Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Rd
London SW1A 2HQ

14 January 2021

Dear Chancellor

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

Please find a Budget submission by the Charity Tax Group (CTG) and Charity Finance Group (enclosed).

Our 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 particular, we call on the Government to design a tax system in the light of COVID and Brexit that maximises the valuable impact of charities (seen so clearly during the pandemic) and does not undermine it. A joint sector [response to the recent Treasury Committee Inquiry into Tax after Coronavirus] outlined a number of core principles that should underpin any reform of taxation going forward. As a minimum, existing charity tax reliefs should be protected and tax compliance and administration simplified. We highlight the importance of protecting existing business rates and VAT reliefs, future-proofing tax systems and legislation and call for improved collaboration and dialogue between HM Treasury and the charity sector on tax issues.

COVID-related support measures, such as the Job Retention Scheme, Expanded Retail Discount and temporary 5% VAT rate on hospitality, hotel and holiday accommodation, and admissions to certain attractions have helped many charities and should, as a minimum, be continued where possible while lockdown restrictions continue.

In this Budget submission we call on the Government to take the following steps to address five core tax policy issues facing charities at present:

1. Review the structural distortions caused by the VAT system resulting in significant irrecoverable VAT for charities. Consideration of a special VAT rate of 10% for charity purchases is one option. We also call on the Government to protect VAT reliefs and exemptions in the aftermath of Brexit.
2. Protect charity business rates relief in England following the recent "Fundamental Review".
3. Continue investing in the Future of Gift Aid project to help ensure Gift Aid is fit for the digital age, including, where relevant allowing minor changes to legislation.
4. Adopt a flexible subsidy control system post-Brexit to ensure that that charities with large property portfolios do not miss out on essential business grants, designed to help mitigate the impacts of lockdown.
5. Consider a temporary increase in the value of Gift Aid to help charities recover from COVID-19.

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In addition, we call on the Government to:

6. Bring forward the review of advertising and the associated tax treatment for charities, extending the VAT zero rate to social media advertising.
7. Agree to an extension of the 9 month time limit for payment of Gift Aid payments from trading subsidiaries to parent charities, due to the impact of COVID-19.
8. Protect the Community Infrastructure Levy charity exemption.
9. Extend the Apprenticeship Levy to training and/or volunteer costs.
10. Review the appropriateness of Insurance Premium Tax on charitable activities.
11. Extend the Listed Places of Worship Grant Scheme.

In support of these proposals, we outline additional background information below. We would be happy to meet Ministers and officials to discuss this submission in greater detail and to provide additional background information where required. For further information please contact the CTG Secretariat at info@charitytaxgroup.org.uk or on 02072221265.

Yours sincerely.

Richard Bray
Acting Chair
Charity Tax Group (CTG)

Caron Bradshaw
Chief Executive
Charity Finance Group (CFG)

Charity Tax Group and Charity Finance Group Budget Submission 2021

1. The Charity Tax Group (CTG) has over 800 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. 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. Review and mitigate the impact of irrecoverable VAT on charities and protect VAT reliefs and exemptions following Brexit

4. The Office of Tax Simplification (OTS) has called for a review of VAT rates and we believe that following Brexit the Government should progress this in consultation with charities and other sectors. New research 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 cannot always pass on the cost of VAT to customers and which means they cannot recover the VAT on their purchases in full. Charity funds have to be used to pay VAT bills, rather than being used to help beneficiaries.

5. In response to this increasing VAT burden, CTG is calling on the Government to introduce a new 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.

6. The research also highlights the importance of existing VAT reliefs and exemptions for the charity sector, against a backdrop of calls for a widening of the VAT base both in response to Brexit and to pay for the cost of the COVID-19 pandemic. The research quantifies for the first time the value of existing VAT reliefs on purchases (£0.8bn) and the impact of VAT on charity sales and service delivery. Until now, there have been no comprehensive figures for the amount of VAT relief charities claim, nor the ability to evaluate effectively the impact on charities of changes to the VAT system. The research also demonstrates, for the first time, the total tax contribution made by charities [TTC] which amounts to £10.12bn a year and quantifies the reliefs available to them. Charities are therefore cost-effective and worthy of additional support by Government – removing VAT obstacles could increase their effectiveness even further.

B. Protect charity business rates relief in England following the recent "Fundamental Review"

7. CTG and CFG [responded]() to the Fundamental Review of Business Rates in England, last year, and calls on the Government to confirm that, as a minimum, mandatory business rates relief for charities will be protected. This is an important issue for the sector as property costs are the second largest cost behind wages for many charities. Given the precarious economic situation facing many charities, as a result of COVID-19, it is vital that charities are not left any worse off as a result of this review.

8. We also call on the Government to extend the Expanded Retail Discount rates relief to 2021/22. This will be crucially important for many charities, especially those with charity shop networks unable to operate as a result of the national lockdown restrictions.

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

9. CTG is leading the Future of Gift Aid project which has brought together a range of parties including HMRC, to fundamentally review how Gift Aid works in the digital age. It also gives the opportunity of demonstrating how new payment technologies and open banking can be used in practice and for social good. A summary of our progress so far can be read [here]().

