Charity Tax Group
Budget Submission 2018

28 September 2018

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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While all efforts are made by the Charity Tax Group to give assistance to its members, it is not qualified to give technical advice on fiscal matters and cannot therefore be liable in any way for any such advice given.

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. In this response we encourage the Government to:

    - Continue to consult the charity sector before **Making Tax Digital for VAT** is introduced in April 2019 and if necessary, consider an **extension of the "soft landing" period**.
    - Facilitate discussions between charities and fundraising platforms about improving the **transparency and equity of fees when Gift Aid is claimed on donations collected by intermediaries**, particularly in relation to emergency and disaster appeals.
    - Clarify as soon possible that **VAT zero rating** is applicable to **online charity advertising**.
    - Commit to a **strategic review of the future VAT system** with the aim of reducing the irrecoverable VAT charities currently incur.
    - **Increase the non-primary purpose trading limit** (miscellaneous income) from £50k per annum to £100k per annum.
    - **Increase the value of eligible donations** under the **Gift Aid Small Donations Scheme (GASDS)** to **£30**, in line with the contactless donation limit.
    - **Introduce a *de minimis* limit** so that charities do not have to contact donors when they are claiming very small sums under the **retail Gift Aid scheme**, making significant administrative savings and in line with feedback from donors.
    - Consider **tax credits** to stimulate the **funding of bio-medical research** by charities, similar to those provided to investor owned research companies.
    - Commit resources and investment to **improve VAT guidance** and consider **extending the opening hours of the HMRC Charity helpline**.
    - **Review the current Insurance Premium Tax (IPT) burden faced by charities** and consider total or targeted relief where the insurance is required to cover activities or premises that directly relate to a charity's objects.
    - Commit to **introducing Living Legacies** to allow donors to give significant tax effective gifts during their lifetime.
    - Confirm that the **charity exemption from the Community Infrastructure Levy** will be maintained and that an equivalent exemption will apply to any successor tariff.
    - Allow **Apprenticeship Levy funds** to be used towards the costs of **training volunteers.**
    - Commit to automatically **excluding charities** from any **anti-avoidance legislation** where it is clear they have no tax avoidance motive.

2. In support of these proposals we outlined additional background information below. CTG would welcome the opportunity to discuss the issues raised in this submission with the Exchequer Secretary to the Treasury and with officials.

Intermediaries fees

3. CTG is aware of the Minister's concerns about the transparency of fees relating to donations, including Gift Aid, collected by fundraising platforms. Following discussions with officials and the Minister on this point, we encourage the Government to facilitate discussions between charities and fundraising platforms about improving the transparency and equity of fees when Gift Aid is claimed on donations collected by intermediaries, particularly in relation to emergency and disaster appeals.

Making Tax Digital

4. From 1 April 2019, all VAT registered businesses (including charities) with a taxable turnover above the VAT threshold (£85,000) are required to keep their VAT business records digitally and send their VAT returns using Making Tax Digital (MTD) compatible software. The recent publication of a detailed VAT Notice has been helpful, as has the confirmation of a list of approved software suppliers, given that it will be necessary for charities to use a third-party solution.

5. However, with only six months to go until the introduction of MTD there is serious concern about the lack of awareness and readiness among VAT registered organisations. There are still likely to be a significant number of affected charities that will not find it easy to comply with the new reporting requirements in time or will need to find a temporary half-way solution before a fully functioning software package becomes available and can be incorporated with existing accountancy software. It is important that HMRC continues to consult the charity sector and dedicated resources to raising awareness and providing additional guidance targeted at charities. If necessary, the Government should also consider an extension of the 12 month "soft landing" period. Where charities are late in implementing MTD requirements, or do so incorrectly, HMRC should confirm that there will be no penalties where it can be demonstrated that they were acting in "good faith".

6. We also encourage HMRC officials to ensure that charities are consulted fully before any steps are taken to extend to MTD to other taxes.

VAT

Advertising

7. CTG has become aware of a challenge by HMRC to the applicability of the VAT zero rating for advertising on third party platforms, particularly via social media. CTG has provided HMRC officials with an opinion from counsel that suggests that current legislation allows the continued VAT zero rating of online advertising (subject to certain restrictions). We are grateful to officials for agreeing to review this position and hope they will provide clarity promptly as the uncertainty is having a material effect on charities planning online adverts for their Christmas fundraising appeals.

