charity tax group

Budget 2021 and other tax developments

30 March 2021

Today's panel

- Richard Bray, CTG Chair
- Matthew Whittaker, CEO, Pro Bono Economics
- Richard Wild, Head of the Technical Tax Team, Chartered Institute of Taxation
- Nicola Evans, Charities Counsel, BDB Pitmans LLP
- Graham Elliott, CTG Technical Adviser

The tax landscape

- COVID-19: Significant support available but how will it be paid for in the long-term?
- Treasury Committee report on future of taxation suggests tax increases will be inevitable
- Budget 2021: Chancellor warns of the need for "sustainable public finances"
- Tax Day: Increased focus on digital taxation and increased scrutiny of tax compliance expected
- Brexit: Charities need to navigate new VAT and customs rules as well as changes to state aid rules and funding. But opportunities to review the VAT system?

CTG policy priorities

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- Increased recognition by Government on tax obstacles to charities
- Review of the VAT treatment of charities post-Brexit
- Research into the socio-economic benefits of tax reliefs
- Making Gift Aid fit for purpose for the digital age
- Ensuring that all charity advertising can be zero rated
- Protection of charitable business rates relief
- Improvement of tax guidance

Budget headlines

- **Job Retention Scheme**: Extended by five months until the end of September. Employer contributions will be required from July.
- **Business rates holiday**: Eligible retail, hospitality and leisure properties in England will receive 100% business rates relief from 1 April 2021 to 30 June 2021. 66% relief for the period from 1 July 2021 to 31 March 2022, capped at £2 million per business
- **Restart Grants**: Funding in England of up to £6,000 per premises for charity shops and £18,000 per premises for hospitality, accommodation and leisure businesses (including scout huts, attractions, museums, galleries, village halls etc)*

[*Business grant allowances significantly increased on 4 March]

Budget headlines

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- **VAT reduction for the UK's tourism and hospitality sector:** Extension of the temporary reduced rate of 5% VAT until 30 September 2021. A 12.5% rate will apply for the subsequent six months until 31 March 2022.
- **Funding**: Support for charities supporting veterans on mental health issues and victims of domestic abuse, as well as zoos. Plus Community Ownership and Levelling Up funds.
- **Recovery Loan Scheme:** a new guarantee for lenders of 80% on eligible loans between £25,000 and £10 million.
- **VAT deferral**: Reannouncement of the new scheme to stagger repayments of deferred VAT.

Budget headlines

- **Income Tax and NICs:** The income tax Personal Allowance and income tax HRT will rise as planned from April 2021 and will remain at this level until April 2026. The same will apply to NICs thresholds.
- **VAT registration threshold**: Will be frozen at £85,000 until 2024.
- **R&D tax reliefs** – The government will carry out a review of R&D tax reliefs, with a consultation published alongside the Budget
- **Investment in HMRC resources and digital capacity:** This could have implications for MTD and the digitalisation of business rates and Gift Aid.
- **Social Investment Tax Relief**: Extended until April 2023.

Budget – CTG response (3 March)

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- Recognise the focus on COVID recovery in this Budget, but lack of targeted support for the charity sector is very disappointing.
- Important that the vital role of charities is not forgotten and proactive steps are taken to improve the fiscal environment they operate in.
- Job Retention Scheme, Business Rates holiday and Restart Grants helpful (subject to state aid) but clarity on future of business rates relief is the major priority
- Extension of the temporary reduced VAT rate will be helpful to certain charities. Post-Brexit a fundamental review of VAT is needed
- Investment in HMRC digital systems crucial to a Gift Aid system fit for the future

First "Tax Day" on 23 March

- Simplification of partial exemption and the Capital Goods Scheme (Consultation response)
- HM Treasury Review of the Office of Tax Simplification (Terms of Reference)
- Raising standards in the tax market (Proposals)
- HM Treasury fundamental review of business rates (interim report)

PLUS

- HMRC Brief: partially exempt VAT registered businesses affected by coronavirus

Charitable rate relief

- Interim response published – charity sector response was crucial
- *2.32 The **Charities sector called for continuation of charitable rate relief, including the 80% mandatory rate, on the grounds that this is simple, effective, and easy to apply**. These respondents were opposed to introducing further differentiation between charities and suggested increasing funding to Local Authorities for the 20% discretionary component.*
- *2.33 Other respondents provided reflections on charitable rate relief. Several felt that this can have a distortive effect on high street rents, creating a disadvantage for other tenants, and may deter landlords from investing in redevelopment. Others disagreed, suggesting that charities typically occupy properties in low demand. Others were supportive of the continuation of the relief, but expressed the view that all tenants should pay something, rather than allowing zero rates in certain cases*

Opportunities for engagement/key dates

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- BEIS consultation on subsidy control (31 March)
- OTS review of third party data (9 April)
- Law Family Commission on Civil Society (10 May)
- Passage of the Finance Bill (Spring) and Queen's Speech (11 May)
- R&D Tax Reliefs consultation (9 June)
- Response to Fundamental Review of Business Rates (Autumn)
- Gift Aid Awareness Day (7 October)
- Spending Review and next Budget (late 2021/early 2022)

PRO BONO ECONOMICS

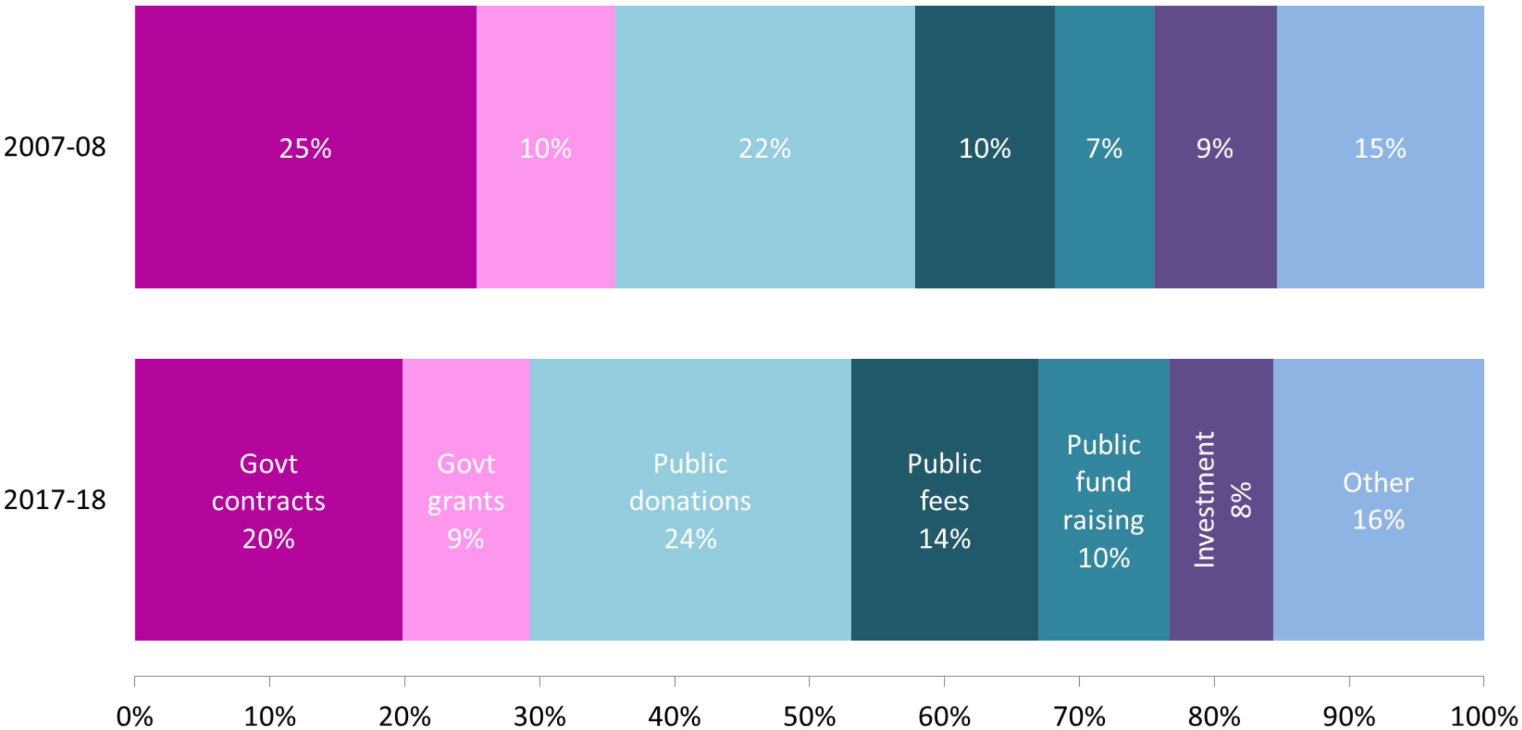
March 2021

On a tight budget: charity funds in 2021

Charity Tax Group Budget 2021 webinar

Charity income prospects rest on a much changed composition

Composition of charity income (by source & type): *UK*



Notes: 'Public donations' mainly charitable donations plus legacies given in people's wills. 'Public fees' is money 'earned' when voluntary organisations provide charitable services. 'Public fund raising' is money 'earned' from trading activity. 'Govt contracts' is services commissioned by the public sector and therefore 'earned', while 'Govt grants' is money given 'voluntarily' to charitable organisations by the public sector. In this context, 'government' relates to government and its agencies in the UK, EU and internationally. 'Investment' covers dividends, interest and rent. Sources: PBE analysis of NCVO, NCVO Almanac 2020

