FINAL

The value of VAT reliefs for the charity sector

London Economics

November 2020

About London Economics

London Economics is one of Europe's leading specialist economics and policy consultancies. Based in London and with offices and associate offices in five other European capitals, we advise an international client base throughout Europe and beyond on economic and financial analysis, litigation support, policy development and evaluation, business strategy, and regulatory and competition policy.

Our consultants are highly qualified economists who apply a wide range of analytical tools to tackle complex problems across the business and policy spheres. Our approach combines the use of economic theory and sophisticated quantitative methods, including the latest insights from behavioural economics, with practical know-how ranging from commonly used market research tools to advanced experimental methods at the frontier of applied social science.

We are committed to providing customer service to world-class standards and take pride in our clients' success. For more information, please visit www.londoneconomics.co.uk.

Head Office: Somerset House, New Wing, Strand, London, WC2R 1LA, United Kingdom.

w: londoneconomics.co.uk e: info@londoneconomics.co.uk : @LondonEconomics
t: +44 (0)20 3701 7700 f: +44 (0)20 3701 7701

About Charity Tax Group

The Charity Tax Group (CTG) was set up in 1982 and has dedicated the last 38 years to improving the tax position of charities and campaigning on the key issues affecting the sector. CTG continues to press the Government to introduce new tax reliefs as well as successfully campaigning to protect existing concessions, saving charities many millions of pounds.

Further information about CTG can be found at www.charitytaxgroup.org.uk.

Authors

Rohit Ladher Associate Director

Daniel Herr Senior Economic Consultant

Table of Contents

Page

Executive Summary

Overview

London Economics was commissioned by the Charity Tax Group (CTG) to undertake research to quantify the value of existing VAT (value added tax) reliefs to charities in the UK and to model the potential impact of any changes to these reliefs. The research also provides an updated estimate of the irrecoverable VAT currently facing charities.

Background

When VAT was first introduced, it was intended to be a simple, fair, and uniform tax. However, when the original VAT system was developed, the special position of charities was not considered. Because charities often provide services that are either exempt from VAT or outside the scope of the VAT system, they are unable to recover the VAT that they pay on the purchases incurred to achieve their charitable aims. They are, in effect, treated as the final consumer, even when they are not. The UK standard VAT rate is now at a historic high of 20%, compounding the cost to charities at a time when their services are more in demand than ever.

CTG was set up to draw attention to the level of irrecoverable VAT facing the charity sector and to argue that measures should be introduced to reduce this burden. Successive Governments have recognised the merits of CTG's arguments and introduced a number of measures to reduce the amount of irrecoverable VAT incurred by charities but have argued that EU law prevented them taking more radical steps. CTG first commissioned a report from London Economics in 1995, on the cost of irrecoverable VAT to charities, which has been followed by a series of other studies, including the 2011 Charity Tax Map, which estimated that irrecoverable VAT cost the sector between £1 billion to £1.4 billion a year. In recent times, HMRC has confirmed that it holds insufficient data to accurately quantify the value of VAT reliefs to charities and this confirmed the importance of undertaking research in this area.

CTG commissioned this research at a time when the UK's future relationship with the EU remains subject to ongoing negotiation. While the UK's departure from the European Union presents new opportunities to shape VAT duties and rates, there is recognition that there may need to be some form of alignment with the EU VAT system, currently subject to review by the European Commission, which influenced a number of the potential scenarios modelled in this report. This latest study is also timely following the recommendations of the 2017 Office of Tax Simplification on VAT reform, including recommendations that the UK Government undertake a comprehensive review of the reduced rate, zero rate and exemption schedules. Following representations from CTG and others, VAT reform for charities was also a major recommendation of the 2019 Charity Tax Commission. More recently, the COVID-19 pandemic has had a significant impact on the finances of service-providing charities and this increases the urgency for dealing with this ongoing anomaly.

The implications of changes to the UK VAT system are therefore important to understand and quantify such that a case to protect existing reliefs and create an improved VAT system for charities is presented to the UK Government. This study quantifies the VAT situation faced by the UK charitable sector under the current VAT legislation (the baseline setting) and models the impacts of changes to the VAT rules under five scenarios, including those mooted by the European Commission and the UK Government.

Findings: Current VAT burden and value of VAT reliefs

The research undertaken found that the VAT levied on charities when they purchase goods and services (input VAT) stands at around £3.1 billion per year - of which, £1.8 billion (57%) is believed to be irrecoverable. This compares to previous estimates of irrecoverable input VAT ranging from £1 billion to £1.4 billion (Charity Tax Group and Nuffield Foundation, 2011), a notable increase and significant burden on the charity sector.

Input VAT reliefs on purchases by charities are estimated to be worth £1.0 billion for the charity sector as a whole.[1]

In addition to input VAT, the analysis estimates that VAT charged on supplies of goods and services by charities (output VAT) and collected by HMRC from charities amounts to £1.7 billion per year. Our best estimates are that significant amounts of this output VAT are absorbed by charities rather than being charged to their 'customers' and therefore is a burden on the charity sector. This study is the first of its kind to quantify output VAT relating to charity supplies, which adds to the overall complexity of charities' interaction with the VAT system.

	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 *(CTG/Nuffield Foundation, 2011)*	£0.4 billion *(HMRC 2016-17, now discontinued)*	Not available

Findings: Modelling the impact of potential changes to VAT rules

Having established this baseline, a number of scenarios were considered to demonstrate the application of the VAT modelling tool (developed as a part of this study) and to test the implications of VAT reforms proposed by the UK Government and the European Commission, as well as a number of radical reforms of VAT, such as removing input VAT reliefs and output VAT reliefs and exemptions completely.

Figure 1 shows the estimated impact, on the irrecoverable input VAT and output VAT faced by the charity sector as a whole, following hypothetical changes to the VAT rules under five different scenarios described below:

Scenario 1 - **Removing input VAT reliefs on all purchases of goods and services currently qualifying for relief[2] and instead taxing them at the standard rate of 20%.**

The current input VAT reliefs are valued at £1.0 billion. Loss of these reliefs under this scenario is estimated to increase the total irrecoverable input VAT burden on charities by £0.8 billion (with £0.2 billion of the £1.0 billion value of input VAT reliefs being recoverable). Output VAT remains unchanged in this scenario.

Scenario 2 - **Replacing existing input VAT reliefs with a 5% reduced rate.**

[1] It should be noted that a number of VAT reliefs relate to capital expenditure that charities are likely to incur irregularly over time. In the survey responses received, examples of such capital expenditure were purchases of construction services (RCP/RRP at zero-rate), ambulances and vehicles for disabled people. Given the randomness of such purchases and the extent to which these reliefs are claimed, the modelling approach makes no adjustment to these figures (if incurred in the last reporting year by the charity). While this may underestimate or overestimate the total value of input VAT reliefs (depending on the size of the purchases in the reporting year compared to other previous years), certain other reliefs were not claimed at all by the sample of survey respondents (such as construction services at the reduced rate (5%), rescue equipment and goods for disabled people). The exclusion of the value of these input VAT reliefs is likely to underestimate the total value.

[2] For example, the reduced rate on supplies of fuel and power, and zero rate on supplies of advertising, construction of new buildings with relevant charitable purposes (RCP) and purchases of lifeboats, etc.

This scenario is estimated to increase the total irrecoverable input VAT burden on charities by £0.2 billion when compared to the baseline setting. Output VAT remains unchanged in this scenario.

Scenario 3 - **Removal of all output reliefs (including the sale of donated goods) and exemptions (including education, culture, and welfare service exemptions).**

This scenario results in a reduction of £0.5 billion in the total irrecoverable input VAT burden; however, it is associated with a significant increased output tax burden of £3.7 billion (compared to the baseline), which could cause significant practical difficulties where charities are required to absorb output tax.

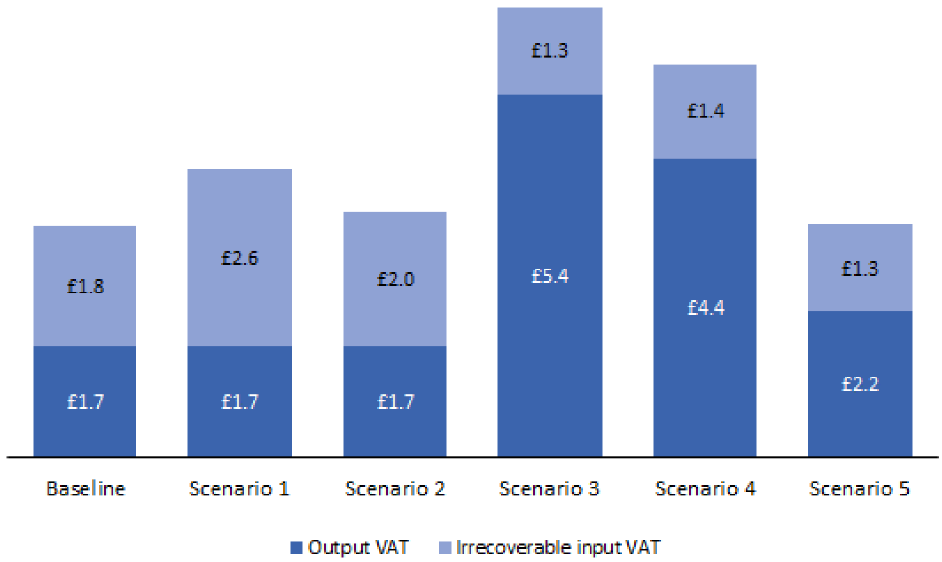
Scenario 4 - **Removal of the education, culture, and welfare services output exemptions only.**

This scenario leads to an increased output VAT burden of £2.7 billion (from £1.7 billion in the baseline setting to £4.4 billion under the scenario), suggesting that the increased burden would be particularly significant on charities in these sectors if output exemptions were taxed at the 20% rate and charities had to absorb the output tax. The total irrecoverable input VAT burden reduces by £0.4 billion to £1.4 billion under the scenario.

Scenario 5 - **Introduction of a super-reduced output VAT rate of 2.5%, replacing existing output VAT reliefs and exemptions.**

This scenario is associated with a smaller increase in output VAT of £0.5 billion compared to the baseline figure, while it would also result in a reduction in the irrecoverable input VAT burden by £0.5 billion to £1.3 billion under the scenario. This suggests that a reduced rate on supplies at 2.5% may achieve a similar outcome as existing output VAT reliefs and exemptions; however, certain subsectors may benefit from a reduced rate more than others, indicating that an option to tax may be a helpful approach. A lower super-reduced output VAT rate would result in an increased recovery of input VAT, although the overall VAT collected by the Exchequer would be reduced.

Figure 1 Output VAT and Irrecoverable input VAT (£ billion)



Note: Baseline represents the estimate under current VAT rules.
Source: London Economics' analysis

Conclusion

The results of the study highlight the importance of existing VAT reliefs and exemptions for the charity sector. However, it also provides strong evidence that VAT continues to place a significant burden on UK charities, despite existing reliefs. It thus reinforces the recommendations for VAT reform made by the Charity Tax Group in its long-standing representations to HM Treasury.

