

# Charity Tax Group (CTG)

## VAT research project

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**@CharityTaxGroup**

**#bufdgtax2019**

# Charity Tax Group

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- Leading representative body for charities on tax issues
- Over 700 Charity (including University) and “Observer” members
- Co-ordinates active Gift Aid and MTD working groups
- Close working relationship with BUFDG lobbying on issues of common interest
- [www.charitytaxgroup.org.uk](http://www.charitytaxgroup.org.uk) provides access to regular newsletters and consultation & case law trackers
- Register for our regular newsletter!

## What is the issue?

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- VAT rates and reliefs are facing review regardless of the outcome of Brexit.
- Current review of VAT rates by the European Commission indicates that there will be greater flexibility on VAT rates
- If the UK has no ties to the European VAT regime, the Government will assess how it can best use the UK VAT system to achieve its policy goals

***“Recommendation 4: HM Treasury and HMRC should undertake a comprehensive review of the reduced rate, zero-rate and exemption schedules.”***

*Office of Tax Simplification (OTS),  
November 2017 Report*

## Why is this important for your university?

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- This could potentially present positive opportunities for charities and universities, but also significant risks...
- Charities and universities currently benefit from a wide range of valuable reliefs but also incur significant irrecoverable VAT
- If there were no reduced or zero rates or no VAT exemptions, could your university afford to pay VAT on all its purchases? Could your students, and other customers, afford to pay VAT?
- What could your university do if there were more generous VAT reliefs and no irrecoverable VAT?

## Stage 1 – Quantifying and analysing VAT reliefs

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- CTG's objective is to quantify the value of existing and proposed European Commission reforms to VAT reliefs for charities in the UK
- The analysis will be undertaken by subsector and for the UK charity sector as a whole
- The research outcomes will provide CTG with a clear set of pragmatic and costed reform proposals for Budget submissions to HM Treasury and in response to other tax reviews

## Why is this research needed?

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- There is limited data on the value of charity reliefs and the value to the wider economy
- We need data to make the case to Government to protect existing reliefs and to create an improved VAT system for charities
- Other sectors are already making their case for VAT reforms

*“Since the EU referendum other sectors have already made requests for changes to VAT that, if implemented, would cost the Treasury £31bn. At its current rate, VAT brings in £128bn.”*

*Treasury Minister Jane Ellison addressing the CTG Tax Conference in 2017*

## Charity VAT survey

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- CTG is working with London Economics on a detailed VAT survey
- Data collected will assess the impact of different VAT reform scenarios, grossed up to provide estimates for the charity sector as a whole
- The survey will be sent to a representative sample of (approx. 200) charities and universities
- Aim to launch pilot survey in late June and full survey in July

## Data that will be collected

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- The value of supplies (outputs) that qualified for VAT relief/exemption
- The value of purchases (inputs) that qualified for VAT relief/exemption
- What value of these services was solely purchased to make taxable supplies; solely purchased to make exempt supplies/non-business use; and otherwise used as overheads?
- The percentage of residual VAT that was recoverable?
- The level of irrecoverable VAT for the last tax year
- The overall value of tax paid by the charity and collected on behalf of the Government



## What is the value of the sector's VAT reliefs?

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- Stating the value of charity tax reliefs acknowledges the support received from Government, but does nothing to establish the return on investment
- Charities create employment, skills and training opportunities, and purchase goods and services from other businesses in the supply chain, thereby contributing to the national economy
- These activities also generate taxes for Government in the form of PAYE, corporation taxes and VAT
- These benefits are not always considered which means that the full contribution that charities make has not yet been quantified

## Stage 2 – Socio-economic impact of VAT reliefs

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- Using the data from the Stage 1 VAT Survey, CTG will develop an analysis of charities' socio-economic contribution, and an analysis of the potential net fiscal impact of a change to the tax regime
- This research will enable us to defend existing VAT reliefs if they are challenged
- It will also give us a rigorous economic argument for why extending VAT reliefs could benefit not only charities, but wider society and save money for the Exchequer in the long term
- CTG hopes to complete stage 2 of this project by late 2019/early 2020, but this is contingent on sufficient funding being received

## 2a) Identifying the socio-economic contributions of charities and universities

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- A case study of one large charity from each sector (including universities), demonstrating their role in delivering economic and social value, including the value of the outputs / outcomes delivered (i.e. not just the £ spent)
- An economic contribution analysis, identifying not just the direct expenditure of the charity but also the jobs and value added created in supply chains, the impact of income circulating around the economy, and the overall tax contribution (income tax, NICs etc)
- Analysis of distortions to charities decision taking due to VAT considerations

## 2b) Quantifying potential public expenditure and net fiscal impacts

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- Analysis of the cost savings to charities through changes in VAT treatment, and potential for charities to expand as a result
- Mapping charities' activities and growth potential to the responsibilities of and services provided by local and central government
- Analysis of the expansion of charities will identify any incremental tax contributions (partially offsetting the cost of exemption with refunds), and analysis of public services will identify expenditure savings, leading to a net fiscal impact

## How can universities support this project?

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- Respond to the forthcoming VAT survey and share it with colleagues
- Help us to raise £100,000 to finance this research project – stage 2 is contingent on further funding
- Join other charities and universities and make a donation towards the cost of this research
- Contact us to register your interest in supporting this project on 020 7222 1265 or [info@charitytaxgroup.org.uk](mailto:info@charitytaxgroup.org.uk)
- Register for CTG's newsletter at [www.charitytaxgroup.org.uk](http://www.charitytaxgroup.org.uk) for regular project updates

# Q&A