Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
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Cc: Exchequer Secretary to the Treasury; Financial Secretary to the Treasury

30 September 2021

Dear Chancellor

Autumn Budget 2021 – Submission by the Charity Tax Group and Charity Finance Group

The Charity Tax Group and Charity Finance Group work to seek improvements to the tax system for charities. In support of this, we enclose our Budget Submission. We should stress that we recognise the pressures on the Treasury as a result of the pandemic, but we would emphasise the contribution that the sector makes to the economy and the impact of the pandemic on it.

Charities can play a leading role in the COVID recovery and support the levelling up agenda, but the tax system can present obstacles to their ability to provide services. As a minimum, existing charity tax reliefs (particularly mandatory business rates and VAT zero rates) should be protected. It is also crucially important that the tax system is future-proofed so that tax reliefs are appropriate for the digital age and compliance burdens are proportionate.

In this Budget submission, we call on the Government to:

A. Continue to invest in the Future of Gift Aid project to help ensure the relief is fit for the digital age
B. Review the structural distortions charities face due to the VAT system
C. Protect charity business rates relief in England following the recent "Fundamental Review"
D. Stimulate the economic impact of charity-funded research through the tax system.
E. Introduce a general exemption for charities from Making Tax Digital for Corporation Tax
F. Bring forward the review of advertising and the associated tax treatment for charities
G. Review the impact of the Health and Social Care Levy on charities
H. Commit to extending the Museum Galleries and Exhibition Tax Relief
I. Commit to a further extension of the Listed Places of Worship Grant Scheme.
J. Review the impact of Insurance Premium Tax on charitable activities

In support of these proposals, we outline additional background information below. We would be happy to meet you and your officials to discuss our proposals in greater detail. We are happy to provide further information, please contact the CTG Secretariat at info@charitytaxgroup.org.uk or on 020 7222 1265.

Yours sincerely.

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Charity Tax Group and Charity Finance Group Autumn Budget Submission 2021

1. The Charity Tax Group (CTG) has over 1,000 members of all sizes representing all types of charitable activity, as well as over 50 "Observer Member" professional firms including lawyers and tax advisers. 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. CTG is an active participant in HMRC's Charity Tax Forum and sits as the charity representative on HMRC's Joint VAT Consultative Committee (JVCC).

2. The Charity Finance Group (CFG) inspires a financially confident, dynamic and trustworthy charity sector. It does this by championing best practice, nurturing leadership and influencing policy makers. Over 1,400 UK charities turn to CFG to develop their finance management knowledge and skills. Collectively, these charities manage £22bn of funds – a third of the charity sector's income.

3. In this Budget submission we include proposals to maximise the effectiveness of the tax system for charities.

A) Invest in the Future of Gift Aid project to help ensure the relief is fit for the digital age

3. The Future of Gift Aid project is a multi-partner initiative, led by the Charity Tax Group, that advocates a move towards a modern Gift Aid system. This would help to unlock more than £560m of Gift Aid for UK charities that goes unclaimed each year and reduce the £180m of Gift Aid claimed in error.

4. The OTS has recently recognised the value of the Future of Gift Aid project in maximising the use of third-party data and credits the active involvement of HMRC in this process[1]. The progress we have made to date is promising. But if Gift Aid is to be truly fit for the digital future there will need to be legislative changes. Embracing innovation and the benefits of technology can be a game-changer in terms of making Gift Aid better. It is unrealistic to think that legislation that has changed little for 20 years can cope well with the new opportunities that digital technology provides.

5. There needs to be a roadmap which recognises the potentially long lead time required to (a) update both HMRC and charity/intermediary systems and (b) to utilise the opportunities provided by new technology and payment methods. There is unlikely to be a one-size-fits-all solution for charities and intermediaries.

6. An example of where legislative change would be hugely beneficial is with regard to a Gift Aid donation being related back from one tax year to the previous one. The arrangements for this are quite cumbersome as an election needs to be made. This is much easier where a donor submits a tax return (which happens much less frequently than when the relevant legislation was first enacted) but is almost unheard of where a tax return is not prepared. The intention of Gift Aid being franked by previous year's tax is clear. In the

[1] Office of Tax Simplification: a vision for the future, July 2021 (page 27)

project, we are looking at the feasibility of checking that someone is a taxpayer in real time before Gift Aid is paid by HMRC. Our work has shown how difficult this can be. For example, early in the tax year many donors will not have received any employment or self-employed income. Being able to frank a donation automatically with tax paid in a prior year would make the process much better reducing risk for both HMRC and the taxpayer in a streamlined, digital way. We consider that a proposal like this is in line with the Government's commitment that "the laws governing tax administration need to change to allow HMRC to deliver world leading services and support taxpayers better as they interact with HMRC digitally".[2]

C) Review the structural distortions charities face due to the VAT system.

