

# Charities and VAT: an evaluation

*Reports by the Charity Tax Group and London Economics*

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# Introduction

*John Hemming, CTG Chairman*

**@CharityTaxGroup**

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## Background to the project

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- Previous research on VAT and charities
- VAT developments since then
- Political and economic context, including Brexit and COVID-19
- Scope of the new research

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# Approach to Research

*Rohit Ladher, Associate Director, London Economics*

*Daniel Herr, Senior Economic Consultant, London Economics*

**@CharityTaxGroup @LondonEconomics**

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# Data collection and survey methodology



- Survey designed to collect financial information
- Over 650 charities were invited to participate using a representative sample frame
- Developed an Excel-based tool to analyse the responses
- Responses extrapolated to estimate sector-wide value
- Modelled scenarios identified the value of existing reliefs and exemptions

# Overview of key research findings

*John Hemming, CTG Chairman*

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# VAT Reliefs and Irrecoverable VAT

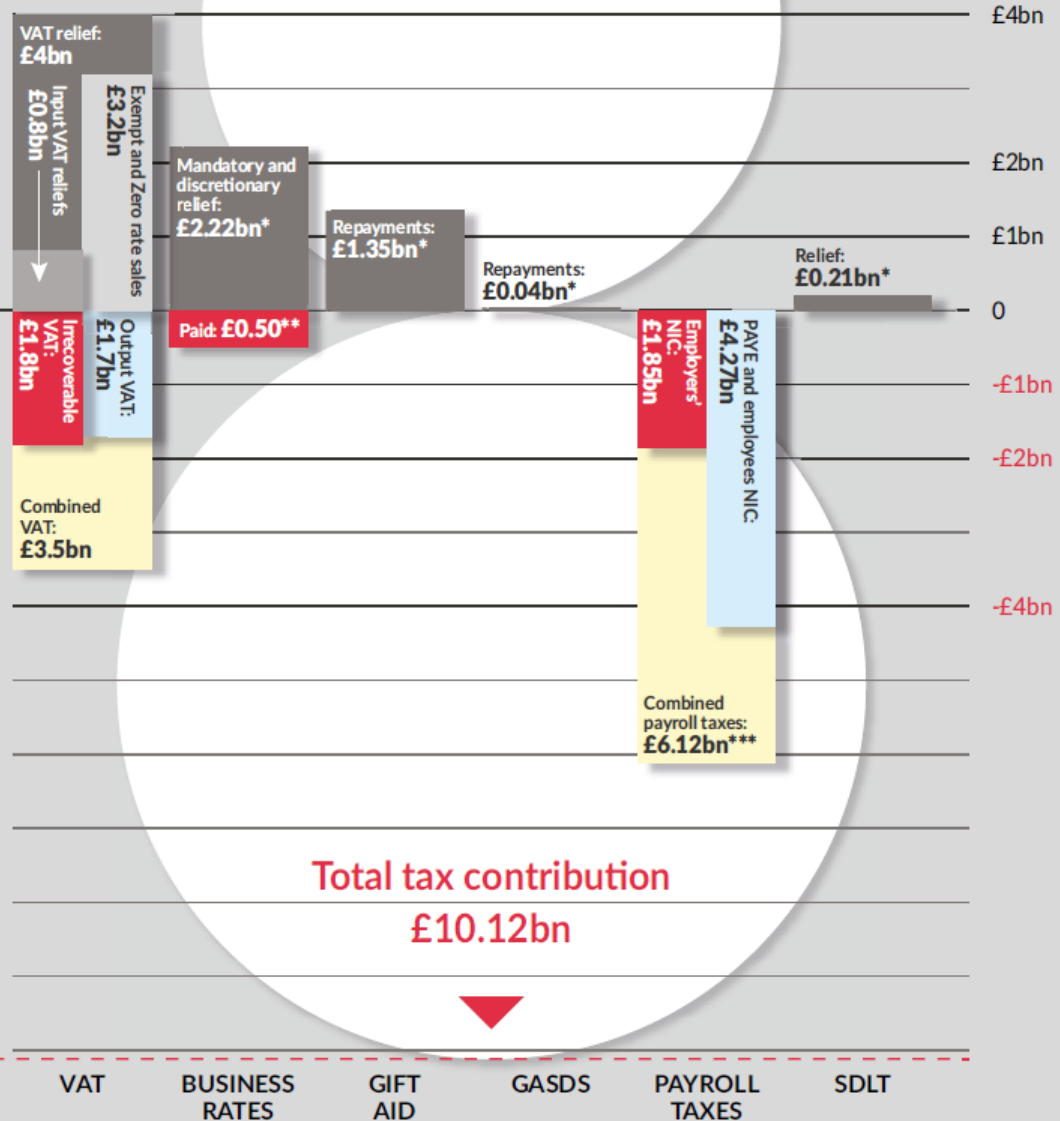
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	Irrecoverable input VAT for charities (per year)	Value of input VAT reliefs for charities	Output VAT
Current research estimates	£1.8 billion	£1.0 billion	£1.7 billion
Previous estimates	£1 billion - £1.4 billion <i>(CTG/Nuffield Foundation, 2011)</i>	£0.4 billion <i>(HMRC 2016-17, now discontinued)</i>	Not available