10. The considerable commitment of HMRC to this project has been an exciting demonstration of the opportunities this project brings. But to make it the success that it can be how Gift Aid operates from a legislative point of view needs to be considered. We do not envisage the need for major reform but for the Gift Aid legislation to be made fit for purpose so that it can deliver the original policy intention of making Gift Aid available to all taxpayers. This will require Government to consider minor legislative change and in some cases simply changes to HMRC guidance. Signalling this intent would help maximise the impact of the project and send an important message to the charity sector that the Government takes its concerns seriously.

D. Adopt a flexible subsidy control system post-Brexit to ensure that that charities with large property portfolios do not miss out on essential lockdown business grants

11. Many charities were able to access COVID-19 support grants including the Retail Hospitality and Leisure Grant Fund and the Local Authority Discretionary Grant Fund. However, the value of these grants was significantly limited for charities with large property portfolios, including charity shop networks, due to state aid restrictions.

12. Following the UK's exit from the EU, we understand that EU state aid rules will no longer apply, but that the UK will be developing its own subsidy control system. We urge the Government to adopt a flexible

approach to subsidy control measures for charities, given the extremely limited impact they have on international trade. A positive outcome will have a transformative financial effect on many charities that are currently unsure whether they are able to access the Local Restrictions Support Grants (LRSG) and the newly announced £9k grants for certain organisations and discretionary grant funding available to local authorities.

13. We are in regular contact with officials at BEIS, MHCLG and HM Treasury on this point and would welcome the opportunity to be involved in the discussions about future subsidy controls.

E. Consider a temporary increase in the value of Gift Aid to help charities recover from COVID-19

14. A coalition of charities, supported by CTG, CFG and other sector bodies, has called on the Government to consider temporarily increasing the rate of Gift Aid as a quick, simple and effective way of getting financial support to charities of all sizes raising funds from public donations. Our proposals for Gift Aid Small Donations Scheme would also increase the accessibility and value of the Scheme for small, community-based charities. Further information can be found here.

15. We recognise that Ministers have raised some concerns about the practical implementation of this proposal, but we are confident that these can be resolved. Government support for the vital work and essential services that charities offer to date has been welcome, but most of the £750m charity fund has been spent and limited amounts have been available to fundraising charities, both large and small. Given the estimated £10 billion funding gap that charities face this year, it is clear more support is needed. We welcomed the commitment from the Prime Minister that the Government will do 'much more' to support the voluntary sector over the winter. As we hopefully move towards a period of recovery and shops can re-open and fundraising events can resume, maximising the value of Gift Aid could play a key role and make a real difference. Gift Aid is particularly important for smaller charities and a temporary boost in its value could make a significant difference to their capacity to deliver services in 2021.

F. Bring forward the review of advertising and the associated tax treatment for charities, extending the VAT zero rate to social media advertising

16. 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 each year. The charity sector disagrees with this assessment and has obtained a legal opinion confirming that we have a strong case to present to HMRC that social media advertising by charities should be zero rated for VAT.

17. HMRC has confirmed that it will continue to engage with the DCMS in order 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 growth of social media advertising year on year it is important that legislation and HMRC guidance keeps up with commercial practices and is appropriate for the digital age.

CTG calls 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.

G. Agree to an extension of the 9 month time limit for payment of Gift Aid payments from trading subsidiaries to parent charities, due to the impact of COVID-19

16. Legislation states that Gift Aid payments by a charity's trading subsidiary must be made within nine months of the year end. On the basis that tax computations are unlikely to be available because accounts will not necessarily exist, let alone audited accounts, it may be impossible to calculate the Gift Aid payment that can legitimately be paid. It is therefore requested that this deadline is extended to reflect the extraordinary circumstances generated by COVID-19.

H. Protect the Community Infrastructure Levy charity exemption

17. In the recent Planning for the Future Policy Paper, the Government proposes that the existing regimes for securing developer contributions, through the Community Infrastructure Levy are replaced with a new, consolidated 'Infrastructure Levy'. It also confirmed that the Government will also look to extend the scope of the consolidated Infrastructure Levy and remove exemptions from it to capture changes of use through permitted development rights.

18. CTG submitted a response, calling for a charity exemption to be retained for the consolidated Infrastructure Levy, if implemented and we reiterate that request in this submission**.** Charities should not be penalised because the Community Infrastructure Levy has not generated the anticipated financial returns and the rationale for an exemption remains valid. Charities should not be taxed for development of land for charitable purposes (including social housing) or when leasing land to other charities.

I. Extend the Apprenticeship Levy to training and/or volunteer costs

19. CTG and CFG support 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, is being utilised to for train the charity workforce. On the other hand, volunteers are the lifeblood of the charity sector and, in many charities, they outnumber paid staff by a considerable margin.

20. Four years after the introduction of the Apprenticeship Levy, statistics indicate that the number of charities making full use of their contributions is low. The charity sector has campaigned from the outset for use of the levy to be widened to include training of volunteers. We 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.

J. Review the appropriateness of Insurance Premium Tax on charitable activities

21. 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 as the insurance related to maintaining their buildings responsibly is a significant cost.

22. 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.

K. Extend 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 £317m since its inception and assisted over 13,000 buildings. Funding for the scheme has only been confirmed until 31 March 2021 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.

CTG
January 2021