The tool developed provides an opportunity to model different reform scenarios, helping to provide much needed economic rigour to VAT policy making as it affects charities.

1 Introduction

While the common misconception that charities do not pay tax is certainly not true, charities do benefit from a range of charitable tax reliefs. Despite these reliefs, charities still face a significant tax burden. The Charity Tax Group (CTG) was established to raise awareness of the level of irrecoverable VAT facing the charity sector and potential measures that could reduce this tax burden. The 2011 Charity Tax Map first estimated that irrecoverable VAT cost the sector between £1 billion to £1.4 billion a year. Recently, HMRC argued that it held insufficient data to accurately quantify the value of VAT reliefs to charities. Therefore, there is a need to undertake research in this area to provide an updated assessment of the impact of the VAT system on the UK charity sector.

More recently, the Office of Tax Simplification (2017) and the Charity Tax Commission (2019) concluded reviews that made a series of recommendations for VAT reform, including recommendations that the UK Government undertake a comprehensive review of the reduced rate, zero rate and exemption schedules. Moreover, the UK's departure from the European Union, and with it the UK's ability to directly amend UK VAT legislation, presents new opportunities to shape VAT duties and rates that apply after the transition period. The implications of such changes to the UK VAT system are important to understand and quantify such that a case to protect existing reliefs and create an improved VAT system for charities is presented to the UK Government. In addition, the COVID-19 pandemic has also had a significant impact on the finances of service-providing charities, which increases the urgency and importance of this study.

In light of this, the Charity Tax Group (CTG) commissioned London Economics to produce an independent research study that quantified the value of existing VAT reliefs to charities in the UK and modelled the potential impact of any changes to these VAT reliefs.

The remainder of this report is structured as follows:

- Chapter 2 outlines the approach used to collect the required information and model the baseline VAT setting for the charity sector in the UK. Annex 1 provides a more in-depth discussion of the methodology used, the underlying calculations and limitations of the data.
- Chapter 3 provides a high-level overview of the current VAT system for charities in the UK.
- Chapter 4 presents estimates of the value of current VAT reliefs for charities in the UK as well as the irrecoverable VAT burden. In addition, five scenarios are modelled to assess the impact on the sector of some proposed changes to the relief rates.
- Chapter 5 concludes.

2 Approach

To assess the value of VAT reliefs available to UK charities, a representative survey of the sector was conducted. As financial information was requested, the questionnaire was designed in Microsoft Excel to facilitate completion.[3] The survey questionnaire had four main segments, namely:

- Organisation information including the name of the UK Charitable Group (the level at which information was sourced), the last financial year of reporting as well as the year end for the most recent VAT return and the company registration number (if applicable).
- The net value of supplies/sales/outputs that qualified for VAT relief and total net income by type of entity (VAT and non-VAT) and type of income.
- The net value of purchased goods and services that qualified for a VAT relief (broken down in terms of use made for taxable supplies, exempt supplies, non-business use and overheads/residual costs), and (separately) the total value of (net of VAT) purchases/inputs by origin and the residual VAT rate.
- Other information relating to employment and wages.

The survey questionnaire was developed in collaboration with the CTG Project Team to ensure all relevant information was collected while minimising the time burden on charities.

A total of 90 responses were received which equated to a response rate of 13%. Of the 90 responses, 72 were valid for the purposes of modelling. Annex section A2.1.6 provides details on the responses that were excluded from the modelling.

A user-friendly Excel-based model was developed to analyse the responses. At a high-level, the model baseline (assuming the current relief rates and exemptions) calculates the amount of VAT that charities pay to HM Revenue & Customs (HMRC) on their supplies (output VAT), the amount of VAT that charities incur on their purchases (input VAT), and the amount of input VAT that charities can recover from HMRC (recoverable input VAT).

Using these calculations, the model then computes the irrecoverable input VAT burden on charities as well as the potential output VAT burden[4].

The survey responses were scaled up to be representative of the sector as a whole using information on total income of the sector (as reported by the NCVO) and income reported by the respondents.

All relief rates and exemptions were modelled to be flexible such that the user can set any value for these parameters and assess the impact on the VAT burden for the charity sector as a whole. This report presents the impact of five different scenarios (see section 4.2).

A more detailed discussion on the data collection exercise and model calculations is provided in Annex 1. However, the reader should be aware of the following limitations and caveats throughout this report:

- Utmost care was taken to ensure that survey results accurately reflect the VAT situation of the charitable sector as a whole. However, as is always the case when relying on survey data, the results may not be fully representative of all charities. It is possible that the situation of some charities may

[3] A copy of the questionnaire is provided in Annex 3.

[4] This assumes charities absorb the whole output VAT burden. In practice, some customers of charities can claim VAT back. Therefore, not all output VAT may be borne by charities, though it appears reasonable to assume that for the most part customers would not have been able to claim output VAT back, and, therefore, that output VAT places an additional burden on the charity. This caveat is noted in Section 4 when presenting the results.

have been missed, and other situations may have been over- or under-represented by the survey. In particular, large charities may have been better able to provide the level of information required in the survey. These caveats are discussed in further details in annex A2.1.7.

- The level of detailed information collected for the analysis had to be balanced with the potential burden placed on survey respondents. Moreover, not all charities were able to provide all the information required. Therefore, the analysis relies on appropriate assumptions where detailed data was not available. Assumptions made are discussed as appropriate throughout the methodological annex.

The following section provides a brief overview of the VAT system for charities in the UK.

3 VAT for charities

Value Added Tax (VAT) is levied on supplies of some goods and services by businesses, including charities.[5] The standard rate of VAT is 20% but various exemptions and reliefs apply.

The VAT burden facing charities can be divided into two high-level groups:

- VAT on supplies of goods and services by charities (referred to as **output VAT**); and,
- VAT on purchases of goods and services by charities (referred to as **input VAT**)[6].

Output VAT is payable to HMRC, but charities are allowed to deduct some of the VAT incurred on inputs from the output VAT. The net amount is paid or recoverable from HMRC. The amount of VAT that cannot be deducted is referred to as **irrecoverable input VAT**. Where output VAT is charged to a customer that can reclaim the VAT, it is not a cost, since the charity can add it to the desired net price at extra cost to the customer.

However, most charity customers are not able to reclaim the VAT and so the VAT either increases the cost to the customer or the charity bears the cost by reducing its fees so that the services needed by the customer remain affordable.

It should also be noted that VAT is not applicable to all supplies and purchases by charities. Under what conditions VAT arises, and under what conditions VAT can be recovered by charities, is explored in the following two subsections.

3.1 When is VAT applicable to supplies of goods and services by charities?

VAT is levied on supplies of goods and services in the course or furtherance of **business activities**. **Non-business activities** are outside the scope of VAT (i.e. no VAT is levied on these activities).

There are a number of exemptions for supplies which would otherwise carry VAT. Particular to supplies by charities are the following **exempt activities**:

- Provision of medical care by hospitals and medical centres

[5] Note that not all charities are VAT registered. The VAT threshold as of 1 May 2020 is £85,000 in turnover from taxable activities. Charities below the threshold do not need to register for VAT. Non-VAT registered charities do not charge (or collect) any output VAT. However, they are also unable to recover input VAT charged on standard-rated or reduced-rated goods and services bought from VAT-registered businesses.

[6] Technically, 'input VAT' only refers to VAT incurred on business expenditure, but in this report, we use the term to refer to VAT incurred on all expenditure.

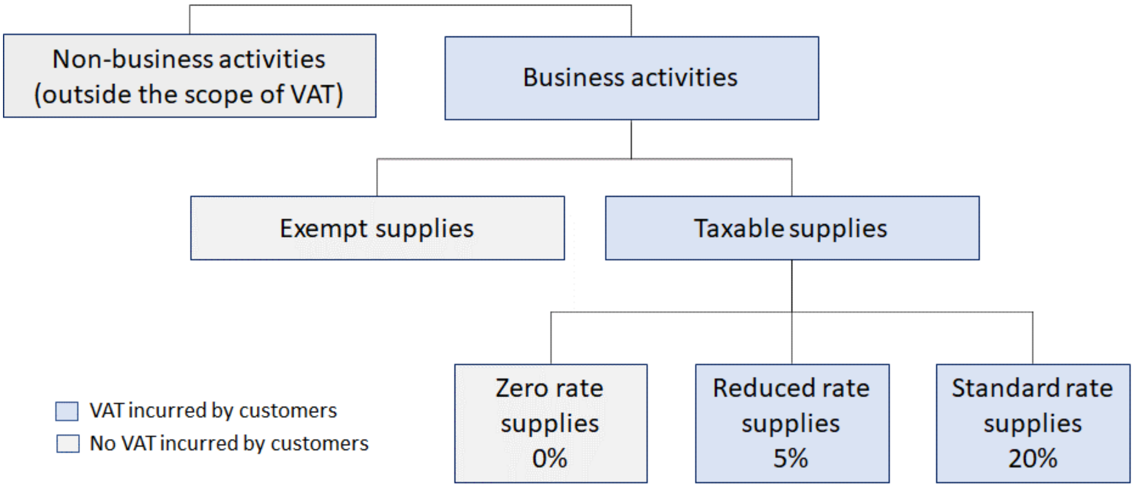
- Provision of exempt welfare, education, cultural, sports and recreation services, and membership subscriptions to exempt membership bodies
- Exempt fundraising events

In addition to exempt activities, some services/goods are taxable, but have a 0% tax rate assigned to them. These supplies are known as **zero rated supplies**, for example, sale of donated goods by a charity, printed and electronic books, and others not listed here.

Finally, some supplies are taxed at a reduced rate (5%). These are known as **reduced rated supplies** and include the supply of welfare advice by a charity, among others.

Figure 2 provides a graphical representation of the types of activities that are subject to VAT and those that are not.

Figure 2 Types of activities



Source: London Economics

3.2 When is VAT applicable to purchases of goods and services by charities?

VAT is charged to charities in the normal way with two important exceptions. Some supplies to charities are granted relief at the point of purchase. Strict conditions apply before a charity qualifies for relief.

The first type of relief enables the supplier of goods or services to charge VAT at 0% instead of the standard rate. These ‘zero rated supplies’ include printed and electronic books, medical equipment, construction of buildings used by charities.

The second type of relief currently reduces the standard rate (20%) to 5% charged by the supplier. ‘Reduced rate supplies’ include fuel and power when used for qualifying purposes.

3.3 Under what conditions can charities recover VAT on their purchases?

Charities can recover VAT incurred on purchases used for taxable activities, and in limited cases for non-business activities of certain sectors. If a purchase is used only for taxable activities, all VAT incurred on the purchase can be recovered (subject to minor exceptions). On the other hand, VAT on purchases which are used for exempt or non-business activities is irrecoverable.