7. Research commissioned by the Charity Tax Group shows that VAT continues to place a significant burden on UK charities, with irrecoverable VAT now costing charities £1.8bn a year. VAT is a problem because charities usually cannot recover the VAT on their purchases, so the funds raised by charities go towards VAT rather than being used to help beneficiaries. The Office of Tax Simplification (OTS) has called for a review of VAT rates and, now that the UK is not restricted by EU VAT rules, we would urge the Government to take action to resolve this anomaly.

8. Charities have called on the Government to introduce a special charity VAT rate on purchases, to complement existing reduced and zero rates and the social exemptions. The proposal is simple, benefits all charities, and could be adjusted depending on economic circumstances. For too long, VAT has been a burden on charitable activity. We hope that the Government can support this proposed solution.

D) Protect charity business rates relief in England following the recent "Fundamental Review"

9. We responded to the Fundamental Review of Business Rates in England, and called on the Government to confirm that, as a minimum, mandatory business rates relief for charities will be protected. We understand that the Review is due to report this autumn and would welcome urgent confirmation on this point in the Budget. This is an important issue for the sector as mandatory reliefs are worth £2.1bn each year. Given the precarious economic situation facing many charities as a result of the pandemic, it is vital that charities are not left any worse off as a result of this review.

E) Stimulate the economic impact of charity funded research through the tax system

10. The Government is committed to stimulating UK Research as is seen by the Government's 2.4% target for R&D expenditure.

[2] Building a trusted, modern tax administration system, HMRC, July 2020 (page 10)

11. Medical research charities fund considerable research that takes place in the university sector. CTG's response to the recent R&D Tax Reliefs consultation made the case for widening those entities that can qualify for these reliefs in view of the benefit to the UK economy.

12. The Government replaced the previous super-deduction for large companies with the Research and Development Credit (RDEC) in 2013. This was to encourage more R&D by large companies. HMRC has indicated that universities and charities were never intended to claim the RDEC and were unable to claim under the previous large company scheme. However, HMRC accepted a number of claims from universities and charities and this provided a very effective tax incentive for those organisations that claimed. The Government has since amended legislation so that universities and charities are unable to claim the RDEC. The Government say that this is to ensure that the scheme remains effective and well-targeted to business Research and Development (R&D).

13. In our view this policy reversal undervalued the role that charity and university research plays in stimulating the UK economy. We urge the Government to think again as there is a compelling economic argument for charities and universities to benefit from RDEC and similar reliefs as any reliefs will be re-invested in further research driving economic growth for the national economy. For example, previous RDEC claims led to investment in further research including £5m in a convergence science centre in partnership with a leading university.

14. In addition to this point, there are other areas where tax system could also be changed to make charity-funded research more effective in helping to deliver economic growth, such as reviewing the rules on the use of new research buildings that penalise collaborations with business and complexities with the zero-rating of equipment used in research. We would therefore recommend a comprehensive review of the tax incentives to stimulate charity funded research.

F) Introduce a general exemption for charities from Making Tax Digital for Corporation Tax

15. Making all charities "within the charge to Corporation Tax (CT)" subject to Making Tax Digital (MTD) reporting requirements would achieve little purpose for HMRC or for charities. It will be costly and onerous, not only because all corporate charities (many of them very small) would have to invest in additional software purely for this exercise, but also in staff (and/or volunteer) time in understanding the system and producing the data in the new format. HMRC should therefore carry out a cost benefit analysis of the merits of including charities within the scope of the reforms.

16. As outlined in our response to the recent HMRC consultation, we believe that there is a strong rationale, and benefit for HMRC, for introducing a general exemption for charities from MTD for CT. HMRC accepted that this was appropriate for all charities in the government response to the MTD for Business consultation in 2016-17 and, notwithstanding the subsequent introduction of MTD for VAT, we see no reason to change that assessment. As regards the relatively few charities that have a regular corporation tax liability or need

to submit a CT return to claim a relief, we consider that there should be separate discussions about how they should be dealt with under MTD for corporation tax. We fail to see any benefits of subjecting charities and their non-charitable subsidiaries to quarterly reporting to HMRC, given this information is not likely to be useful to HMRC. At the very least, there should be a *de minimis* threshold such as effectively applies with MTD for VAT. If smaller charities are required to comply HMRC should give serious consideration to the provision of a free filing software product. We are also working with HMRC officials to understand the reason why information is requested by the CT600E charity tax return and to see if there are ways to simplify this process and reduce the duplication of information that charities are required to provide to both HMRC and the Charity Commission.

