there are several proposals that we would welcome the Government implementing.

4. One major point of concern has been that VAT legislation has not kept pace with emerging case law and commercial and technological developments. Separately, we have been told that there have been resource issues within HMRC which have affected the department's ability to update guidance; we therefore support plans to outsource to professional bodies responsibility for identifying and providing updates which could then be reviewed and approved by HMRC.

5. Recurring concerns for the charity sector are:

    a) ***Grants and contracts:*** CTG has been working with HMRC officials for several years to improve the guidance on the VAT treatment of grants and contracts, the issue of most concern to those calling CTG's technical helpline.

b) ***Sponsorship:*** This also causes considerable confusion owing to the lack of clarity in the guidance. Again, this is an issue on which CTG has been working with HMRC for several years.

c) ***Updates in response to emerging case law:*** CTG urges the Government to ensure that there is prompt action when a new interpretation of the law emerges, eg: Sveda and Longridge.

How the Government can help:

- **By working with the sector to identify the implications of the modernisation of charity operations and innovations that may not have been envisaged by the original scope of reduced rates and exemptions, such as those relating to supplies of advertising.**

- **By actively listening to the charity sector during Brexit negotiations, particularly in relation to the future operation of the VAT system.**

- **By liaising closely with key sector representative bodies when there is an emerging charity VAT issue, to ensure clear and official guidance and advice is promulgated, avoiding uncertainty and confusion.**

- **By allocating sufficient resources to ensure key VAT guidance notes are reviewed and updated promptly.**

Making Tax Digital

6. CTG has welcomed the Government's announcement that, in recognition of the extra burden this would create, the new Making Tax Digital (MTD) reporting requirements will not be mandatory for charities. There has, however, been no similar exemption for the trading subsidiaries of charities which means that a charity will have to operate two systems thereby undermining the proposed exemption. We request, therefore, the extension of the exemption to those wholly-owned trading subsidiaries that are members of a charity's VAT group. This would be consistent with the concept that group members are regarded as a single tax payer.

How the Government can help:

- **By extending the exemption to wholly-owned charity trading subsidiaries that are members of a charity's VAT group.**

Gift Aid

7. CTG is pleased that HMRC has established a working group on Gift Aid donor benefits under the auspices of the Charity Tax Forum. We hope that this group will address some long-standing issues in relation to the donor benefit rules, including the correct operation of the "in consequence" rule, the valuation of benefits and split payments mechanism. We urge the Government to ensure that it has sufficient resources to conclude its work as quickly as possible.

   How the Government can help:

   - **By establishment clear timelines and objectives for all its Gift Aid working groups to ensure that they are effective, for instance by increasing eligible Gift Aid and ensuring compatibility with new technology and other innovations.**

   - **By accepting the additions to the guidance proposed by CTG in respect of Gift Aid and fundraising materials.**

   - **By publishing its response to the Gift Aid donor benefits review, to provide clarity on the relevant thresholds, definition of the "in consequence" rule and the process for appropriately valuing benefits.**

   - **By ensuring that no unilateral changes are made to policy following reviews by campaigning bodies, which are often slanted and ignore the whole picture. In particular, we encourage the government not to tamper with upper rate tax relief without the fullest consultation with CTG and bodies with experience of philanthropic situations.**

Cumulative financial and administration burden of charity taxation

8. We recognise that charities benefit from generous tax reliefs but our members frequently comment that they feel that these reliefs are under pressure and subject to constant review. Our members also support the calls for new reliefs that support the sector when funding from traditional sources is strained, despite demand increasing.

9. A further point of concern is the cost of compliance with a tax regime that has not been developed with charities in mind. Many of the steps taken to stimulate the economy, such as corporation tax cuts, provide no direct benefit to charities – notwithstanding the increasing contribution made by

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the sector to the economy, largely through the delivery of services - but yet they are often caught by increasing compliance requirements.

10. Previous research by the charity sector highlighted the size of this compliance burden yet successive Governments have been slow to address the problem. This is a cause for concern since it suggests that some charities are having to devote a disproportionately high level of their resources to compliance: resources which might be better devoted directly to their charitable activities.

11. The administrative costs (both in terms of time and financial resources) involved in complying with new reporting requirements often requires investment in new IT infrastructure, training and professional advice, the cost of which can sometimes undermine the benefit (where relevant) of the tax relief/scheme in question. Recent examples of this are the Apprenticeship Levy, Common Reporting Standard, filing of charity subsidiary trading accounts and, for the largest charities, the requirement to publish an annual tax strategy.

How the Government can help:

- **By establishing the proposed HMRC Charity Tax Forum working group on the cumulative financial burden of charity taxation and requiring it to report quickly on the issue and ensuring that the direct and indirect costs for charities are taken into account when compiling Impact Assessments.**

- **By providing, where possible, free tax-reporting tools for charities.**

- **By committing to protect 80% mandatory business rates relief in England.**

- **By committing to protecting the Employer Provided Living Accommodation exemption, which is so beneficial to many charities, such as churches, hospitals, higher education establishments and heritage buildings where accommodation is provided for the better performance of the duties of those employees who are provided with accommodation.**

- **By committing to a review of the current Insurance Premium Tax (IPT) burden faced by charities to assess whether a total or targeted exemption or a reduced rate would be achievable where the insurance is required to cover activities or premises that directly relate to a charity's objects.**

- **By making clear in its response to the Community Infrastructure Levy (CIL) Review that a charity exemption will continue to be included if any successor tariff is introduced.**

- **By considering the extension of eligibility for the Apprenticeship Levy to volunteer expenses, as well as to staff salaries and expenses.**

- **By considering ways in which tax relief and other financial support can help to drive valuable Research and Development (R&D) work by research charities.**

- **By reviewing the effectiveness and necessity of anti-avoidance legislation affecting charities (particularly Common Reporting Standard requirements) and considering whether measures should be more targeted and, where appropriate, exclude charities.**

CTG
September 2017