However, some purchases are used across more than one activity and can thus not be wholly attributed to one activity. VAT on these purchases is referred to as **residual VAT**. Residual VAT is typically incurred on overheads (such as rent, IT costs, the cost of gas and electricity, etc.) but can arise where a cost is not an overhead but is nonetheless used for two or more activities.

Residual VAT needs to be apportioned across taxable, exempt, and non-business activities, and only residual VAT apportioned to taxable supplies can be recovered. Charities use a number of different partial exemption recovery methods (as approved by HMRC) to apportion residual VAT.

Table 1 provides a summary, for each type of activity, of whether output VAT is chargeable and whether input VAT can be recovered.

Table 1 VAT by type of activity

Type of activity	Output VAT (charity sales)	Input VAT (charity purchases)
Non-business activities	Output VAT is not charged.	Input VAT incurred cannot be recovered. (In some special limited cases, charities can receive a rebate of VAT from the Government).
Exempt activities	Output VAT is not charged.	Input VAT incurred cannot be recovered.
Standard rated activities	Output VAT is charged.	Input VAT incurred can be recovered.
Reduced rated activities	Output VAT is charged, but at a reduced rate (currently 5%).	Input VAT incurred can be recovered.
Zero rated activities	Output VAT is not charged (more precisely, output VAT is charged, but at a rate of 0%).	Input VAT incurred can be recovered.
Residual activities	-	Input VAT is partially recoverable.

Source: London Economics

4 Findings

4.1 Current VAT burden and value of VAT reliefs

For the UK charity sector as a whole, the VAT levied on charities when they purchase goods and services (input VAT) is estimated to be approximately £3.1 billion per year. As noted above, charities are able to recover part of the VAT paid on purchases (recoverable input VAT). Specifically, charities are able to recover VAT paid for purchases relating to taxable activities as well as part of their residual costs. Charities can subtract the recoverable input VAT from the amount of VAT they have collected on behalf of the Government. The recoverable input VAT thus reduces the amount charities pay to HMRC. In some cases, recoverable input tax can exceed payable output tax, in which case refunds are claimed from HMRC.

Despite this, input VAT places a significant burden on charities, with approximately 57% of input VAT being irrecoverable by charities. In monetary terms, the irrecoverable input VAT burden placed on charities is estimated to be approximately £1.8 billion per year for the charity sector as whole. This compares to an irrecoverable VAT burden of £1 billion to £1.4 billion based on previously available evidence (Charity Tax Group and Nuffield Foundation, 2011). The results therefore provide strong evidence that VAT remains an increasing burden on the charity sector.

In the absence of these VAT reliefs on purchases, input VAT is approximately £4.1 billion per year - an increase of approximately £1.0 billion (discussed in further detail in section 4.2).

In addition to the irrecoverable input VAT burden on charities, output VAT also places a burden on charities; however, the extent to which it is a burden is more difficult to establish as the consequences of charging VAT depend on whether the customer is or is not able to recover VAT. While charities do not pay output VAT themselves, if the customer cannot recover VAT, output VAT places an indirect burden on charities as they have to absorb at least part of the VAT in their prices if the person requiring the services or goods cannot afford the full VAT inclusive price.

However, not all output VAT is borne by charities if, for example, a charity's customers can claim VAT back, there is no VAT burden on the charity. This is the case, for example, if a charity sells services to a local authority or provides management supplies to school academies. The questionnaire did not seek information on whether charities' customers can claim VAT back, since the proportion of output VAT that may have been claimed would have been extremely difficult for charities to establish. Nonetheless, a reasonable assumption would be that most charity customers would not have been able to claim back output VAT, and, therefore, that output VAT places an additional burden on the charity.

Taken together, assuming that all output VAT is absorbed by charities, the research indicates that the output VAT burden would stand at around £1.7 billion per year.

4.2 Modelling the impact of potential changes to VAT rules

This section provides an assessment of the impact on the tax situation faced by charities under five different VAT scenarios. Two of the five scenarios (Scenarios 1 and 2) assess changes to the input VAT relief rates on goods and services. These scenarios effectively correspond to a policy that removes the existing input VAT relief rates and replaces them with a rate of 20% and 5% respectively.

The other three scenarios assess changes to exemptions on supplies of goods and services by a charity. Two of these scenarios (Scenarios 3 and 4) assess the impact of replacing all or part of the existing output exemptions with the current standard VAT rate of 20%. This corresponds to a policy scenario in which the Government would remove the existing exemptions on all or part of the currently exempt outputs.[7]

The final scenario (Scenario 5) assesses the introduction of a super-reduced rate, in this case set at 2.5%, in the spirit of the 2016 European Commission proposals to allow Member States to introduce one reduced rate set between 0% and the existing reduced rates (European Commission, 2016). Note, that this scenario does not apply to the sale of donated goods, which stays at zero rated under this scenario.

In summary, the five scenarios are as follows:

1) Removal of zero rated reliefs so that a 20% rate applies on all purchases of goods and services currently qualifying for relief.
2) Replacement of all zero rated input reliefs with a 5% rate.
3) Replacement of all zero rated output reliefs (e.g., the sale of donated goods) and exemptions (e.g. education, culture, and welfare services) with a 20% rate.
4) Replacement of the education, culture, and welfare services exemptions on outputs with a rate of 20% (and all zero rated output reliefs remaining unchanged).
5) Introduction of a super-reduced rate of 2.5% for all exempt activities (excluding sale of donated goods, which stays at zero rated) - and a consequential increase in input VAT recovery.

[7] Note, under Scenario 3, it is assumed that the sale of donated goods will also be charged at 20%. The sale of donated goods is not an exempt supply, but rather zero rated.

The impact of each of these scenarios is presented in Table 2 in relation to the baseline figures and discussed throughout the remainder of this section.

Removal of input VAT reliefs[8]

The introduction of a 20% rate on all purchases of goods and services currently qualifying for relief (Scenario 1) results in a £1.0 billion (32%) increase in input VAT for the charity sector. Equivalently, the current input VAT reliefs can be valued at approximately £1.0 billion for the sector as a whole. The vast majority of this increase (£0.8 billion) is irrecoverable. This is mainly driven by higher increases in input VAT for exempt and non-business activities in comparison to taxable activities. Hence, the irrecoverable input VAT burden placed on charities under this scenario increases by the same magnitude from £1.8 billion to £2.6 billion.

The introduction of a 5% rate on all purchases of goods and services currently qualifying for relief (Scenario 2) is associated with an increase in input VAT of approximately £0.2 billion (8%). Again, most of this increase is irrecoverable by charities, resulting in an additional input VAT burden on charities of approximately £0.2 billion (a 11% increase).

Note, that as the changes only affect input VAT, the level of output VAT collected by charities remains unaffected under these scenarios.

Removal of output VAT reliefs and exemptions

Replacing all output VAT reliefs (such as the sale of donated goods) and exemptions with a 20% rate (Scenario 3) would result in a £3.7 billion increase in output VAT for the charity sector (from £1.7 billion in the baseline setting to £5.4 billion under the scenario). While VAT on standard or reduced rate exempt inputs associated with the previously exempt outputs can now be recovered (as they are now taxable), the impact of this is estimated to be relatively small (£0.5 billion) when compared to the increase in output VAT.

The estimates for Scenario 4 make clear that a significant proportion of this increase is due to removal of the education, culture, and welfare services exemptions, with the removal of these three exemptions alone accounting for £2.8 billion of the £3.7 billion increase in output VAT (from Scenario 3). These figures highlight the value of output VAT reliefs and exemptions for the charity sector as a whole as well as for these key subsectors, as the additional VAT burden from the removal of these output reliefs and exemptions would be substantial if charities absorb all the cost.

Introduction of a super-reduced output VAT rate

In contrast, the impact of the introduction of a super-reduced output VAT rate of 2.5% (Scenario 5) is estimated to be relatively small with output VAT increasing by £0.5 billion (31%) under this scenario. However, the reclassification of standard or reduced rated exempt inputs associated with the previously exempt outputs as taxable, means that almost all of this increase is offset by the higher proportion of input VAT that can now be recovered. This suggests that a reduced rate on supplies at 2.5% may achieve a similar outcome as existing output VAT reliefs and exemptions; however, certain subsectors may benefit from a reduced rate more than others, indicating that an option to tax may be a helpful approach. A lower super-reduced output VAT rate

[8] It should be noted that a number of VAT reliefs relate to capital expenditure that charities are likely to incur irregularly over time. In the survey responses received, examples of such capital expenditure were purchases of construction services (RCP/RRP at zero-rate), ambulances and vehicles for disabled people. Given the randomness of such purchases and the extent to which these reliefs are claimed, the modelling approach makes no adjustment to these figures (if incurred in the last reporting year by the charity). While this may underestimate or overestimate the total value of input VAT reliefs (depending on the size of the purchases in the reporting year compared to other previous years), certain other reliefs were not claimed at all by the sample of survey respondents (such as construction services at the reduced rate (5%), rescue equipment and goods for disabled people). The exclusion of the value of these input VAT reliefs is likely to underestimate the total value.

would result in an increased recovery of input VAT, although the overall VAT collected by the Exchequer would be reduced.

Table 2 Assessment of VAT scenarios

Scenario		Output VAT (£ billion)	Input VAT (£ billion)			VAT payable to HMRC (£ billion)
			Total	Recoverable (% of total)	Irrecoverable (% of total)	
Baseline estimate		**1.66**	**3.10**	**1.32 (43%)**	**1.78 (57%)**	**0.34**
Scenario 1	**Value**	**1.66**	**4.08**	**1.48 (36%)**	**2.61 (64%)**	**0.18**
	Change	No change	+0.99 (32%)	+0.16	+0.83	-0.16 (-46%)
Scenario 2	**Value**	**1.66**	**3.33**	**1.35 (41%)**	**1.98 (59%)**	**0.30**
	Change	No change	+0.23 (8%)	+0.03	+0.20	-0.03 (-10%)
Scenario 3	**Value**	**5.38**	**3.10**	**1.81 (59%)**	**1.28 (41%)**	**3.57**
	Change	+3.72 (225%)	No change	+0.49	-0.49	+3.23 (957%)
Scenario 4	**Value**	**4.44**	**3.10**	**1.72 (56%)**	**1.37 (44%)**	**2.72**
	Change	+2.78 (168%)	No change	+0.41	-0.41	+2.38 (704%)
Scenario 5	**Value**	**2.17**	**3.10**	**1.81 (59%)**	**1.28 (41%)**	**0.35**
	Change	+0.51 (31%)	No change	+0.49	-0.49	+0.02 (5%)

Note: Numbers may not sum up precisely due to rounding. Baseline represents the current VAT legislation. The five scenarios assessed are:

- Scenario 1: Removal of zero rated reliefs so that a 20% rate applies on all purchases of goods and services currently qualifying for relief.
- Scenario 2: Replacement of all zero rated input reliefs with a 5% rate.
- Scenario 3: Replacement of all zero rated output reliefs (e.g., the sale of donated goods) and exemptions (e.g. education, culture, and welfare services) with a 20% rate.
- Scenario 4: Replacement of the education, culture, and welfare services exemptions on outputs with a rate of 20%.
- Scenario 5: Introduction of a super-reduced rate of 2.5% for all exempt activities (excluding sale of donated goods, which stays at zero rated) - and a consequential increase in input VAT recovery.