G) Bring forward the review of advertising and the associated tax treatment for charities

17. In Revenue and Customs Brief 13 (2020), HMRC accepted that VAT zero rating could apply to most digital advertising by charities, with the exception of advertising on social media, on the basis that it targets individuals by a digital address. This costs charities millions of pounds in additional advertising costs each year which previously would have been zero rated.

18. HMRC has confirmed that it will continue to engage with the DCMS to gain a better understanding of the advertising sector, but also to ensure that VAT legislation keeps in step with other legislative developments. Given the year-on-year growth of social media advertising, it is important that legislation and HMRC guidance keeps up with commercial practices, is appropriate for the digital age and is in step with the original intention of the legislation. We call on the Government to bring forward the review of advertising and the associated tax treatment for charities, extending the VAT zero rate to social media advertising.

H) Review the impact of the Health and Social Care Levy on charities

19. We recognise the importance of raising revenues to pay for social care, but wishes to highlight the additional pressures the new Levy will place on charities employing large numbers of staff. Employers will be required to contribute an additional 1.25% towards their national insurance contributions at a time when costs are already high and finances are under pressure. Although the NHS plays a central role in care provision, there is an important support system in place at which charities are at the heart. It would be a regrettable outcome if charities were required to reduce staff numbers or pay as a result of this levy.

20. The Employment Allowance is a helpful relief that currently gives many smaller charities a reduction in their secondary Class 1 NICs liabilities of up to £4,000 per year. We are pleased to note that the Employment Allowance will be available to cover the Health and Social Care Levy liabilities of charities that remain eligible for Employment Allowance. However, employees will still be liable and this is likely to have a knock on impact on charities' wage settlements and therefore payroll costs, for what is generally a lower paid segment of the employed sector that provides public service including within the care sector. We therefore call on

the Government to review ways to mitigate the impact on small organisations, including charities, by increasing its value the value of the Employment Allowance, as proposed by the Federation of Small Businesses and others.

I) Commit to extending the Museums and Galleries Exhibition Tax Relief

21. Museums & Galleries Exhibition Tax Relief (MGETR) was announced in Budget 2016 and introduced on 1 April 2017. It is available to qualifying companies, including charities, that put on a qualifying exhibition: a curated public display of an organised collection of objects or works which are considered to be of scientific, historic, artistic or cultural interest.

22. In 2020-21, £16 million of MGETR was paid out relating to 170 claims representing 1,045 exhibitions. Since MGETR was introduced in 2017, £34 million has been paid out relating to 190 claims. This represents 1,555 exhibitions. As the statistics demonstrate, this continues to be an important relief for many charities and could play an important role in ensuring the return of exhibitions after the pandemic.

    The legislation that introduced MGETR included a sunset clause which means the relief will expire in April 2022 unless renewed. The Government has committed to a review of the tax relief, but no formal process has been initiated. Given other pressures on Government time, it seems unlikely that a review could be concluded before the relief is due to end. We urge the Government to extend the relief until a proper review can be conducted, at which point we are confident that the Government will see the merits of continuing the scheme.

J) Commit to a further extension of the Listed Places of Worship Grant Scheme.

23. The Listed Places of Worship Grant Scheme (LPWGS) gives grants that cover the VAT incurred in making repairs to listed buildings in use as places of worship. Funded up to £42m a year by DCMS, the LPWGS has paid out £330m since its inception and assisted over 13,000 buildings. Funding for the scheme has only been confirmed until 31 March 2022 and we call on the Government to extend this again while discussions can take place about reinstating a suitable charity listed buildings tax relief now that EU VAT rules are no longer an obstacle to this. A long-term commitment is essential to enable places of worship to plan ahead for repair projects. Church fund-raising has been hit significantly by the closure of places of worship during the pandemic and, in some cases, the repairs needed have grown while buildings have been unused.

K) Review the impact of Insurance Premium Tax on charitable activities

24. In June 2017, Insurance Premium Tax (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 and have extensive transport and travel commitments) and we have serious concerns that IPT may eventually be increased to 20%, in line with VAT.

25. 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.