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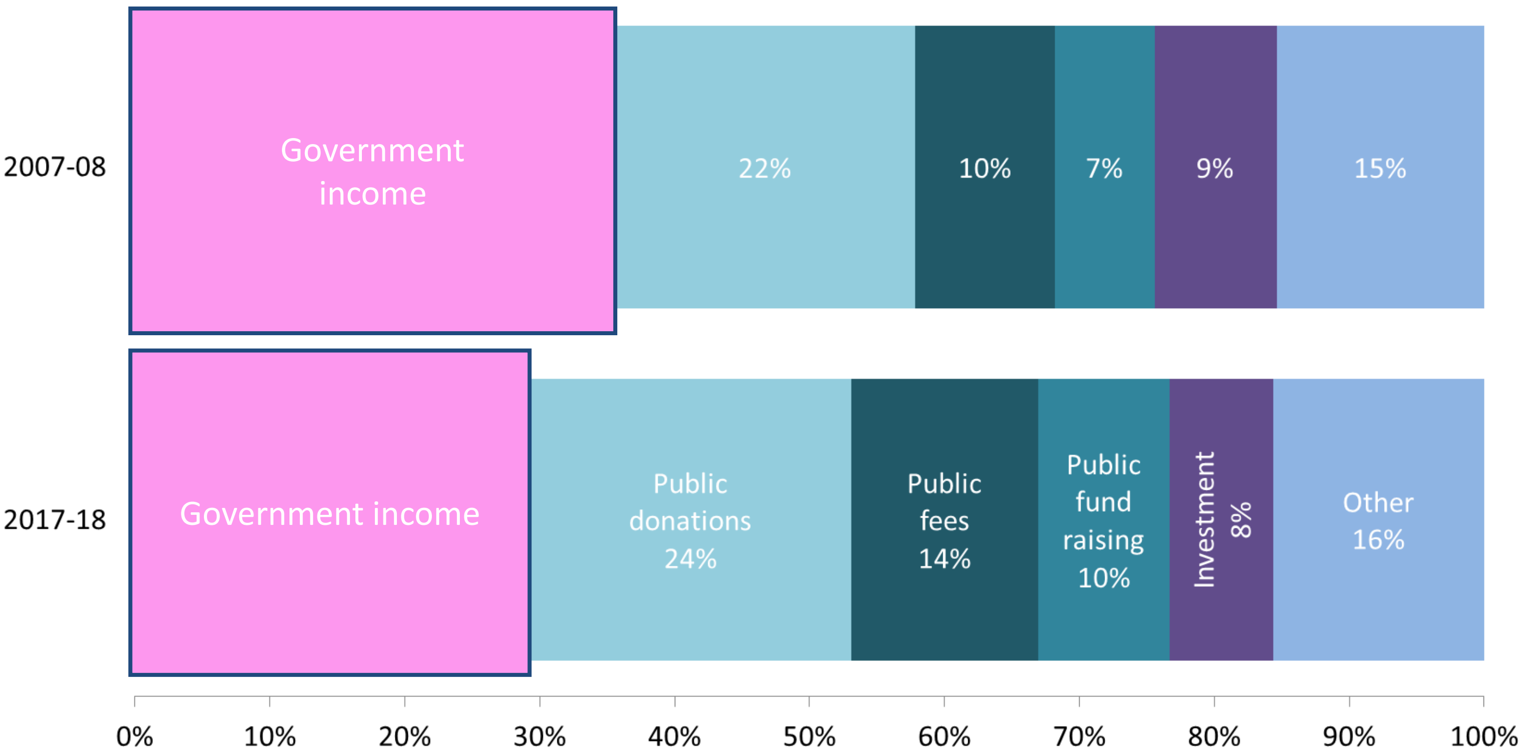

Government has gone from accounting from 36p of every £1 raised, to 29p of every £1

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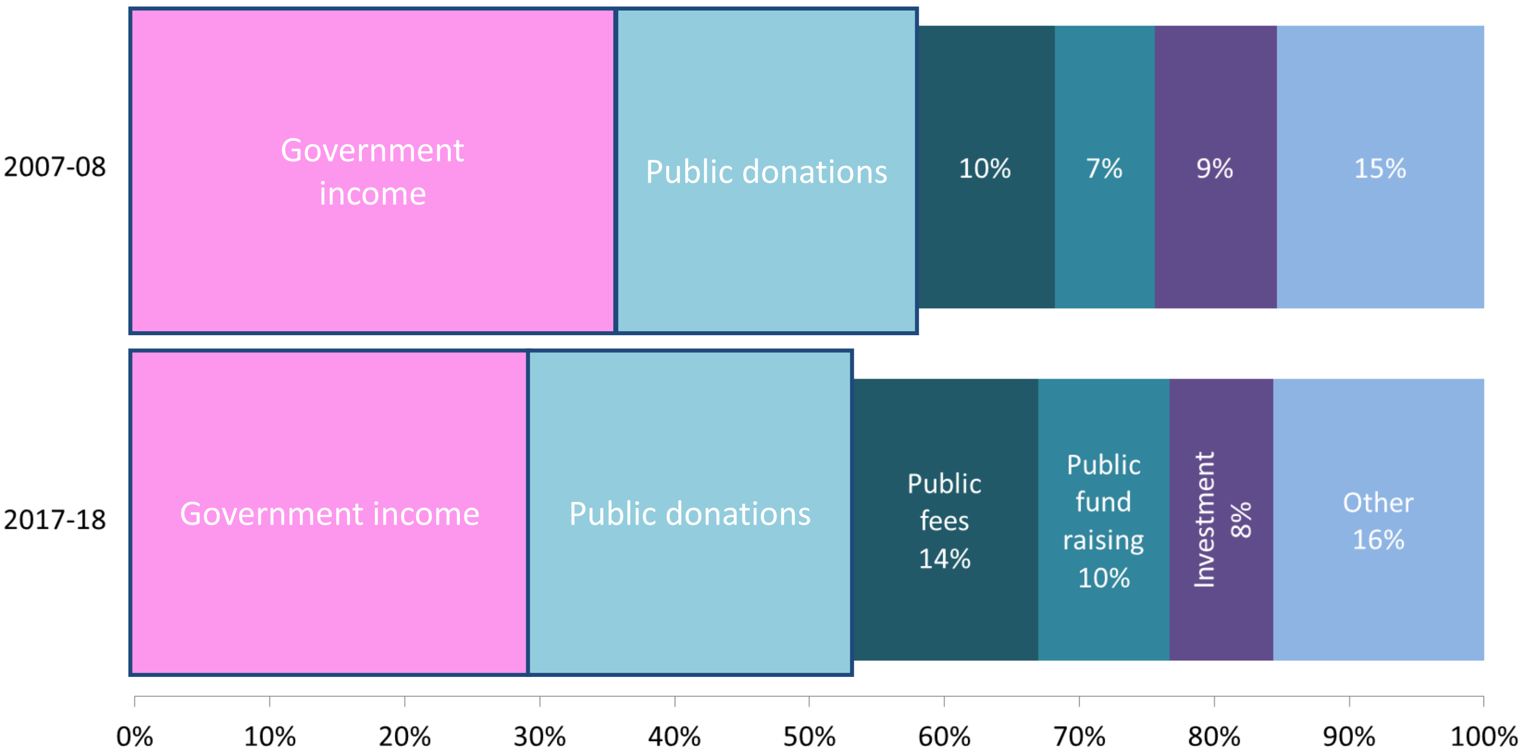