Source: London Economics' analysis

5 Conclusion

Charities are an important part of modern society in the United Kingdom, providing a wide array of important services as well as a significant contribution to the UK economy. While charities benefit from a range of charitable tax reliefs, tax nevertheless places a significant burden on the sector.

This study quantifies the value of current VAT reliefs and exemptions available to charities in the UK and estimates the total irrecoverable input VAT burden placed on them under the current VAT legislation as well as under five different scenario settings. Under the current VAT legislation, the irrecoverable input VAT burden (that is the VAT incurred by charities on purchases of goods and services that cannot be recovered) placed on the charity sector as whole is approximately £1.8 billion per year. In addition, assuming charities absorb all output VAT as a worst-case scenario, VAT charged on supplies of goods and services by charities places an additional burden of up to £1.7 billion on UK charities. This provides strong evidence that VAT remains an increasing burden on the charity sector.

The analysis in this study further highlights the importance of existing VAT reliefs and exemptions. Removing input VAT reliefs on all goods and services currently qualifying for relief (and instead taxing them at the standard rate of 20%) is estimated to increase input VAT levied on charities by £1.0 billion, of which £0.8 billion is irrecoverable. Similarly, if VAT reliefs and exemptions on supplies were removed and taxed at the standard rate of 20%, output VAT is estimated to increase by approximately £3.7 billion.

It should be noted that removal of the education, culture, and welfare services exemptions alone is estimated to result in an increase in the total VAT payable to HMRC of £2.7 billion, suggesting that the increased burden placed on charities in these subsectors would be particularly significant.

The introduction of a super-reduced output VAT rate of 2.5% instead of existing output VAT reliefs and exemptions, is associated with a relatively small increase of £0.02 billion in the total VAT payable to HMRC. This suggests that a reduced rate of around 2.5% may achieve a similar outcome as existing output VAT reliefs and exemptions; however, certain subsectors may benefit from a reduced rate more than others. For example, the modelling shows that the total VAT burden would be lower for charities in the culture and recreation, research, and international subsectors (accounting for 20% of charities in the UK based on NCVO UK civil society almanac 2020 data). A lower super-reduced output VAT rate would result in an increased recovery of input VAT, although the overall VAT collected by the Exchequer would be reduced.

Overall, the results of this study highlight the importance of existing VAT reliefs and exemptions for the charity sector as a whole, while emphasising the significant burden that VAT continues to place on the sector. It thus reinforces the recommendations for VAT reform made by the Charity Tax Group in its long-standing representations to HM Treasury.

The tool developed provides an opportunity to model different reform scenarios, helping to provide much needed economic rigour to VAT policy making and its implications on UK charities.

References

Charity Tax Commission (2019). *Reforming charity taxation. Towards a stronger civil society.*

Charity Tax Group and Nuffield Foundation (2011). *Charity Tax Map*

Charity Tax Group (2018). *Charity Tax Commission – CTG responds to the Call for Evidence*. Available at: http://www.charitytaxgroup.org.uk/consultation/charity-tax-commission-call-evidence/ [accessed 17/03/2020]

European Commission (2016). *Communication from the Commission to the European Parliament, the Council and the European economic and social committee on an action plan on VAT towards a single EU VAT area - Time to decide*. Brussels, 7.4.2016. COM(2016) 148 final.

HESA (2019). *Consolidated statement of comprehensive income and expenditure year ended 31 July by HE provider and academic year.* Available at: https://www.hesa.ac.uk/data-and-analysis/finances/table-1 [accessed 01/04/2020]

NCVO (2019). *UK civil society almanac 2019.* Available at: https://data.ncvo.org.uk/profile/ [accessed 13/03/2020]

Office of Tax Simplification (2017). *Value added tax: routes to simplification.* Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/657213/Value_added_tax_routes_to_simplification_web.pdf [accessed 13/03/2020]

INDEX OF TABLES AND FIGURES

Index of Tables and Figures

Tables

Figures

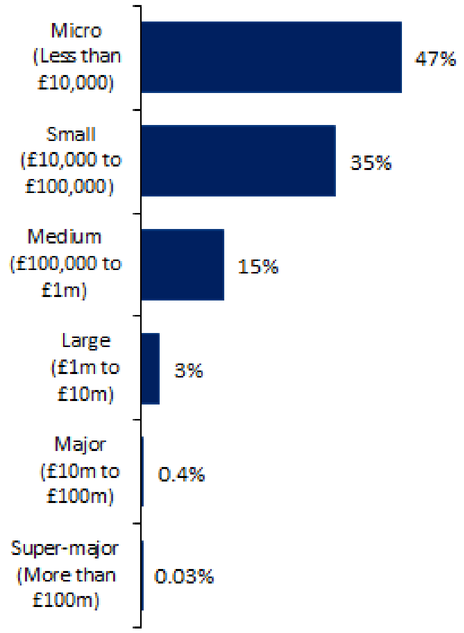
ANNEXES

Annex 1 Statistics on the charity sector in the UK

Charities are an important part of society in the United Kingdom (UK). As the Charity Tax Group (2018) highlight, a large proportion of charitable activities replace government provision or would require government intervention if charities did not provide them. Therefore, without charities, the cost to government would be significant.[9]

Furthermore, the National Council for Voluntary Organisations (NCVO) reported a total of 166,592 voluntary organisations in the UK in 2017-18 contributed £18.2 billion to the UK economy in the same period, representing 0.9% of total GDP. However, this does not account for the vital, though not easily quantifiable, social contributions that such organisations make to UK society. A majority (82%) of these were micro organisations (with an income of less than £10,000) or small organisations (with an income of less than £100,000) (Figure 3).

Figure 3 Distribution of voluntary organisations by size



Note: Total number of voluntary organisations = 166,592
Source: NCVO UK civil society almanac (2020)

In 2017-18, these voluntary organisations received a total income of £53.5 billion (in 2017-18 prices) from:

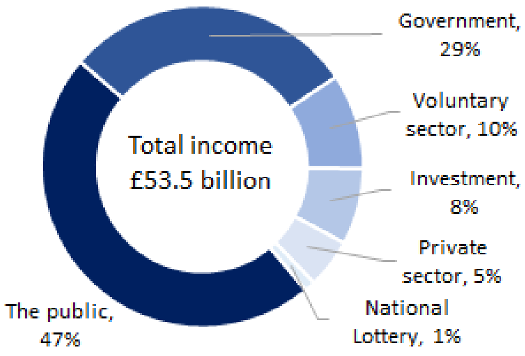
- Donations, legacies, membership fees, charity shops and other income earned from the public (representing 47% of their total income);
- Government income including funding, trading, and contracts (representing 29% of their total income); and,
- Other income sources such as investments, money from the voluntary and private sectors and the national lottery (representing 24% of their total income) (Figure 4).

In terms of expenditure, the NCVO data suggests that these charities spent most of their income on delivering their mission, with:

- Over two-thirds (70%) spent on charitable activities such as undertaking vital research and education activities, providing crucial social services, such as care-homes, or providing cultural, recreational, and religious services;
- Approximately 15% spent on the provision of grants and a further 14% on generating funds; and,
- The remaining 1% spent on governance. (Figure 5)

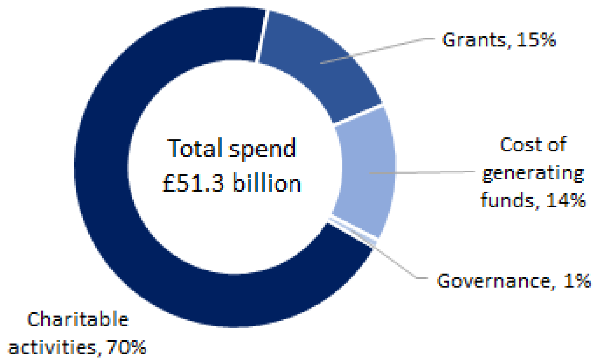
[9] Alternatively, in the absence of government provision, the cost to society would be substantial.

Figure 4 Income of voluntary organisations, by source



Note: Values reported in 2017-18 prices
Source: NCVO UK civil society almanac (2020)

Figure 5 Expenditure of voluntary organisations, by type



Note: Values reported in 2017-18 prices
Source: NCVO UK civil society almanac (2020)

Annex 2 Detailed methodology

To assess the VAT positions of charities an Excel based model was developed. The model was populated using data collected from a survey of UK charities. Section A2.1 provides details on how the data for this analysis was collected. Section A2.2 further details how the collected data was analysed to assess the VAT situation of UK charities.

A2.1 Data collection - Survey

This section details the data collection stage of the analysis. It provides information on the survey design and pilot stage of the survey (Section A2.1.1), the design of the survey sample (Section A2.1.2), how the survey was administered (Section A2.1.3), and the number of responses received (Section A2.1.4). The section also details further efforts undertaken to boost response rates (Section A2.1.5) and how incomplete responses were dealt with (Section A2.1.6). Finally, an overview of the number of responses included in the modelling stage is provided (Section A2.1.7).

A2.1.1 Survey design and pilot

To allow for modelling of the VAT situation of charities, a pilot survey questionnaire seeking information on the purchases and supplies of charities was developed. Specifically, the survey sought information, for the whole of each UK charitable group, on:

- the net value of output supplies and other income;
- the net value of supplies/sales/outputs which qualified for VAT relief;
- the net value of purchases/inputs;
- the net value of purchased goods and services that qualified for a VAT relief; and,
- information on the charities themselves such as employment information, expenses on wages, NI and apprenticeship levy contributions, business rates, corporation tax, and on other taxes collected on behalf of the Government such as employee NI contribution, and income tax.

Relevant breakdowns to enable the modelling were sought for each area listed above. A copy of the final questionnaire (taking comments received on the pilot into account) showing these breakdowns is provided in Annex 1.

The questionnaire was developed in close collaboration between London Economics and the Charity Tax Group (CTG) to ensure all relevant information was collected while minimising the data collection burden on charities.

Once an initial questionnaire was agreed, an online version of the questionnaire was developed using Smart Survey. This initial online questionnaire was distributed to a sample of 10 charities to test the questionnaire. Seven charities completed the pilot and provided feedback.

Based on feedback received on the pilot, an updated version of the questionnaire was developed. Feedback received on the pilot also highlighted issues with the collection of the financial information sought through the format of an online survey, and the importance of including error checks and automate totalling. It was therefore decided to convert the survey into an Excel-based survey to make completion of the questionnaire easier for charities.

A2.1.2 Sample design

An initial sampling frame of around 400 charities was used in the first phase of the roll-out of the survey. NCVO data on the number of charities in each subsector was used to derive the required target sampling frame in each subsector to ensure the sampling frame was representative of the UK charity sector as a whole.

