

Tax Briefing for the FIRM Network

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Charity Tax Group

- Leading representative body for charities on tax issues
- Over 800 Charity and “Observer” members
- Represented on HMRC Charity Tax Forum and Joint VAT Consultative Committee
- Co-ordinates active Gift Aid working group and new technical groups
- www.charitytaxgroup.org.uk provides access to regular newsletters, training events and consultation and case law trackers
- Funded exclusively by member contributions and grants

The tax landscape

- COVID-19: Significant support available but how will it be paid for in the long-term? Treasury Committee is reviewing future of taxation
- Brexit
 - Need to navigate new VAT and customs rules relating to imports and exports, as well as changes to state aid rules and funding
 - Opportunities to review the VAT system?
- Budget 2021 (3 March) - CTG is calling for a simpler tax system for charities
- International reviews of digital/cross-border taxation

VAT updates

- CTG research project to quantify the value of VAT reliefs for charities
- COVID-19 developments
- Making Tax Digital
- Other VAT updates

Research on charity VAT

- Influential research funded by City Bridge Trust & Paul Hamlyn Foundation
- Cost of VAT to charities almost £2bn a year
- Quantifies the value of VAT reliefs (£0.8bn) & social exemptions (£3.2bn) for the first time
- Identifies the value of total tax reliefs (£7.8bn) and total tax contribution by charities (£10.12bn)
- Proposal to introduce a special VAT rate for charity purchases
- Second phase of research to quantify socio-economic value of reliefs

COVID-19 developments

- Temporary change of building use due to COVID-19
- Implications for partial exemption recovery rate
- VAT deferral
- Temporary VAT rate for hospitality, accommodation, food and certain attractions
- Zero rate for e-publications brought forward

Making Tax Digital

- VAT registered charities required to make submissions to HMRC via API
- Requirement to implement digital links from April 2021. Don't leave it until the last minute – plan ahead
- If implementation is not possible – contact HMRC to request an extension (must be genuine reasons –not just lack of preparedness)
- Spreadsheets can continue to be used – third party software also available
- Some manual adjustments still permitted, e.g. partial exemption
- CTG webinar with HMRC available online

Other VAT updates

- Case law developments
 - Colchester Institute Corporation
 - Royal Opera House Foundation
 - University of Cambridge/Frank Smart
- VAT treatment of DfID grants and other similar funding
- VAT and digital advertising
- VAT and value shifting consultation
- VAT domestic reverse charge for building and construction services

Other tax developments

- Business Rates Review (England)
- COVID-19 funding/support updates
- Making Tax Digital for Corporation Tax
- IR35/Off-Payroll Working
- 5MLD charity exemption
- OECD BEPS consultation
- Future of Gift Aid project

Business Rates Review (England)

- HM Treasury launched (now closed) a fundamental review, including questions on rates reliefs and exemption, valuation and administration
- Charity rates relief worth £2bn to the sector so vitally important
- CTG response highlighted the importance of the relief and the need to maintain the status quo as a minimum
- We recognised the need to address concerns about fraud, but call for these to be proportionate and targeted
- Important that the charity sector understands pressures from other sectors and continues to be vocal in this debate

COVID-19 funding/support updates

- **Job Retention Scheme:** The Job Retention Scheme was due to end in October but was extended until 30 April 2021. Available to all staff working for a charity (if eligible) from 31 October and encouraged for those with caring responsibilities. Increased HMRC scrutiny of payments likely.
- **Charity/sector-specific support packages:** Including the £750m charity fund and £1.57bn Culture Recovery Fund.
- **Retail/Lockdown Grants:** Very helpful to many charities, especially during the first lockdown, but stymied by state aid limits.
- **Loans:** Various options including Bounceback Loans and larger corporate financing but not viable for many charities.

Making Tax Digital for Corporation Tax

- Plans to extend MTD to Corporation Tax by 2026
- Current HMRC consultation on these plans
- “Should charities, CASCs and other not for profit organisations, be within the scope of MTD for CT where they have income within the charge to CT and required to complete a Company Tax Return? If not, please explain why you consider an alternative approach is necessary for charities and what criteria should be applied?”
- CTG working group developing a response
- HMRC Consultation event for charities on 9 February

IR35/Off-payroll working rule changes

- From April 2021 the rules for engaging individuals through PSCs are changing for private sector organisations (including charities)
- Responsibility for determining whether the off-payroll working rules apply will move to the organisation receiving an individual's services
- Small companies will be exempt which will mean a large number of charities will be excluded
- HMRC CEST tool and other guidance available
- Important that charities are aware of their responsibilities and set up appropriate payroll/record systems

5MLD charity exemption

- Charitable trusts originally required to register with the Trust Registration Service under 5MLD rules
- Concerns about unnecessary administrative complexity raised by CTG/ACF
- HMRC changed their view and confirmed a charity exemption from 5MLD reporting
- *“Charitable trusts are not in scope to register because the risk of these kind of trusts being used for money laundering or terrorist financing activity is low”*

OECD/BEPS consultation

- Initiative to address to the tax challenges of the digitalisation of the economy
- The proposal would:
 - Re-allocate some profits and corresponding taxing rights to countries and jurisdictions where MNEs have their markets
 - Provide that MNEs conducting significant business in places with no physical presence would be taxed in those jurisdictions
- Not many UK charities that have a substantial primary purpose trade that is carried on overseas. However, some charities with global operations could be impacted with extra red tape

Future of Gift Aid Project

- Project to bring Gift Aid into the digital age
- Aim to increase eligible take-up and reduce error
- Significant opportunities presented by increased automation, including checking Gift Aid eligibility via Personal Tax Accounts and Bank Accounts
- Six active workstreams including text giving and retail Gift Aid
- Active involvement from HMRC's Policy and Innovation teams, charities, banks and intermediaries
- Long-term project seeking funding

Key resources

- Extensive resources at www.charitytaxgroup.org.uk
- CTG COVID-19 Hub and Bitesize Brexit guides
- Weekly tax newsletter and monthly “What you need to know” charity tax bulletin
- Monthly Expert Insight Training Sessions
- Questions to info@charitytaxgroup.org.uk

Questions

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