Donations have gone from 22p of every £1 to 24p

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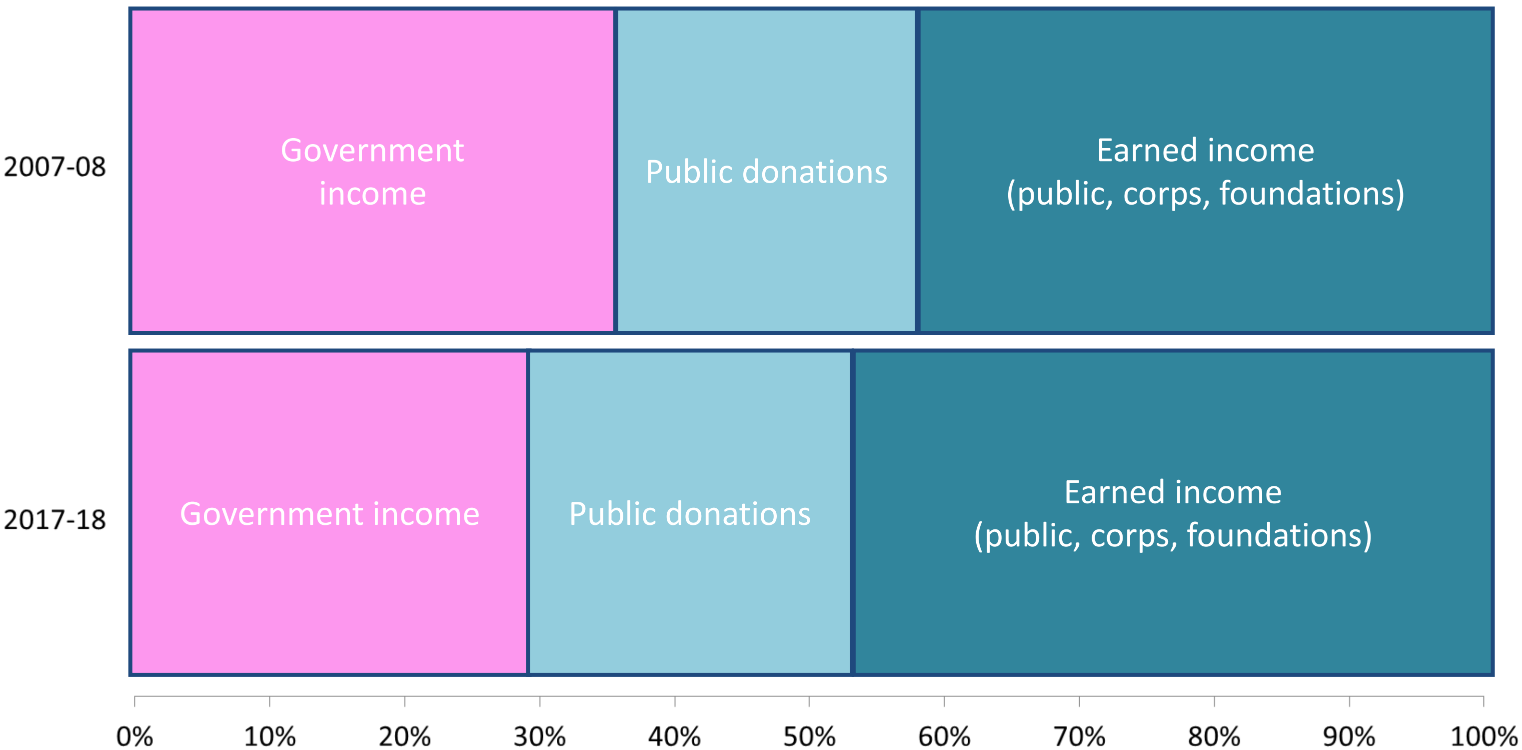

'Earned' income is up from 42p in the £1 to 47p, with the amount coming directly from the public up from 18p to 24p

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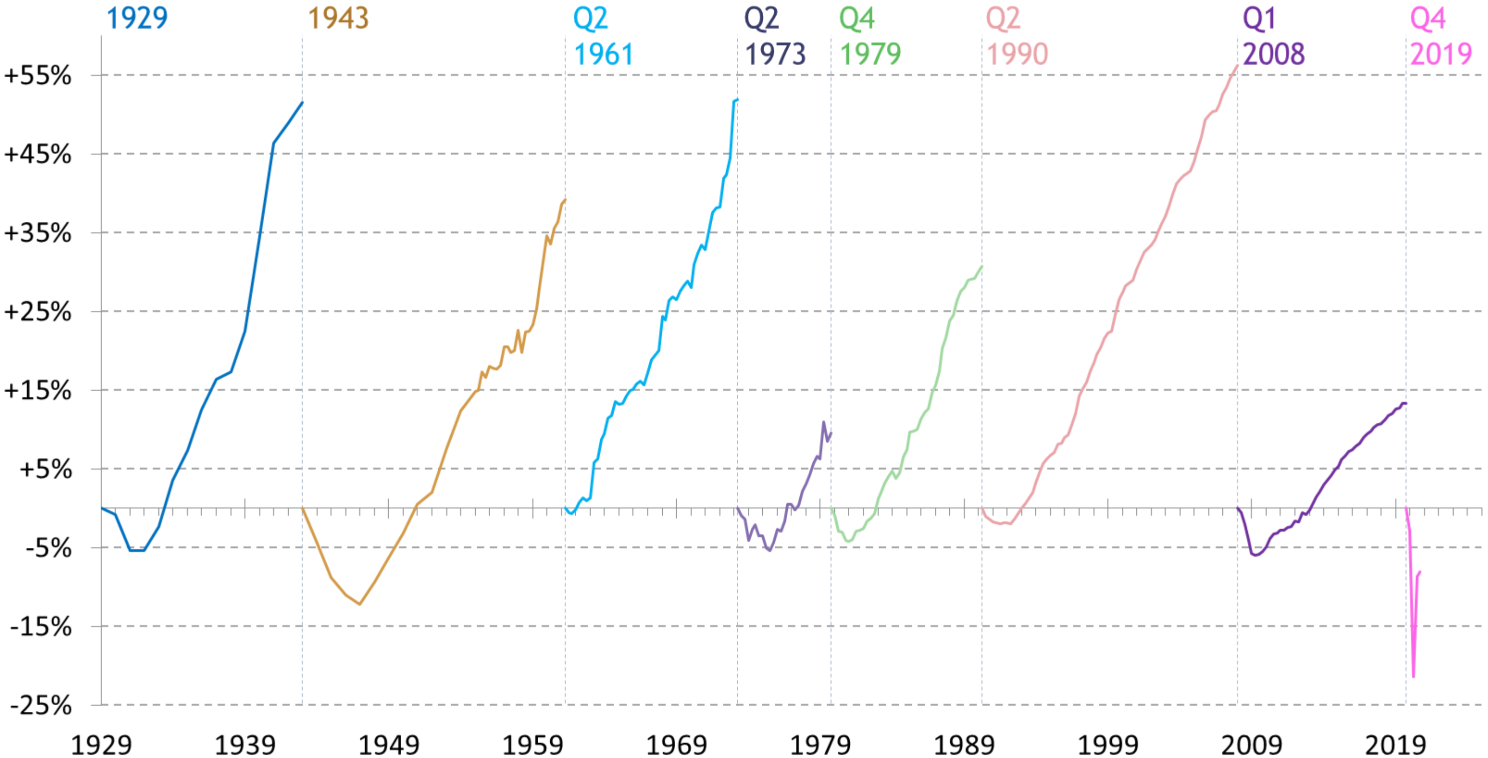
Driver #1: earned income rests on *the economy*

Cumulative growth in real-terms GDP over successive economic cycles: *UK*



Notes: The OBR projection assumes that, upon the conclusion of the current transition period at the end of 2020, the UK moves “in an orderly fashion to a new trading arrangement with the EU”. This is assumed to have an effect broadly consistent with the terms of a conventional free trade agreement. The OBR acknowledges that any reversion to trading with the EU on WTO rules would “pose downside risks to short- and medium-term growth prospects on top of the economic challenges created by the pandemic”. Sources: PBE analysis of ONS, ABMI, Bank of England and OBR, Fiscal Sustainability Report, July 2020

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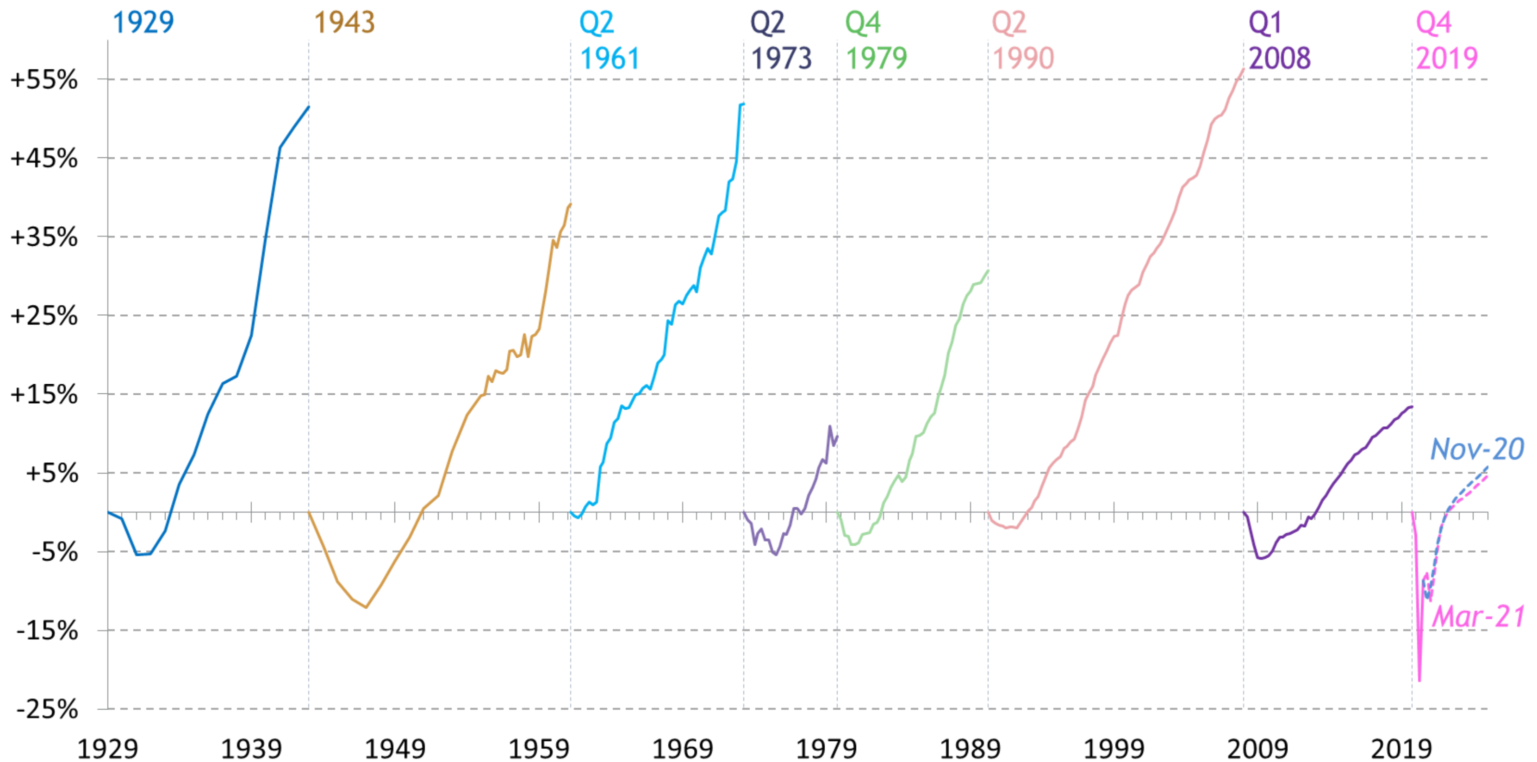