An insufficient sample was available in some subsectors. Therefore, to ensure that enough charities were being contacted ensuring a robust analysis, the shortfall was redistributed across subsectors where a large enough sample was available.

Table 3 below provides the NCVO breakdown of charities by subsector, the derived target sample and the sampling frame following redistribution of charities from subsectors where a large enough sample was not available.

A2.1.3 Survey administration

To help engage participation in the survey, CTG first contacted all of their members to inform them of the survey and to highlight the importance of participation for the analysis. The survey was also promoted on the CTG website and in their regular newsletter sent out to members.

Following this initial promotion, based on the sampling frame and contact details available from CTG, London Economics invited a random sample of charities (see Section A2.1.1) to participate in the survey. An initial deadline of two months was set for the completion of the survey.

The initial sample of charities invited to participate in the survey was increased to 436 at this stage to include charities that expressed interest in completing the survey as well as a few identified by CTG to be more likely to respond.

Throughout the data collection process, in response to the CTG's survey promotion activities, a number of charities not included in the initial wave contacted CTG or London Economics expressing interest in participating in the survey. These charities were also sent the survey questionnaire.

A first reminder was sent to charities that had not completed the survey one month following the launch of the survey. A second reminder was scheduled to be sent to charities a week prior to the deadline. However, since at that time an insufficient number of responses had been received, it was decided to extend the survey deadline by a month.

Given the low response rate at the time, the survey was also rolled out to all charities where contact details were available. This boosted the sampling frame by an additional 257 charities, from 436 to 693. A breakdown of the subsector split of the extended sampling frame is provided in Table 3.

A final reminder was sent to charities that had not completed the survey one week prior to the new deadline.

A2.1.4 Responses received

The total number of responses received by the extended deadline was 90. The overall response rate was 13%. The breakdown of the responses by subsector, compared to the breakdown of the extended sampling frame is also provided in Table 3.

Note, that following consultation with the NCVO the subsector classification of some respondents was changed to ensure that the classification of the charities included in the analysis matches the NCVO subsector classification used for the total income in each subsector.

A2.1.5 Further efforts to boost key subsectors

The number of responses received was large enough to enable an assessment of the VAT situation faced by the charity sector as a whole. However, the response rate was not sufficient to enable a sub-sector level analysis. In addition, the low number of responses in some sub-sectors was also of concern.

Therefore, targeted efforts by CTG were carried out in order to boost responses in key subsectors. Specifically, CTG reached out to colleagues in key subsectors via email and phone and encouraged them to complete the survey.

These efforts yielded one further response. The Covid-19 crisis and year-end reporting pressures meant a number of charities were unable to provide a response in the required timeframe which reduced the number of further responses received.

A2.1.6 Incomplete and duplicate responses

Of the 90 responses received 17 were excluded from the modelling as they did not complete key questions within the questionnaire. Three further responses were excluded as they were duplicated responses from different entities within the same charitable groups as other responses received.

Of the 17 charities that did not complete key parts of the questionnaire, 16 were contacted to request additional information. One charity was not contacted due to the very limited information provided.

Four charities provided enough additional information to enable use of their response for the modelling.

Another two responses were excluded due to discrepancies in the total purchase figures.

Therefore, out of 90 responses received, a total of 18 responses were excluded from the analysis.

A2.1.7 Responses used for modelling

Following the actions discussed in the previous sections, the final number of charities used in the modelling was 72. This provided a sufficient sample to undertake the analysis for the sector as a whole but not by sub-sector. The breakdown of the charities included in the model by subsector is also provided in Table 3.

Table 3 Sampling frame, survey response rate and responses used in modelling

Subsector	Total number of charities in subsector (2016-17)	% of total	Target sample	Re-distribution	Sampling frame	Extended sampling frame	Survey responses received	Response rate	Responses used for modelling
Culture and recreation	23,673	14.2%	57	+11	68	86	19	22%	16
Development	9,733	5.8%	23		18	18	1	6%	1
Education	7,471	4.5%	18	+3	21	90	9	10%	6
Employment and training	1,853	1.1%	4		2	2	4*	200%*	3
Environment	5,984	3.6%	14	+6	20	51	8	16%	6
Grant-making foundations	12,718	7.6%	30	+8	38	47	3	6%	3
Health	6,524	3.9%	16	+10	26	89	10	11%	8
Housing	3,490	2.1%	8	+3	11	11	2	18%	1
International	6,666	4.0%	16	+10	26	36	8	22%	7
Law, advocacy, and politics	4,801	2.9%	12	+1	13	13	1	8%	1
Parent Teacher Associations	11,805	7.1%	28		0	0	0	-	0
Playgroups and nurseries	6,330	3.8%	15		0	0	0	-	0
Religion	15,000	9.0%	36	+4	40	85	4	5%	4
Research	3,418	2.0%	8	+5	13	23	5	22%	5
Scout groups and youth clubs	6,335	3.8%	15		2	2	0	0%	0
Social services	32,359	19.4%	78	+19	97	127	13	10%	9
Umbrella bodies	1,051	0.6%	3	+1	4	12	3	25%	2
Village Halls	7,595	4.6%	18		1	1	0	0%	0
Total	**166,806**	**100.0%**	**319**	**81**	**400**	**693**	**90**	**13%**	**72**

Notes: (*) Following consultation with the NCVO, the subsector classification of some respondents was changed to ensure that the classification of the charities included in the analysis matches the NCVO subsector classification used for the total subsector income. In particular, two responses of the 'Employment and training' subsector were previously classified as 'Education', explaining the 200% response rate in this sector.

Source: London Economics; Total number of charities in each subsector obtained from the NCVO UK civil society almanac (2019)

A2.2 Data analysis

Based on the sample VAT return and other data collected from charities, an Excel model was developed to assess the VAT situation of all UK charities.

The model calculates the amount of VAT charities collect on their supplies (output VAT), the amount of VAT charities pay on their purchases (input VAT), and the amount of input VAT charities can recover from HMRC (recoverable input VAT).

Based on these calculations, the model then calculates (a) the irrecoverable VAT burden on all charities (the amount of input VAT that cannot be recovered), (b) the output VAT payable to HMRC by the charity sector, and (c) the total VAT burden on all charities (irrecoverable input VAT plus output VAT[10]).

These calculations are undertaken for a baseline setting, representing current VAT legislation, and a user-defined scenario, estimating the impact of a change in VAT rates defined by the user. The model estimates the impact of changes to the following rates:

- changes in the standard VAT rate;
- changes to output exemptions;
- changes to input reliefs; and,
- changes to the proportion of residual input VAT charities can recover.

The remainder of this section details the calculations, assumptions made, as well as caveats of the analysis. Section A2.2.1 explains how output VAT was calculated. Section A2.2.2 details the input VAT calculations, including calculation of recoverable input VAT. Section A2.2.3 illustrates the effects of changes to the VAT rates under the user-defined scenario; and, Section A2.2.4 discusses the approach taken to gross up the sample to the whole charity sector.

A2.2.1 Output VAT

Output VAT is calculated in the following way:

1) Total supplies qualifying for relief are calculated across charities corresponding to the same subsector and grossed up to represent the charity sector as a whole. This is done separately for the sale of donated goods and each relevant output VAT exemption.

[10] This assumes charities absorb the whole output VAT burden. In practice, some customers of charities can claim VAT back. Therefore, not all output VAT may be borne by charities, though it appears reasonable to assume that for the most part customers would not have been able to claim output VAT back, and, therefore, that output VAT places an additional burden on the charity. This caveat is noted in Section 4 when presenting the results.

Sale of donated goods	A
Provision of exempt medical care by hospitals and medical centres	B
Provision of exempt welfare services	C
Provision of exempt education by an eligible body	D
Provision of exempt cultural services	E
Provision of exempt sports and recreation services	F
Membership subscriptions to exempt membership bodies	G
Fundraising events (exempt)	H
Cost-sharing services (exempt)	J
Other	K
Total supplies qualifying for VAT relief	**Total**

2) Output VAT on supplies qualifying for relief is calculated for each relief. Note, that VAT under the baseline is zero, therefore VAT is only payable under the user-defined scenarios. Therefore, the user-defined rates for each relief are applied to the totals calculated in (1).

		Baseline	**User-defined**
	Total	**VAT**	**VAT**
Sale of donated goods	A	£ -	A * rate for A
Provision of exempt medical care by hospitals and medical centres	B	£ -	B * rate for B
Provision of exempt welfare services	C	£ -	C * rate for C
Provision of exempt education by an eligible body	D	£ -	D * rate for D
Provision of exempt cultural services	E	£ -	E * rate for E
Provision of exempt sports and recreation services	F	£ -	F * rate for F
Membership subscriptions to exempt membership bodies	G	£ -	G * rate for G
Fundraising events (exempt)	H	£ -	H * rate for H
Cost-sharing services (exempt)	J	£ -	J * rate for J
Other	K	£ -	K * rate for K
Total output VAT on supplies qualifying for VAT relief	**Total**	**£ -**	**Total**

3) Output supplies and other income from the sample data is grossed up for each breakdown provided. The grossed-up breakdowns are then used to calculate the (whole charity sector) total supplies relating to non-VAT registered entities, supplies outside the scope of VAT, standard rated supplies, reduced rated supplies, zero rated supplies, and exempt supplies.

Output supplies and other income	**Non-VAT registered**	**Outside the scope of VAT**	**Standard rate**	**Reduced rate**	**Zero rate**	**Exempt**	**Total**
Sales of goods and services	A1	A2	A3	A4	A5	A6	**Row-total**
Property	B1		B3			B6	**Row-total**
Grants/subsidies from Government and Public Bodies							
UK Government/Public Bodies	C1	C2					**Row-total**
EU	D1	D2					**Row-total**
Other Countries	E1	E2					**Row-total**
Grants/subsidies from UK Charities	F1	F2					**Row-total**
Grants/subsidies from other sources	G1	G2					**Row-total**
Investment income (excluding property)	H1	H2					**Row-total**
Individual Gift Aid (gross including tax reclaim)	I1	I2					**Row-total**
Non-group corporate Gift Aid	J1	J2					**Row-total**
GASDS	K1	K2					**Row-total**
Other donations	L1	L2					**Row-total**
Other	M1	M2					**Row-total**
Total income	**T1 (A1 to M1)**	**T2 (A2 to M2)**	**T3 (A3 + B3)**	**T4 (A4)**	**T5 (A5)**	**T6 (A6 + B6)**	**Row-total**

4) Output VAT is calculated for each breakdown in (3) to compute the consequences of an increase in the standard rate of VAT (currently 20%). Under the baseline a rate of 0% is applied to for supplies relating to non-VAT registered entities, supplies outside the scope of VAT, zero rated supplies and exempt supplies. A VAT rate of 20% is applied to standard rated supplies, and a VAT rate of 5% is applied to reduced rated supplies. Under the user-defined scenario the standard rate set by the user of the model is applied to the total supplies subject to standard rate in (3). Total output VAT is calculated by aggregating the totals for each breakdown.