# Comparison of Tax Reliefs received vs Tax Contribution

TAX RELIEFS

TOTAL TAX CONTRIBUTION (TTC)





# VAT strategy for charities

*Graham Elliott, CTG VAT Technical Adviser*

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# VAT Strategy for Charities 2021 onward

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The following three approaches are basically available:

- Campaign for slow piecemeal changes (such as widening such reliefs as new building works/disability works, special refund schemes)
- Seek replacement of exemptions with reduced rates to improve input tax recovery, coupled with wider non-business refund scheme
- **Keep the supply side the same/similar, but seek a general reduced rate of VAT on charity purchases (a charity VAT rate for purchases)**

## CTG's choice of approach

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CTG will campaign for a reduced charity rate of VAT for purchases. The reasons not to prioritise the others are:

- Piecemeal change is slow and barely keeps pace with general increases in taxation – it lacks ambition
- Replacing exemptions with a super-reduced rate will create winners but also losers and thus will be unpopular
- Any implicit threat to the exemptions could simply encourage their abolition without concessionary rate on supplies
- The rate needed even to maintain the current overall tax burden would have to be very low indeed
- Absent a complete change in the VAT system, refunds for non-business VAT costs will not arise from abolition of any supply exemptions

# Advantages of charity input rate

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- Allows defence of the social exemptions which are familiar (though their simplification and modernisation would then be a focus of campaigning)
- Avoids 'losers' from the other alternative. All charities can 'win', whether slightly or significantly. Applies equally to non-VAT registered charities
- Simple to enact in legislation – just introduce a schedule setting the rate for supplies to charities
- Simple to control for future administrations
- Simple certification and basic checking approach between charities and suppliers to ensure compliance
- Would not override current reliefs, which remain in the statute book - does not preclude continuing pressure for reform in other areas
- Can even be used to defend charities against a future increase in the standard rate

# Policy advantages of proposal

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This is about palatability for government (of any colour) and officials:

- A single piece of legislation gets it done
- Easy to fine-tune/change/control at high speed as needed
- Very little for VAT inspectors to learn
- It is difficult to discern any unintended consequences, or scope for abuse (short of fraud, though that applies to any relief)
- Simple for the public to understand, and gets closer to the public conception of taxes not applying to charities
- Clear break with EU rules, without smashing the entire edifice with a sledge hammer

# Summary and conclusions

*John Hemming, CTG Chairman*

**@CharityTaxGroup**

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# Questions

*To find out more about this research please contact [info@charitytaxgroup.org.uk](mailto:info@charitytaxgroup.org.uk)*

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