Pretty dramatic perfoermance, but no real change in outlook at March Budget

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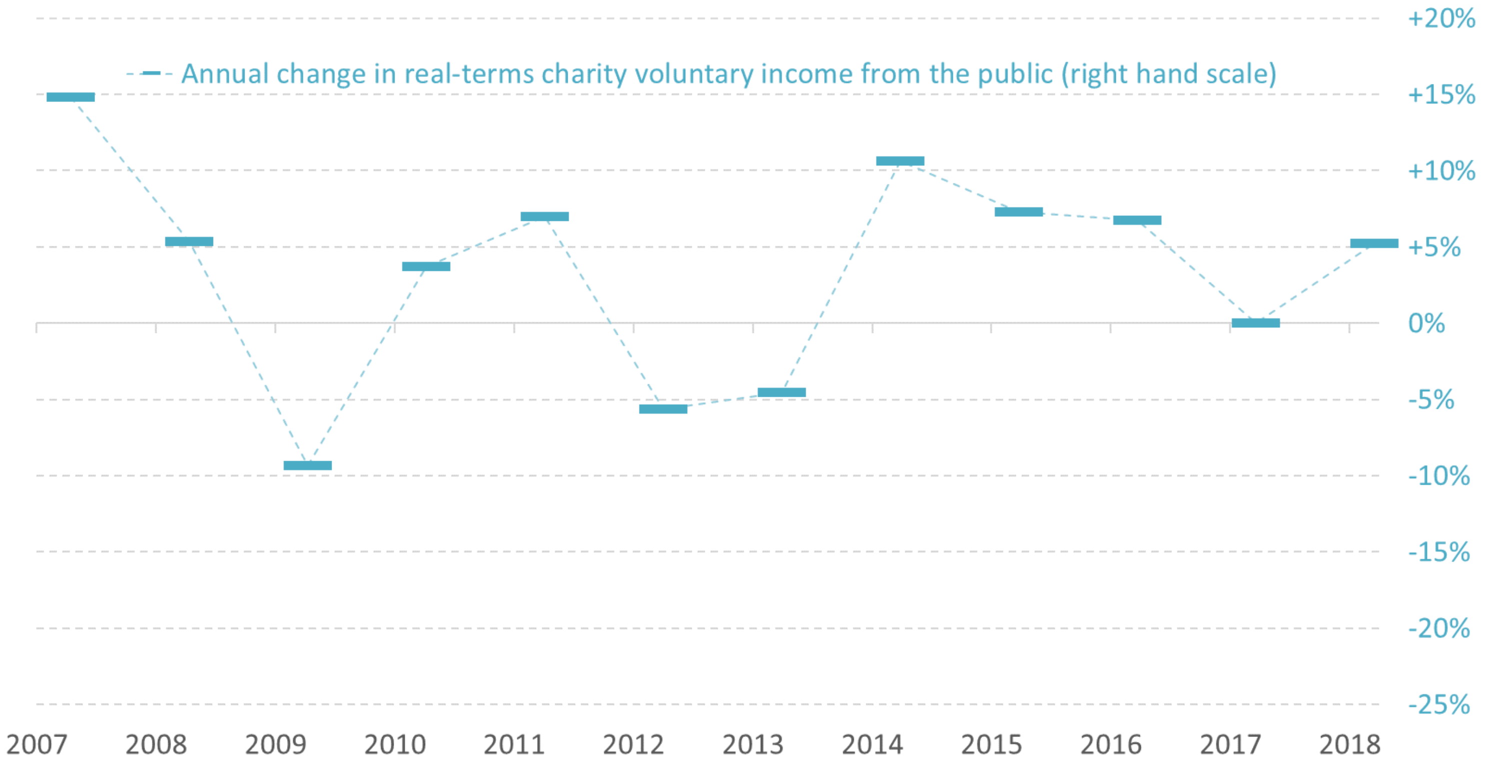
Driver #2: donations rest on *public confidence*

Consumer confidence and year-on-year change in public donations: *UK*



Notes: Consumer confidence measure is the average balance of four questions relating to: personal financial situation over the last 12 months; expectations of personal financial situation in the next 12 months; expectations of general economic condition over the next 12 months; and expectations for making major purchases in the next 12 months. The results show the difference in this average from the long-run average sentiment recorded since 1985. Sources: PBE analysis of European Commission, Business and consumer survey database and NCVO, NCVO Almanac 2020

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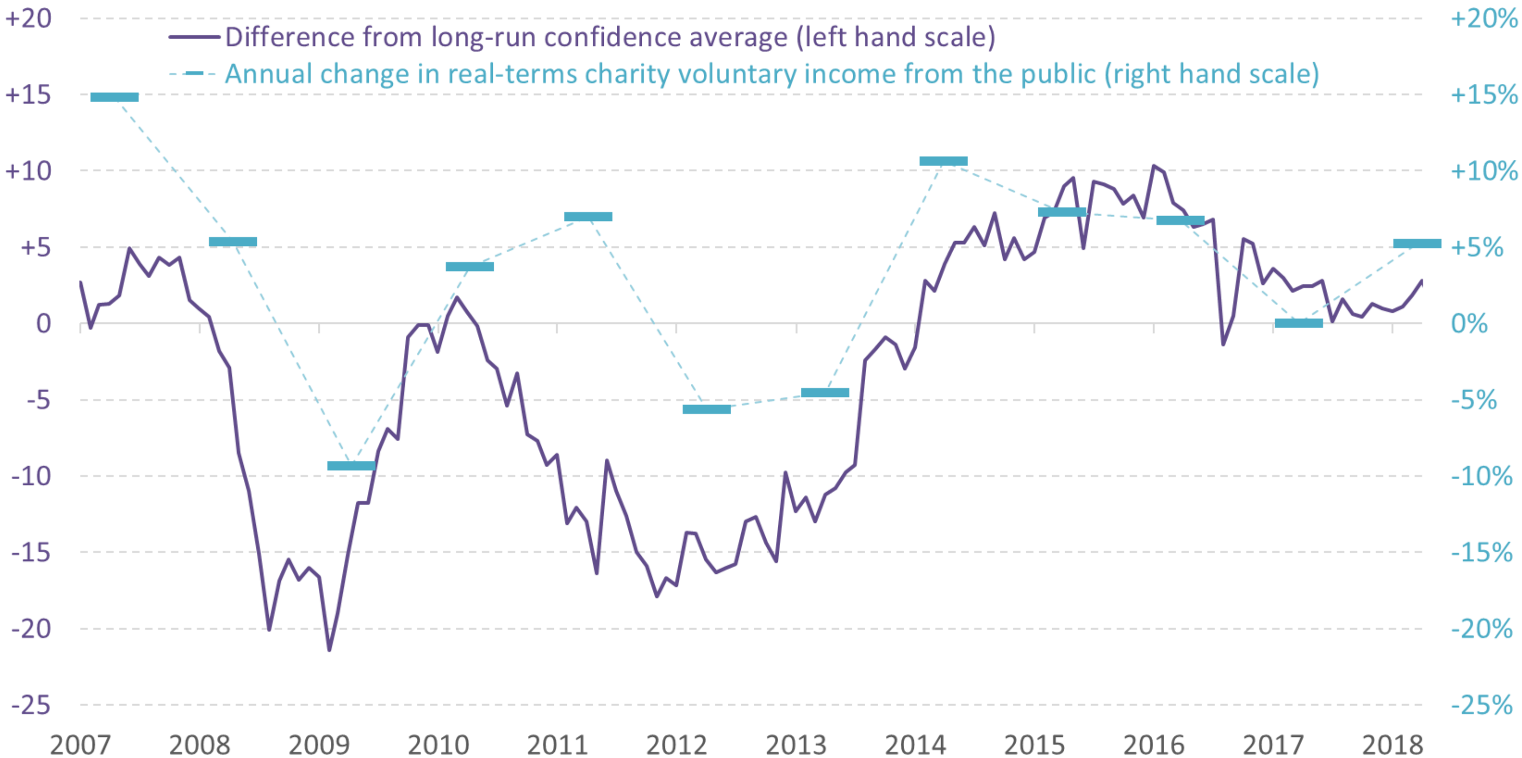