	Baseline VAT	User-defined VAT
Non-VAT registered	T1 * 0%	T1 * 0%
Outside the scope of VAT	T2 * 0%	T2 * 0%
Standard rate	T3 * 20%	T3 * X%
Reduced rate	T4 * 5%	T4 * 5%
Zero rate	T5 * 0%	T5 * 0%
Exempt	T6 * 0%	T6 * 0%
Total output VAT on supplies	Total	Total

5) Output VAT on supplies qualifying for VAT relief (2) under the user-defined scenario is added to the total output VAT of the user-defined scenario calculated in (4) to compute the consequences of the withdrawal of output VAT reliefs.

	Baseline VAT	User-defined VAT
Total output VAT on supplies	A1	B1
Total output VAT on supplies qualifying for VAT relief	-	B2
Total output VAT	A1	B1 + B2

A2.2.2 Input VAT

Input VAT is calculated in the following way:

1) Total purchases qualifying for relief for the sample of respondents are aggregated separately for zero rated and reduced rate reliefs and whether purchases related to non-business activities, exempt activities, taxable activities, or overheads (residual costs). The total values of these reliefs are then scaled up to represent the whole sector using the scale factors for the sector as whole (See section A2.2.4 for further details).

   Given a small number of responses for some reliefs, total purchases are aggregated up to reduced rate and zero rated reliefs to ensure charity-wide figures are based on a sufficient sample size and not driven by extreme values that are not representative of the sector as a whole. It is also important to note that, from the sample of survey respondents, a number of reliefs were also not claimed (this includes Construction services (RRP at 5%), Equipment for making ‘talking’ books and newspapers, Goods for disabled people and Rescue equipment); hence, the total value of all reliefs is likely to be underestimated in the analysis.

Purchases subject to relief	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Fuel and power	A1	A2	A3	A4	**Row-Total**
Construction services (RRP @ 5%)	B1	B2	B3	B4	**Row-Total**
Purchases subject to reduced rate	**Total**	**Total**	**Total**	**Total**	**Row-Total**

Note: No value was reported for construction @ 5% in the sample. Therefore, purchases subject to reduced rate only cover fuel and power.

Purchases subject to relief	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Advertising	C1	C2	C3	C4	**Row-Total**
Items for collecting donations	D1	D2	D3	D4	**Row-Total**
Aids for disabled people	E1	E2	E3	E4	**Row-Total**
Construction services (RCP)	F1	F2	F3	F4	**Row-Total**
Construction services (RRP @ 0%)	H1	H2	H3	H4	**Row-Total**
Drugs and chemicals	I1	I2	I3	I4	**Row-Total**
Equipment for making 'talking' books and newspapers	J1	J2	J3	J4	**Row-Total**
Lifeboats and associated equipment, including fuel	K1	K2	K3	K4	**Row-Total**
Medicine or ingredients for medicine	L1	L2	L3	L4	**Row-Total**
Resuscitation training models	M1	M2	M3	M4	**Row-Total**
Medical, veterinary and scientific equipment	N1	N2	N3	N4	**Row-Total**
Ambulances	O1	O2	O3	O4	**Row-Total**
Goods for disabled people	P1	P2	P3	P4	**Row-Total**
Motor vehicles designed or adapted for a disability	Q1	Q2	Q3	Q4	**Row-Total**
Rescue equipment	R1	R2	R3	R4	**Row-Total**
Grant of lease without VAT on opted buildings	S1	S2	S3	S4	**Row-Total**
Cost-sharing services	T1	T2	T3	T4	**Row-Total**
Goods for export outside of the EU for no consideration	U1	U2	U3	U4	**Row-Total**
Books	V1	V2	V3	V4	**Row-Total**
Goods relieved from VAT under the special charity relief import rules	W1	W2	W3	W4	**Row-Total**
Other	X1	X2	X3	X4	**Row-Total**
Total zero-rated purchases	**Total**	**Total**	**Total**	**Total**	**Row-Total**

2) Total purchases are calculated for the sample for purchases relating to non-business activities, exempt activities, taxable activities, and overheads (residual costs) and grossed up. This is done separately for:

a) zero rated or exempt purchases, and for standard rated or reduced purchases; split between:

i) UK suppliers;

ii) non-EU countries subject to reverse charge;

iii) EU countries subject to reverse charge; and, for

b) purchases from EU countries where that country's VAT rate is charged.

Purchases	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Purchases from UK suppliers	T11 (A1 + B1)	T21 (A2 + B2)	T31 (A3 + B3)	T41 (A4 + B4)	**Row-Total**
Zero rated or exempt	A1	A2	A3	A4	**Row-Total**
Standard or reduced rate	B1	B2	B3	B4	**Row-Total**
Purchases from non-EU countries subject to reverse charge	T12 (C1 + D1)	T22 (C2 + D2)	T32 (C3 + D3)	T42 (C4 + D4)	**Row-Total**
Zero rated or exempt	C1	C2	C3	C4	**Row-Total**
Standard or reduced rate	D1	D2	D3	D4	**Row-Total**
Purchases from EU countries subject to reverse charge	T13 (E1 + F1)	T23 (E2 + F2)	T33 (E3 + F#3)	T43 (E4 + F4)	**Row-Total**
Zero rated or exempt	E1	E2	E3	E4	**Row-Total**
Standard or reduced rate	F1	F2	F3	F4	**Row-Total**
Purchases from EU countries where that country's VAT rate is charged	T14	T24	T34	T44	**Row-Total**
Total purchases	**T1 (T11 to T14)**	**T2 (T21 to T24)**	**T3 (T31 to T34)**	**T4 (T41 to T44)**	**Row-Total**

3) Based on total purchases calculated in (2) and total purchases qualifying for relief calculated in (1), total purchases subject to standard rate that do not qualify for relief are calculated.

This is done by first aggregating the total purchases subject to standard or reduced rate from UK, EU, and non-EU suppliers.

Purchases	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Standard or reduced rate purchases					
from UK suppliers	B1	B2	B3	B4	**Row-Total**
from non-EU countries subject to reverse charge	D1	D2	D3	D4	**Row-Total**
from EU countries subject to reverse charge	F1	F2	F3	F4	**Row-Total**
Purchases subject to standard or reduced rate	**S1 (B1 + D1 + F1)**	**S2 (B2 + D2 + F2)**	**S3 (B3 + D3 + F3)**	**S4 (B4 + D4 + F4)**	**Row-Total**

Second, in order to take out reduced rated purchases from the total calculated above, non-zero rated or exempt purchases qualifying for relief under the baseline (i.e. those where a VAT rate of more than 0% is applicable) are subtracted from this total. These are fuel and power and construction (RRP at 5%) - although there was no value reported for the latter. This is again done separately for purchases relating to non-business activities, exempt activities, taxable activities, and overheads (residual costs).

	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Purchases subject to standard or reduced rate	**S1**	**S2**	**S3**	**S4**	**Row-Total**
Fuel and power	A1	A2	A3	A4	**Row-Total**
Construction services (RRP @ 5%)	G1	G2	G3	G4	**Row-Total**
Purchases subject to standard rate	**S1 - A1 - G1**	**S2 - A2 - G2**	**S3 - A3 - G3**	**S4 - A4 - G4**	**Row-Total**

4) The results from (1) and (3) are then used to calculate input VAT as described below. These calculations are again done separately for purchases relating to non-business activities, exempt activities, taxable activities, and overheads (residual costs).

a) Input VAT on purchases qualifying for relief is calculated by applying the baseline and user-defined VAT rates to the totals calculated in (1). Under the baseline a rate of 0% is applied to all purchases eligible for relief except for fuel and power, where a rate of 5% is applied, and construction services, where a rate of 5% is applied to RRP construction services at 5%. The baseline case is shown below.

	Baseline				
	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Fuel and power	A1 * 5%	A2 * 5%	A3 * 5%	A4 * 5%	**Row-Total**
Construction services (RRP @ 5%)	G1 * 5%	G2 * 5%	G3 * 5%	G4 * 5%	**Row-Total**
Input VAT on purchases qualifying for relief	**Total**	**Total**	**Total**	**Total**	**Row-Total**

Similarly, under the user defined scenario, the user specified VAT rate for each purchase qualifying for relief is applied to the totals of that purchase and then summed up.

b) Input VAT on purchases subject to standard rate, calculated in (3), is calculated by applying the standard rate of 20%, under the baseline scenario, and the user-defined standard rate, under the user-defined scenario, to the totals calculated in (3).

	Purchases subject to standard rate	Baseline VAT	User-defined VAT
Non-business activities	P1	P1 * 20%	**P1 * X%**
Exempt activities	P2	P2 * 20%	**P2 * X%**
Taxable activities	P3	P3 * 20%	**P3 * X%**
Residual costs	P4	P4 * 20%	**P4 * X%**
Total	**Total**	**Total**	**Total**

c) Total input VAT is calculated by summing Input VAT on purchases qualifying for relief, calculated in 4a, and input VAT on purchases subject to standard rate, calculated in 4b.

	Baseline				
	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Input VAT on purchases qualifying for relief	A11	B11	C11	D11	**Row-Total**
Input VAT on purchases subject to standard rate	A21	B21	C21	D21	**Row-Total**
Total input VAT	**Total**	**Total**	**Total**	**Total**	**Row-Total**

	User defined				
	Non-business activities	Exempt activities	Taxable activities	Residual costs	Total
Input VAT on purchases qualifying for relief	A12	B12	C12	D12	**Row-Total**
Input VAT on purchases subject to standard rate	A22	B22	C22	D22	**Row-Total**
Total input VAT	**Total**	**Total**	**Total**	**Total**	**Row-Total**

5) Total input VAT is calculated by aggregating the input VAT totals, calculated in (4), for purchases relating to non-business activities, exempt activities, taxable activities, and overheads (residual costs). This is given by the row-totals in the preceding figure.

Accounting for missing breakdowns

Some charities were unable to provide detailed breakdowns of purchases, for example because these are not recorded in their systems or because it would have required an extensive effort on their part to obtain these breakdowns. To account for missing breakdowns, the subsector averages are applied to these charities. Given the available data, this was deemed as the most suitable approach to address cases of missing data.

For **purchases qualifying for relief**:

1) Total purchases are calculated as the sum of the totals of purchases related to non-business activities, exempt activities, taxable activities, or overheads (residual costs), calculated in (1) above, for each relief.
2) These totals are compared to the grossed up total figures provided for each relief.
3) The difference between the grossed up totals (2) and calculated totals (1) is distributed across non-business activities, exempt activities, taxable activities, or overheads (residual costs) based on the proportions of these activities compared to the calculated sector totals.

For **total purchases,** a similar approach is used:

1) Differences in the totals of purchases by source (e.g., zero rated or exempt purchases / standard or reduced rated purchases, UK / EU / non-EU) are distributed across non-business activities, exempt

activities, taxable activities, and residual costs based on the proportion these activities account for in the sector overall.