8. If HMRC does not believe that the legislation enables zero-rating of advertising to continue when applied to modern online platforms, the Government needs to give urgent consideration to changing the legislation to reflect the reality of modern-day fundraising practices, or risk diluting the existing relief.

VAT reform post-Brexit

9. The Government should take this opportunity to perform 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. CTG has proposed the introduction of a special refund scheme for charities in relation to their non-business activities, or the extension of existing reduced and zero rates on supplies to charities to cover all supplies to charities.

10. The European Commission has announced proposals to change the application of VAT rates, to make them fit for purpose, which, if progressed, will provide Member States with far greater flexibility in terms of introducing new reduced and super reduced (which can include zero) VAT rates. In the UK, the Office of Tax Simplification (OTS) has called for a similar review of VAT rates and we believe that the Government should progress this in consultation with charities and other sectors.

11. In the meantime, CTG would encourage the Government to introduce additional targeted refund schemes to those included in Section 33 of the VAT Act. Removal of the irrecoverable VAT burden would provide an important income boost for affected charities, decreasing their reliance on state funding and increasing their capacity to provide vital public services, resulting in a wider economic benefit for society.

VAT guidance and the Charities helpline

12. CTG welcomed the publication of updated VAT guidance on grants, but further clarifications are needed to make it more practical for a charity audience and to clarify specific arrangements relating to DfID and other governmental funding. HMRC officials stated at a meeting of the Charity Tax Forum that they were open to this review process and we would appreciate further details on the scope of the exercise and relevant timelines. HMRC has also promised an updated guidance note on VAT and sponsorship arrangements and we would encourage this to be prioritised and for there to be further consultation with CTG and other sector bodies before it is published.

13. The HMRC Charities helpline is an important resource, particularly for smaller charities, but, at present, it is only available during the working week and in work hours. Extending the opening hours slightly to include an evening or Saturday morning would really help volunteer trustees to access this important resource.

Gift Aid and other giving incentives

Gift Aid Small Donations Scheme (GASDS)

12. CTG has always been supportive of GASDS given that it represents new money for the sector and allows charities to maximise the value of gifts where it is not easy to get a donor to sign a Gift Aid Declaration. Unfortunately, the take-up of GASDS has been lower than was originally hoped and the general feedback from our members is that GASDS is unnecessarily complex, particularly for the level of relief available. The recent relaxation of the eligibility requirements, clarification of the community buildings rules and extension to contactless payments are all welcome, and we hope that these changes will help to widen accessibility to GASDS, particularly among smaller charities.

13. However, we encourage the Government to continue to review the effectiveness of these changes and consider further reforms, if there is no significant additional take-up. Increasing the eligible donation to £30, in line with the contactless limit, would be an obvious next step that should increase the attractiveness and practicality of GASDS.

Retail Gift Aid

14. Many charity shops are required to contact their supporters after the end of the tax year to let them know how much their goods have sold for before Gift Aid can be claimed. The reason for this is to ensure that the supporter has paid sufficient tax to support that claim. Contacting supporters is an expensive process in terms of time or money and charities have received negative feedback from donors about them "wasting charity resources" by sending letters about claims for a trivial sum.

15. CTG would like to see a *de minimis* limit of at least £10 applied to this requirement and we are in advanced discussions with the Charity Retail Association and HMRC. Given that the next round of end-of-tax year letters will be sent at the end of May 2019 action needs to be taken in the next few months if this is to make a difference to charities before 2020.

Living Legacies

16. CTG is supportive of the Living Legacies proposals which call for changes to the tax system to encourage and incentivise donors to make substantial tax-effective gifts of assets and cash to charity during their lifetime. CTG plays a leading role in the steering group proposing the introduction of Living Legacies and endorses the detailed Budget submission made by Philanthropy Impact to this effect.

Other tax issues

Miscellaneous trading limit and future of trading subsidiaries

17. Charities are exempt from tax on non-primary purpose trading where turnover is less than £50k per annum. If a charity expects its non-primary purpose trading to exceed this amount, it normally sets up a trading subsidiary, although this does incur additional administrative costs. The £50k limit has not been increased in nearly twenty years and we recommend that this is increased to £100k in the first instance and then reviewed on a periodic basis to ensure it remains appropriate.