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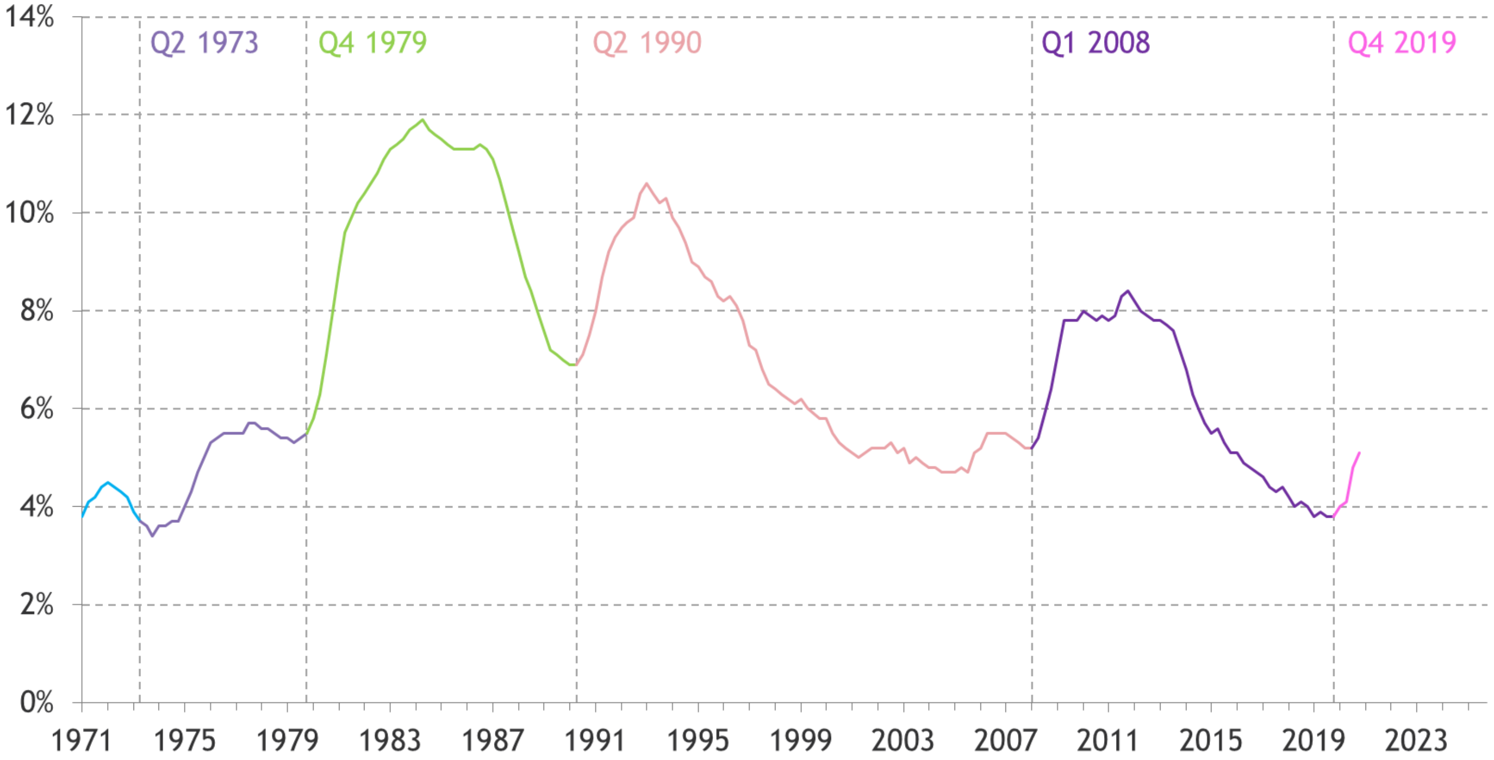
Which in turn owes a lot to trends in unemployment

Unemployment rate (outturn & projection): UK



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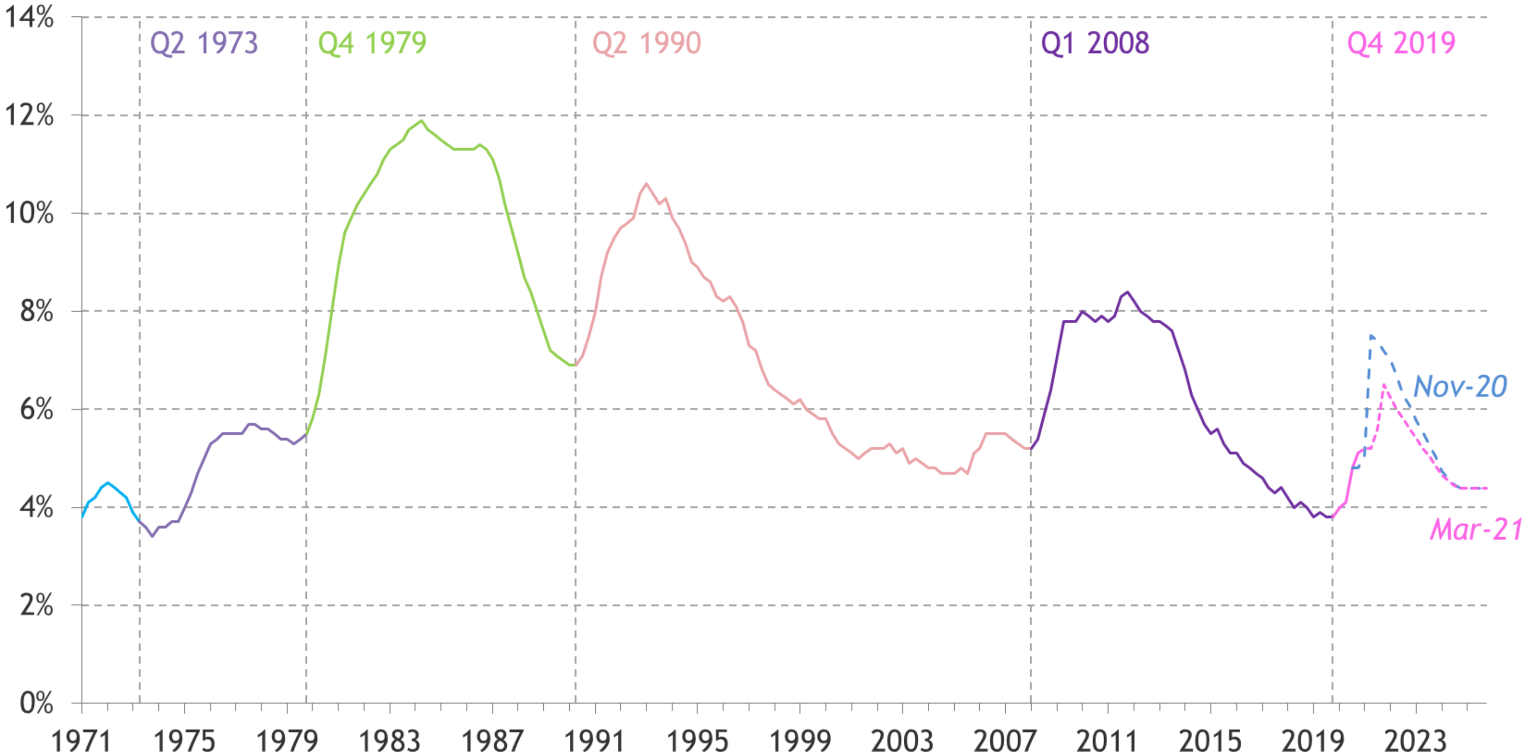
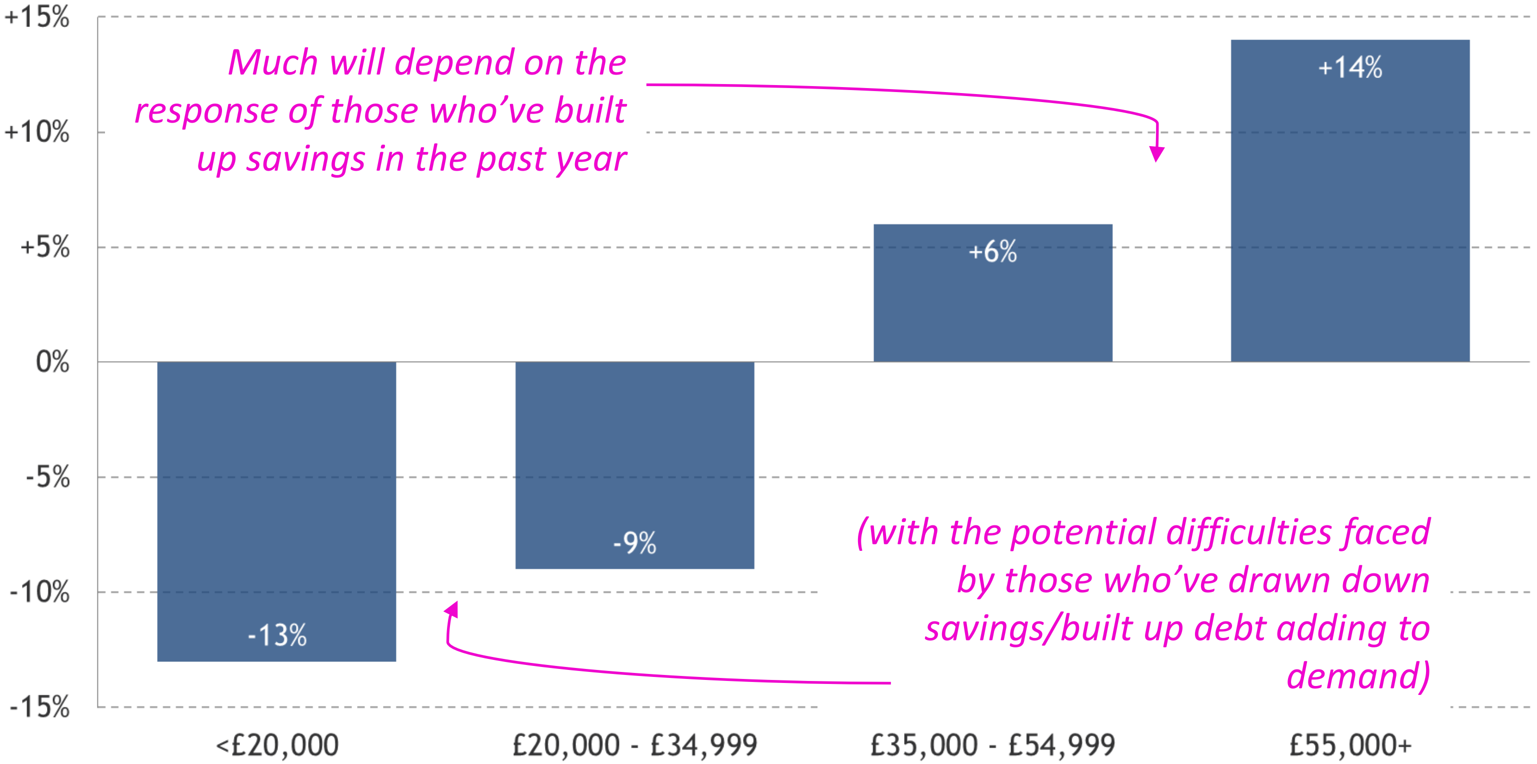