2) Differences in the totals of non-business activities, exempt activities, taxable activities, and residual costs are distributed across the different sources of purchases[11].

3) The remainder is distributed across purchases by activity type and source.

Recoverable input VAT

Recoverable input VAT is calculated based on the totals of the input VAT calculations for purchases relating to non-business activities, exempt activities, taxable activities, and overheads (residual costs) – step (4) in the Input VAT calculations. Specifically, it is assumed that:

- none of the input VAT relating to non-business activities can be recovered;
- none of the input VAT relating to exempt activities can be recovered;
- all of the input VAT relating to taxable activities can be recovered; and,
- part of the input VAT relating to overheads (residual costs) can be recovered.

The proportion of VAT on overheads (residual costs) that can be recovered is, under the baseline setting, assumed to be equal to the average proportion of residual VAT that was reported by charities across the sector, weighted by the residual costs of each charity. Note, that not all charities provided information on the proportion of residual VAT they can recover. Therefore, the weighted average figure is only based on a subsample of all charities – that is, those that did provide information. From the total sample, 57 reported this information which is a satisfactory sample to derive a sector-wide figure.

This weighted average rate is then applied to the grossed up residual costs of all charities (i.e. that model implicitly assumes that the residual recovery rate in the sector as a whole is equal to the weighted average)[12]. Using a weighted average was necessary due to the missing data on recovery rates.

Under the user-defined scenario, the user of the model can specify the proportion of residual VAT that is recoverable.

A2.2.3 Changes to VAT rates

As mentioned in the introduction to this section, the model allows users to estimate the impact of changes to the standard VAT rate, input reliefs, output exemptions, and the proportion of residual input VAT charities can recover. This section briefly discusses how each change was modelled.

Changes in the standard VAT rate

A change in the standard VAT rate affects both VAT charged on supplies (outputs) and purchases (inputs).

On the outputs side, supplies subject to the 20% standard rate under the baseline scenario will be subject to a higher (lower) VAT rate under the user-defined scenario. Therefore, total output VAT collected will rise (fall).

[11] Note, this is only undertaken if the difference is larger than zero. If the difference is smaller than zero it would mean removing detail from the breakdowns provided by charities.

[12] The average recovery rate was calculated for the charity sector as a whole and assumed constant across all sectors. A subsector analysis would require a sufficient and representative sample for each subsector.

Similarly, on the inputs side, purchases subject to the 20% standard rate under the baseline scenario will be subject to a higher (lower) VAT rate under the user-defined scenario. Therefore, total input VAT will rise (fall).

Moreover, as charities pay more (less) input VAT, they are also able to recover a higher (lower) amount of VAT on taxable activities and residual costs.

Overall, VAT payable to HMRC (output VAT less recoverable input VAT) rises, but by less than the increase VAT rates increase in output VAT as charities are able to recover more input VAT. The irrecoverable input VAT burden (input VAT less recoverable input VAT) on charities has also risen, though again by less than the increase in total input VAT.

Changes to input reliefs

Changes to input reliefs can take two forms:

- Purchases qualifying for full relief (i.e. where the relief was 100% of VAT) under the baseline scenario are now subject to VAT. An example would be the withdrawal of the charity VAT advertising relief.
- The effective VAT rate on purchases that qualified for partial relief (i.e. where the relief was less than 100% of VAT) has changed (this only affects fuel and power, and construction services (RCP at 5%) which are charged at 5% under the baseline scenarios).

In the first case, purchases previously qualifying for the affected VAT relief are now subject to input VAT. Therefore, total input VAT has risen. However, part of the additional input VAT may be recovered (the VAT relating to taxable activities and part of the residual costs). Output VAT is not affected by the change of the relief. Overall, therefore, the irrecoverable VAT burden on charities has risen, while VAT payable to HMRC has fallen (as output VAT did not change, but more input VAT can be recovered).

In the second case, the effect depends on the direction of change. In the case of a rise of effective input VAT (e.g. fuel and power relief is now charged at 20% as opposed to 5%), the impacts are modelled in the same way as described in case one above.

In the case that effective VAT rate is now lower (e.g. fuel and power is now charged at 2% or even qualifies for full relief as opposed to 5%), the change is reversed. Charities pay less input VAT, therefore the irrecoverable input VAT burden on charities is lower. However, as charities pay less input VAT they can also recover less and so VAT payable to HMRC is higher.

Changes to residual input VAT recovery rate

As discussed in Section A2.2.2, the proportion of residual input VAT that charities can recover is modelled as the average proportion of residual VAT that was reported by charities across the sector, weighted by the residual costs of each charity. Therefore, a change to the recovery rate is modelled as a change to the recovery rate of the sector as a whole; that is the input VAT recoverable across the sector increases (or decreases)[13].

[13] An increase (decrease) in the residual input VAT recovery rate therefore means that a higher (lower) proportion of input VAT is recoverable under the user-defined scenario compared to the baseline scenario. Thus, recoverable input VAT has risen (fallen), and the irrecoverable input VAT burden on charities as well as the amount of VAT payable to HMRC have fallen (risen), as more input VAT can now be recovered. Output VAT and input VAT are not affected by the change.

It should be noted that the rate of residual input VAT that is recoverable can also change in response to a change in output exemptions, in addition to a direct change to the rate itself under the user-defined scenario. This is detailed below.

Changes to output exemptions

Changes to output exemptions are the most complex as they can affect not only changes in the output VAT but can also have associated effects on input VAT and the rate of residual input VAT that is recoverable.

<u>Changes to output VAT</u>

If an output exemption, or non-business treatment, is removed under the user-defined scenario, output VAT is now charged on the formerly exempt supplies. Therefore, output VAT collected will rise.

Note, this would also be the case if non-business activities were no longer treated as non-business, or VAT was introduced on zero rated activities or activities outside the scope of VAT. However, these scenarios were not modelled.

<u>Changes to input VAT</u>

The change to output VAT above would mean charities can recover input VAT associated with the previously exempt outputs.

Note, that for donated goods, no purchases are associated with the exemption (as the goods are donated). Therefore, no changes to input VAT take place. The analysis also assumes that no inputs are associated with 'Other exempt supplies'.

As collecting data on the relationship between each output exemption and all related inputs would have placed a significant burden on charities, the standard or reduced rated exempt inputs associated with each output exemption are estimated in the following way:

- The proportion of income associated with the exemption that is lifted relative to the income associated with all exempt supplies is calculated. For example, if the education exemption is lifted, this would be: income from exempt education activities / total income from all exemptions[14]. If two exemptions are lifted the combined proportion of both exemptions is calculated. For example, if the education and welfare services exemptions are lifted, the proportion of income associated with the lifted exemptions is calculated as: (income from exempt education activities + income from exempt welfare services) / total income from all exemptions).
- This proportion is applied to standard or reduced rated exempt supplies, which are now taxable activities. For example, if income from exempt education activities accounts for X% of total exempt income, the analysis assumes that X% of previously irrecoverable standard or reduced rated exempt purchases are now recoverable.

Note, that input VAT has not increased (unless the standard rate was also changed under the user-defined scenario). However, input VAT on purchases associated with the output exemptions is now recoverable. Therefore, recoverable input VAT increases. Conversely, the irrecoverable input VAT burden on charities decreases by the same amount.

[14] For the reasons discussed above, "other" and "sale of donated goods" are excluded from the total.

Changes to the rate of residual input VAT that can be recovered

Given that VAT on purchase previously attributed to exempt outputs is now recoverable, residual VAT associated with these purchases is now also recoverable. To account for this, the analysis adjusts the rate of recoverable residual input VAT upwards.

However, it is not clear how much of the residual costs are associated with the previously exempt purchases. Therefore, the analysis assumes that this is proportional to the previously exempt purchases; specifically:

- The difference in the proportion of taxable purchases to total purchases after lifting the exemptions relative to before lifting the exemptions is calculated. That is, if taxable inputs accounted for X% before lifting the exemptions, and for (X + Y)% after lifting the exemption, the difference calculated is Y percentage points.
- The rate of residual input VAT that can be recovered is adjusted by this difference; i.e., it is assumed that the rate has increased by Y percentage points.

Therefore, input VAT that can be recovered has risen further, as more of the overheads can now be recovered, and the irrecoverable input VAT burden has fallen further.

A2.2.4 Approach used to scale results to the whole charity sector

To obtain figures representing the charity sector as a whole, sample data was scaled up by applying a scaling factor to the subsector totals for each subsector. Scaling factors were selected to ensure a representative sector split in the weighted totals as well as accurate reflection of the size of each subsector. As the analysis calculates VAT based on income and expenditure of charities, the scaling factor was based on subsector income. This ensures that estimated total income in each subsector matches the actual total income of each subsector, and, therefore, that VAT calculations are based on actual total income of each subsector.

The scaling factor was calculated in two steps. First, the proportion of income in each subsector covered by responses received was calculated. Second, the weight needed to scale-up the total income in the sample to the subsector total was calculated. That is, the scaling factor was set so that the total charity income in each subsector times the scaling factor equalled total income in that subsector. Table 4 shows the captured income as well as the derived scaling factors for each subsector.

As total subsector income from the NCVO was based on 2016-17 data[15], for each charity in the sample, data from the Charity Commission was used to calculate scaling factors where possible.

While the utmost care was taken to ensure a fair and robust scaling, the following caveats should nonetheless be noted:

- In a small number of cases, the Charity Commission did not have income data. Income data from the 2016/17 annual accounts was used for these charities instead.
- For the education subsector, it should be noted that total charitable group income reported by universities reflected total university income. This was significantly larger than the charitable income from the education subsector in the NCVO almanac. Therefore, HESA (2019) data on university income was used to derive scaling factors for education subsector.

[15] At the time of developing the model, the latest NCVO data corresponded to the period 2016-17. Data for 2017-18 became available towards the end of the study; however it was not used as figures didn't change significantly across the two periods and hence, was likely to have a negligible effect on the estimates provided for the charity sector as a whole.

- Some subsectors were not represented in the sample. As a result, these subsectors are not captured in the scaled-up totals. However, the proportion of income not captured was small (< 1% of total charity sector income). Therefore, no further actions were taken to estimate the remaining income.
- The scaling up does not account for differences in the composition of the sample and actual charity within each sub-sector. That is, the analysis assumes that the sample is representative within each subsector. In reality, this may not be the case for each subsector. In particular, larger charities may have better data and a dedicated member of staff dealing with taxes and may have thus been well placed to answer the survey. Smaller charities on the other hand may not have the necessary knowledge or data to enable them to complete the survey. Therefore, the estimated VAT situation in subsectors, and therefore results, may be driven over-proportionally by larger charities. However, as larger charities also account for the largest proportion of sector income (according to the 2019 NCVO Almanac charities with an income over £1 million account for more than four-fifths of the sector’s income), and therefore VAT, the potential impact on results is likely to be limited.
- In some subsectors only a small proportion of income is captured, leading to large scaling factors. This indicates that estimates of the VAT situation in these subsectors are less accurate. Sensitivity analysis showed the impact of these subsectors on the overall results to be small.