18. Given the administrative costs of operating a trading subsidiary we would encourage the Government to review whether there is a need for trading subsidiaries at all where the activity exclusively supports the charity. If trading subsidiaries are retained, the Government should consider an extension of the mandatory business rates relief for the charities to wholly-owned charity trading subsidiary companies which donate all their profits to the charity (which could borrow the definition from the VAT legislation on donated goods - "profits to charity person").

Tax incentives to stimulate R&D by charities

19. The Research and Development Credit (RDEC) was introduced in 2013 but, since then, the legislation has been amended so that universities and charities are unable to claim it. The Government has stated that the rationale for withdrawing the relief is that charities and universities were never the intended recipients of RDEC and that, in the case of universities, equivalent funding is already provided through HEFCE. Investor owned research companies obtain tax credits, but charities receive no such funding. Introducing a new tax credit for charities would provide a major stimulus to R&D in medical research in the UK thereby helping to meet the Government's stated objectives as part of the Industrial Strategy. We believe that there are other imaginative tax measures that the Government could introduce to stimulate the funding of bio-medical research by charities.

Insurance Premium Tax (IPT)

20. In June 2017, IPT increased from 10% to 12%, more than double the rate it was in 2010. While IPT is a tax on insurers, providers invariably pass on these costs and as charities do not benefit from an exemption they have been affected by the recent increases. IPT has a disproportionate impact on charities (especially those with substantial operational buildings – such as charities that provide activities in their buildings – and extensive transport and travel commitments) and we have serious concerns about rumours that IPT may eventually be increased to 20%, in line with VAT. IPT costs weigh particularly heavily on some of the smallest charities – Village Halls, Community Associations and small church congregations, for example – as the insurance related to maintaining their buildings

responsibly is a significant cost.

21. We would encourage the Government to review the current 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.

Community Infrastructure Levy (CIL)

22. Mandatory charitable relief is available where the development is to be used wholly or mainly for a charitable purpose. An independent review in 2017 recommended that the Government replace CIL with a system including "no or very few exemptions", but encouragingly the Government decided not to replace the CIL regime but instead to give Local Planning Authorities (LPAs) more flexibility in their approach to CIL. However, there is wider pressure for reform of CIL and review of the exemption (most recently expressed by the Commons Housing, Communities and Local Government Committee Inquiry on Land Value Capture). CTG calls on the Government to confirm that the charity exemption is protected and/or that an equivalent exemption will apply to any successor tariff.

Apprenticeship Levy

23. CTG supports the Government's drive to improve productivity by increasing the number of apprentices in the workplace, but we have serious concerns about the extent to which the Apprenticeship Levy, in its current form, can be utilised for training the charity workforce. Many charities do not currently employ apprentices and, in some cases, doing so on a sufficient scale to utilise the levy fully would be neither realistic nor appropriate. On the other hand, volunteers are the lifeblood of the charity sector and, in many charities, they outnumber paid staff by a considerable margin. Volunteers provide a very effective and productive workforce and, without them, many charities would find it difficult to operate as effectively as they do.

24. A year and a half after the introduction of the Apprenticeship Levy, statistics indicate that the number of new apprentices starting employment has actually fallen, rather than increased, since the levy was introduced. The charity sector has campaigned from the outset for use of the levy to be widened to include training of volunteers. CTG would encourage the Government to support this proposal, to both enable charities to utilise the levy to train a high proportion of their workforce, plus supporting the provision of key skills to a cohort of future employees within the UK. Otherwise many charities will find it is simply not practical to use and a further cost to fund.

charity **tax** *group*

Prospective anti-avoidance legislation

25. CTG is supportive of Government efforts to stop charities being used as vehicles for fraud and tax avoidance, but has stressed the need for proportionate and targeted legislation that will not inadvertently catch innocent donors or charities. Charities often take a very cautious approach and will invest significant resources in compliance, when in practice this may not be necessary or proportionate. Where appropriate CTG seeks charity exemptions or dispensations from legislation that was never intended to affect charities, but often this has been after the legislation has been mooted or implemented, due to a lack of consultation. It would be preferable for charities to be automatically excluded where there is no tax avoidance motive.