Budget outlook suggested better news on this front, but the spike is still ahead of us

Sources: ONS, MGSX; OBR, Fiscal Sustainability Report, July 2020; and Bank of England, Monetary Policy Report November 2020

(but distributions matter too)

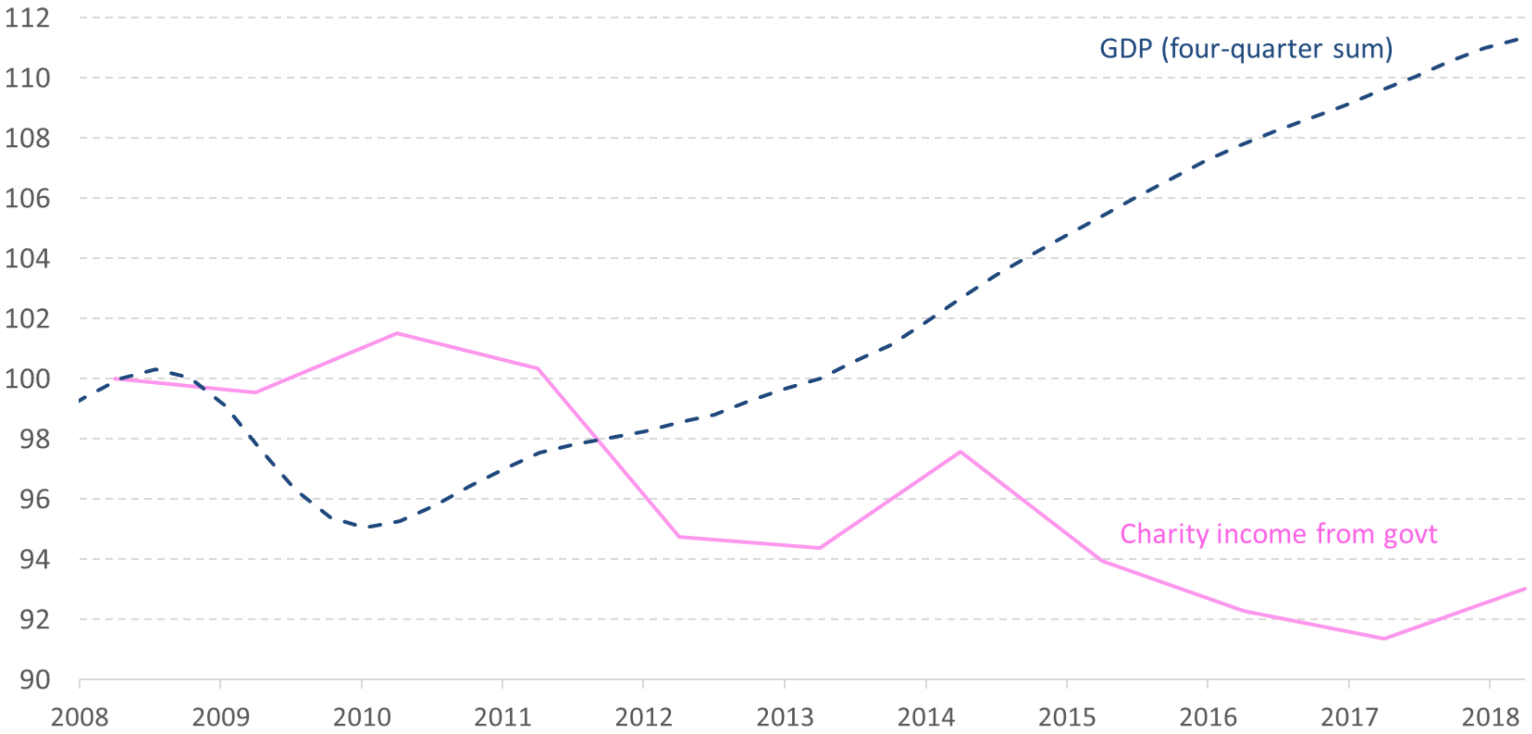
Net balance of households reporting changes in savings due to Covid-19, by household income band: UK



Notes: Question: "As a result of the measures taken around the coronavirus pandemic, would you say that your household savings have increased, decreased, or stayed the same?" Data collected 3 to 6 July 2020 and are not seasonally adjusted. Sources: Bank of England, *Monetary Policy Report August 2020*

Driver #3: income from govt rests on fiscal policy

Indices of real-terms GDP, government departmental spend and charity income from government: *UK, 2007-08 = 100*



Notes: 'Public sector current expenditure in RDEL' covers that part of current (not capital) government spending spent through the resource departmental expenditure limit. It therefore excludes current spending on annually managed expenditure (such as benefit payments). It is adjusted to remove historical discontinuities. Sources: PBE analysis of ONS, ABMI, NCVO, NCVO Almanac 2020 and OBR, Economic and Fiscal Outlook, March 2020

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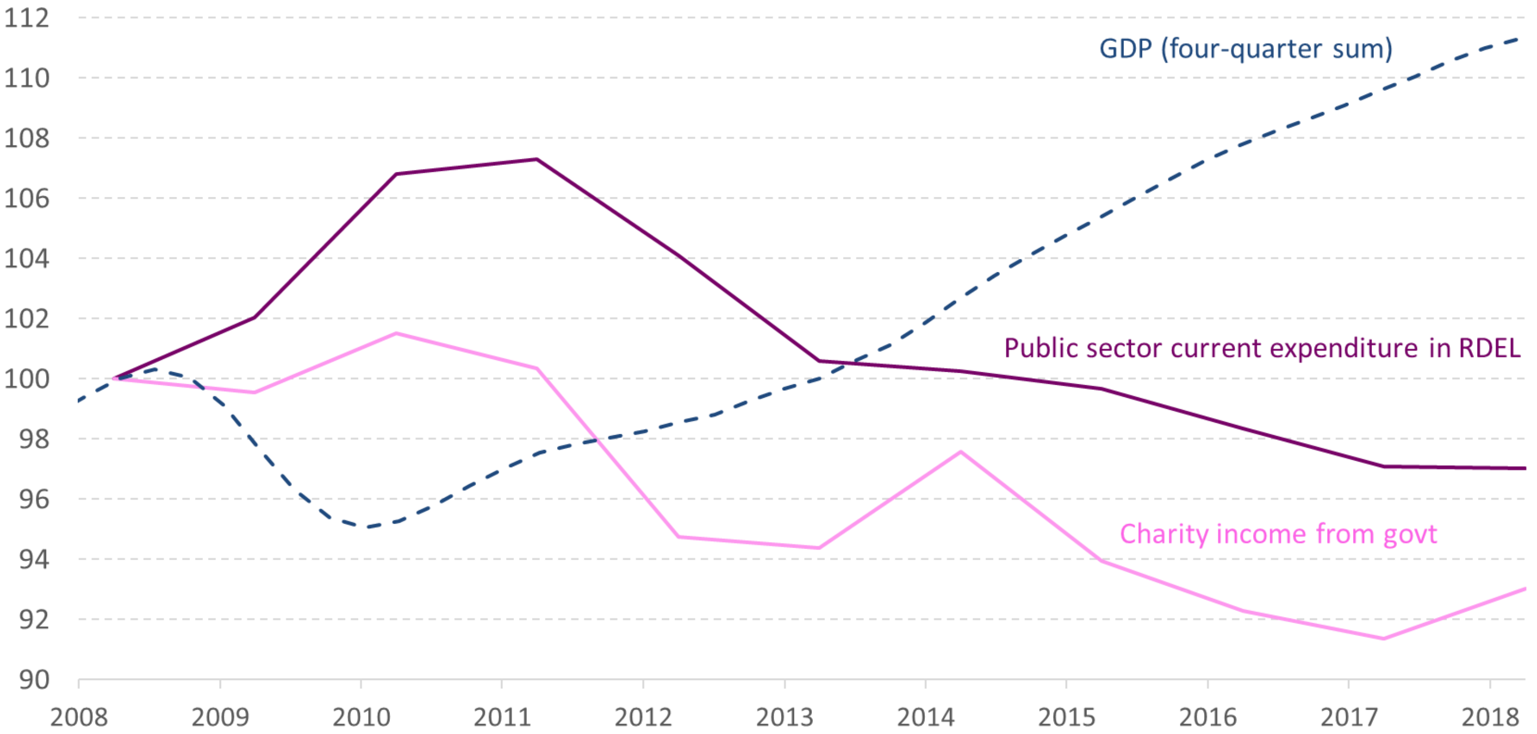