Table 4 Scaling factors

Subsector	Total sector income (£ m, 2016/17)	Proportion of income captured in sample	Scaling factor	Income captured after scaling up	Proportion of income captured after scaling up
Culture and recreation	5,873	8%	11.9	5,873	7%
Development	1,024	0%	2,041.1	1,024	1%
Education	35,659*	15%	6.9	35,659	42%
Employment and training	1,154	20%	5.1	1,154	1%
Environment	3,382	28%	3.6	3,382	4%
Grant-making foundations	4,645	1%	142.9	4,645	6%
Health	5,556	9%	11.5	5,556	7%
Housing	1,591	0%	316.6	1,591	2%
International	5,754	18%	5.4	5,754	7%
Law, advocacy, and politics	1,699	2%	45.5	1,699	2%
Parent Teacher Associations	156	0%	-	0	0%
Playgroups and nurseries	546	0%	-	0	0%
Religion	2,285	10%	9.9	2,285	3%
Research	3,113	28%	3.6	3,113	4%
Scout groups and youth clubs	283	0%	-	0	0%
Social services	11,208	6%	16.7	11,208	13%
Umbrella bodies	378	23%	4.4	378	0%
Village Halls	126	0%	11.9	0	0%
Total	**84,432**	**12%**	-	**83,321**	**99%**

Source: London Economics; total income of charities in each subsector obtained from the NCVO UK civil society almanac 2019. (*) Education income based on HESA (2019).

Annex 3 Survey questionnaire

This section provides a copy of the excel questionnaire sent to charities. Each section here corresponds to a section in the questionnaire.

Introduction

Charity Tax Group - The Value of VAT Relief for Charities

Introduction

Thank you for completing this survey.

The Charity Tax Group's (CTG) objective is to quantify the value of existing VAT reliefs and model the impact of potential reductions and/or increases 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.

The survey will be open until **Friday 10th January** and should take half a day to a day to complete. The survey questions will indicate where the data in your responses should be sourced from. Where exact figures are not known or not practical to calculate, informed estimates and approximate values are acceptable.

If you would like to speak to someone about this survey, please contact **Amy Percival** (Survey Manager) at **London Economics** on **020 3701 7695** or **apercival@londoneconomics.co.uk**. Alternatively, if you wish to verify the authenticity of this research you can contact **Chris Lane** (**CTG** Project Manager) on **020 7222 1265** or **info@charitytaxgroup.org.uk**.

Data provided in this survey will be treated on a confidential basis and only research consultancies engaged by the Charity Tax Group will process information relating to specific charity responses. Data will never be revealed to CTG, HMRC, or any other party. A list of charities responding to the survey will be shared with the Charity Tax Group for organisational purposes.

Next page

Guidance

Charity Tax Group - The Value of VAT Relief for Charities

Completion Guidance

If you are part of a Charitable Group this survey should be completed for **your UK Charitable Group as a whole**. The UK Charitable Group comprises **all entities which are included in your main UK charity's consolidated financial statements**.

If your UK Charitable Group has more than one VAT registration please complete this survey using aggregate figures for all VAT registrations.

The survey refers to UK Charitable Groups throughout but **if you are not part of a group please provide your charity's data**.

Please use the following **sources** in completing this survey:

(a) The **annual VAT workings of the UK Charitable Group for the most recently completed VAT year** for which workings have been finalised. These workings may well include four quarterly returns and an annual partial exemption etc true up calculations; and
(b) The **most recently signed consolidated financial statements**.

These two periods will ideally be the same - but don't worry if they are not.

(c) For certain questions, **additional sources** of information may also be required, such as Gift Aid and payroll details.

We suggest you **review the following 4 pages of the questionnaire before completing it** to identify which information you may need.

In addition, p**lease complete this survey on the basis of your actual VAT filings** – and not on the basis of any prudent accounts provisioning. If, for example, purchases of advertising services from offshore are not being reverse charged, but a provision is being accrued, then the provision should be ignored.

Where data is not available, please simply leave the question, or part of the question, blank.

We ask for £-values but we realise that this may not be practical and you may need to use estimates and/or roundings.

Previous page

Next page

1. Organisation Info

Charity Tax Group - The Value of VAT Relief for Charities

1 Organisation Information

1.1 What is your organisation name?

1.2 If the Charity is part of a UK Charitable Group, does the group consist of more than one charity?

1.2.1 If you answered 'Yes' to the above question, please supply the name of each charity:

1.3 For what year end have the VAT returns been most recently completed?

1.4 For what year end have consolidated financial statements been most recently signed?

1.5 If applicable, what is the Companies House registration number for the main charity?

Previous page

Next page

2. Supplies (Outputs)

Charity Tax Group - The Value of VAT Relief for Charities

2 Supplies (Outputs)

2.1 In your last UK Charitable Group VAT year for which supplies/sales/outputs did your organisation qualify for VAT relief:

	(Provide net value of supplies in £)
Sale of donated goods	
Provision of exempt medical care by hospitals and medical centres	
Provision of exempt welfare services	
Provision of exempt education by an eligible body	
Provision of exempt cultural services	
Provision of exempt sports and recreation services	
Membership subscriptions to exempt membership bodies	
Fundraising events (exempt)	
Cost-sharing services (exempt)	
Other (please specify below)	

Comments:

2.2 In your last UK Charitable Group VAT year, what was the net value (in £) of your output supplies and other income?
(Please complete columns as appropriate and where necessary provide an estimate. Figures should tie in with your financial accounts, if possible)
Note: Column 1 is for the non-VAT registered entity(ies) within your UK Charitable Group. Columns 2-6 are for the VAT registered entity(ies). Column 7 represents the consolidated total for the whole UK Charitable Group.

	1 By non-VAT registered entity(ies)	2 Outside the scope of VAT	3 Standard rate	4 Reduced rate	5 Zero rate	6 Exempt	7 Consolidated total for the whole UK Charitable Group
Sales of goods and services							£0
Property							£0
Grants/subsidies from Government and Public Bodies							
UK Government/Public Bodies							£0
EU							£0
Other Countries							£0
Grants/subsidies from UK Charities							£0
Grants/subsidies from other sources							£0
Investment income (excluding property)							£0
Individual Gift Aid (gross including tax reclaim)							£0
Non-group corporate Gift Aid							£0
GASDS (gross including tax reclaim)							£0
Other donations							£0
Other (please specify below)							£0

Comments:

Previous page
Next page

3. Purchases (Inputs)

Charity Tax Group - The Value of VAT Relief for Charities

3 Purchases (Inputs)

In this section please provide figures for the relief claimed in your last UK Charitable Group VAT return year, (including any imported services that would otherwise be subject to a reverse charge).

3.1 For which purchased goods and services has your organisation qualified for a VAT relief any time in the past, how much was the net value of purchases that qualifies for relief in the last VAT return year and what was the breakdown in terms of taxable supplies, exempt supplies, non-business use and overheads/residual costs?

		Total	Breakdown				
	Have you ever claimed this relief?	Value of purchases in your last VAT year (£ net of VAT)	Directly attributable to taxable supplies (inc s33 VAT refunds) (£ net of VAT)	Directly attributable to exempt supplies (£ net of VAT)	Directly attributable to non-business activity (£ net of VAT)	Overheads / residual costs (£ net of VAT)	*Error check:*
Fuel and power							
Advertising							
Items for collecting donations							
Aids for disabled people							
Construction services (RCP)							
Construction services (RRP @ 0%)							
Construction services (RRP @ 5%)							
Drugs and chemicals							
Equipment for making 'talking' books and newspapers							
Lifeboats and associated equipment, including fuel							
Medicine or ingredients for medicine							
Resuscitation training models							
Medical, veterinary and scientific equipment							
Ambulances							
Goods for disabled people							
Motor vehicles designed or adapted for a disability							
Rescue equipment							
Grant of lease without VAT on opted buildings							
Cost-sharing services							
Goods for export outside of the EU for no consideration							
Books							
Goods relieved from VAT under the special charity relief import rules							
Other - please specify below							

Comments:

3.2 What was the total value of (net of VAT) and origin of your purchases/inputs?

We ask that you try to complete the breakdown to your best ability using estimates where it is impractical to be precise. This information will enable us to evaluate potential changes to the current UK VAT system and the place of supply rules.

		Total	Breakdown				
		Total	Directly attributable to taxable supplies (inc s33 VAT refunds)	Directly attributable to exempt supplies	Directly attributable to non-business activity	Overheads / residual costs	*Error checks:*
Total	Total						
Purchases from UK suppliers	Breakdown						
Zero rated or exempt							
Standard or reduced rate							
Purchases from non-EU countries subject to reverse charge at:							
Zero rated or exempt							
Standard or reduced rate							
Purchases from EU countries subject to reverse charge at:							
Zero rated or exempt							
Standard or reduced rate							
Purchases from EU countries where that country's VAT rate is charged							

Error checks:

3.3 What percentage of VAT do you recover on residual costs?

%

Previous page

Next page

4. Other Info

Charity Tax Group - The Value of VAT Relief for Charities

4 Other information

Note: The most recently signed consolidated financial statements may be required to complete the questions on this page.

4.1 Approximately how many people work in your charity/group across the UK as a whole?
Note: This includes both full-time and part-time employees on your payroll, but excluding the self-employed and outside contractor or agency staff. Volunteers are not to be included.

Total headcount and/or FTE

4.2 In your last financial year, what was your charity/group's:

(Please provide totals in £)

UK gross wages and salaries (in cash or kind)
(excluding Employer's NI contributions and contributions to pension and welfare schemes)

Employers' NI contributions

Apprenticeship Levy contribution

Payable National Non-Domestic Rates (Business Rates)

What was the value of relief claimed on Business Rates?

Corporation tax paid

4.3 In your last financial year, what were the taxes collected/(recoverable from) your UK Charitable Group on behalf of the UK Government?

(Please provide totals in £)

Employees' NI

PAYE

PAYE Settlement Agreement

Other - please specify

Comments:

Please see the next page for submission information.

Previous page

Next page

Submission

Charity Tax Group - The Value of VAT Relief for Charities

Submission

Thank you for completing all sections of this survey.

Please email your completed Excel workbook to **Amy Percival** (Survey Manager) at London Economics on **apercival@londoneconomics.co.uk**. Along with your completed response, please provide a **detailed Profits and Loss (P&L) account, that is consolidated for the UK Chartiable Group, and a summary of Capital Expenditure**.

For any other information related to the survey, please contact Chris Lane (CTG Project Manager) on 020 7222 1265 or info@charitytaxgroup.org.uk.

Previous page

Somerset House, New Wing, Strand,
London, WC2R 1LA, United Kingdom
info@londoneconomics.co.uk
londoneconomics.co.uk
@LondonEconomics
+44 (0)20 3701 7700