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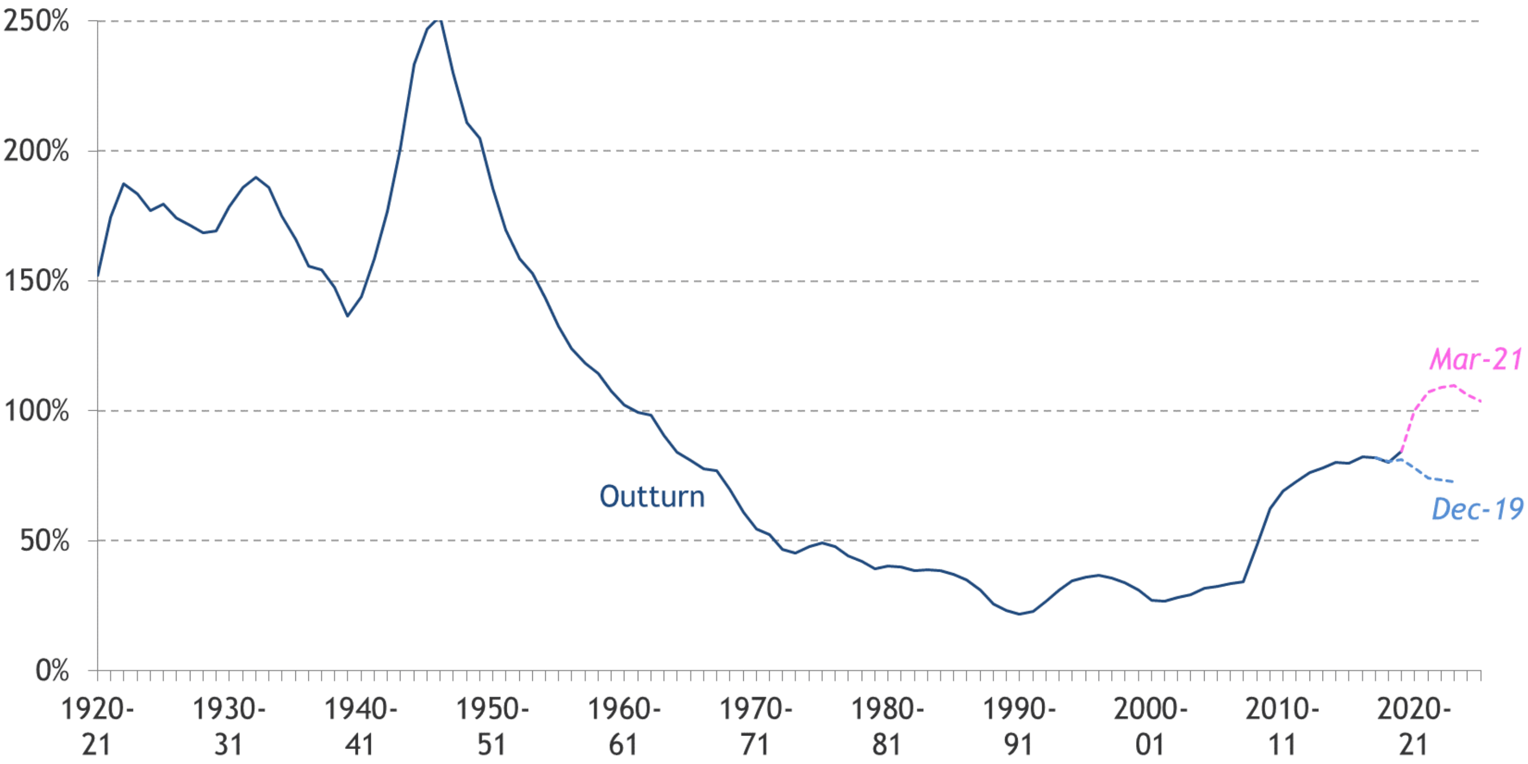
It’s true that govt debt has spiked once again

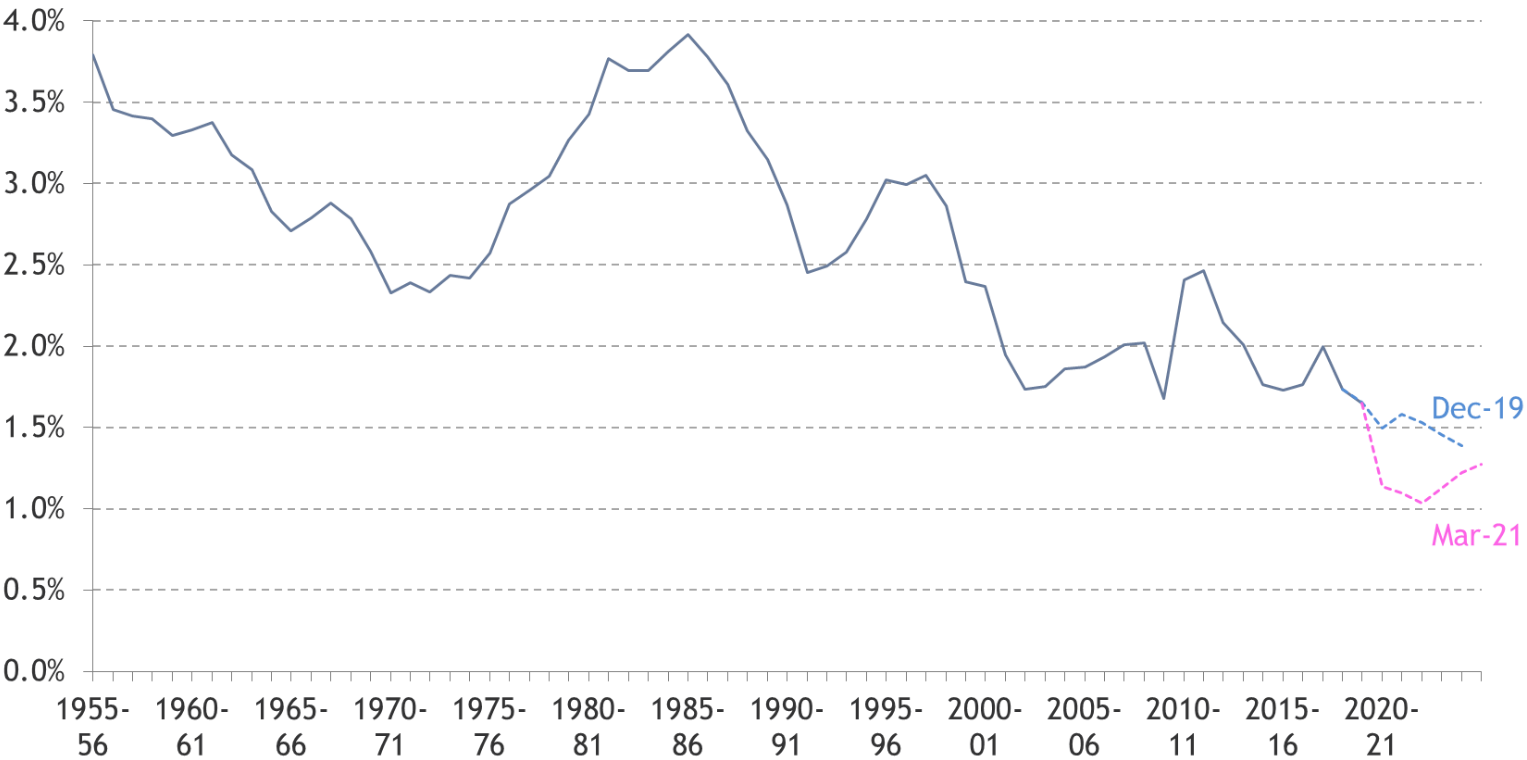
Public sector net debt as a share of GDP: UK



Sources: PBE analysis of OBR, Public finances databank, various

But the cost of servicing debt has actually *fallen*

Central government debt interest payments as a share of GDP (net of Asset Purchase Facility): UK

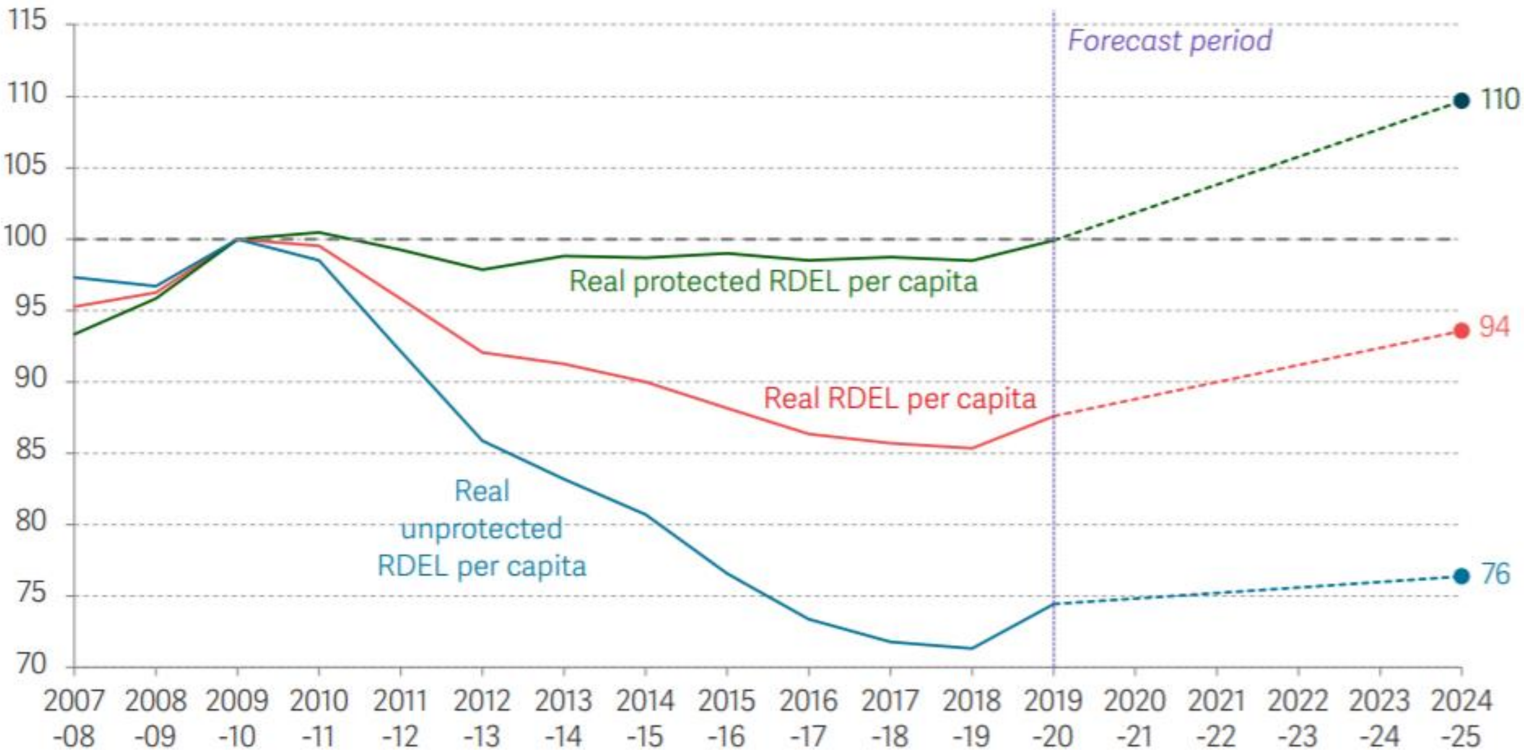


Interest costs have risen since the end of 2020 though, with some uncertainty going forward

Sources: PBE analysis of OBR, Public finances databank, various

Nevertheless, something like austerity is set to stay

Indices of real (GDP-deflated) public services spending



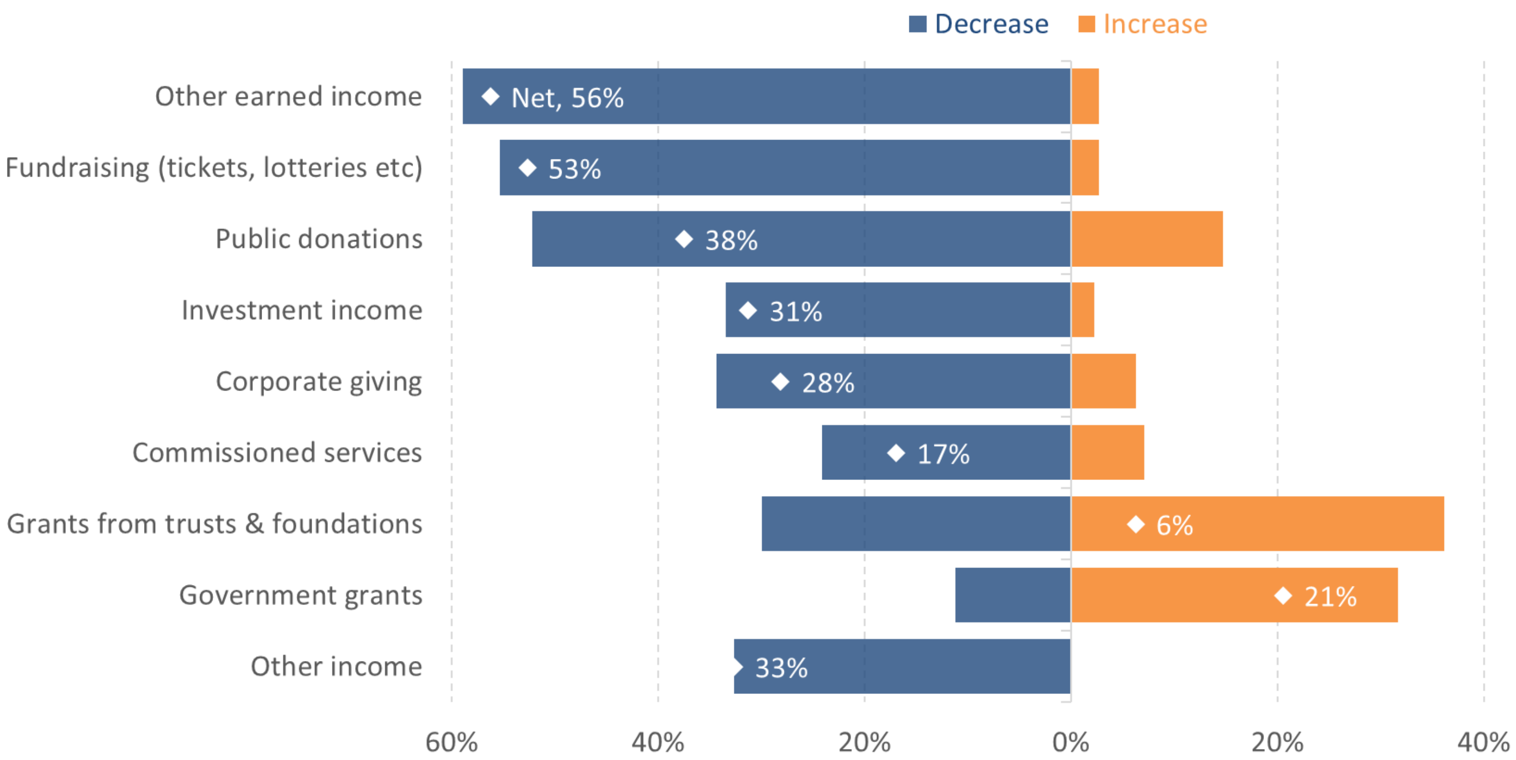
While overall public services spending is set to rise, almost all of this will be accounted for by large, protected departments like Health

Unprotected departments face very little recovery, with budgets remaining well down on 2009

Sources: Resolution Foundation

Whatever the future holds, today is tough

How have each of these sources of income been impacted by Covid-19? *UK, Sep 2020*



Notes: n = 224. Residual not shown covers “no change” and “don't know”.
Sources: PBE, Covid Charity Tracker, September 2020

Conclusions

- Economic outlook is too uncertain to draw any firm conclusions
- Post-financial crisis recovery in charity income was driven by ‘earned’ income
  - Reopening of the economy will help, but unlikely to be as strong this time because less room for expanding revenue-raising activities
  - Coming unemployment spike could damage donations, especially if confidence is damaged
- Post-financial crisis recovery in charity income was hampered by austerity
  - Feels less likely this time around given both economic circumstances and political mood music
  - But we can’t assume government funding will act as a tailwind either
- Whatever the longer-term outlook, the next 12 months look like being very difficult
  - Demand is elevated, opportunities are restricted, ‘emergency’ 2020 support might come at cost

Questions and feedback

For more information please contact info@charitytaxgroup.org.uk or visit our website www.charitytaxgroup.org.uk