**Making Tax Digital: Bringing business tax into the digital age**

***Submission from the Charity Tax Group***

1. The Charity Tax Group (CTG) has over 500 members of all sizes representing all types of charitable activity. It was established in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue.
2. CTG welcomes the opportunity to respond to these questions in the consultation and welcomes HMRC’s acknowledgement that an exemption for charities from these new requirements would be appropriate.

**Question 30: Should charities be exempt from the requirements to maintain digital records and to update HMRC at least quarterly?**

1. CTG agrees with HMRC that there are significant potential benefits for charities in maintaining digital records and in using software to update their digital tax account when they need to file a VAT return or less regularly to make a return for Corporation Tax or Income Tax Self-Assessment.
2. However, for practical reasons, we agree with HMRC’s recommendation that charities be exempt from the requirements to maintain digital records and to update HMRC at least quarterly. Many charities that currently keep their records on paper do so because they do not have access to the necessary software, technical expertise or equipment. This is particularly the case for some charities in rural areas who often face severe connectivity restrictions. While larger charities may have the resources to invest in new software and training, small charities are often dependent on volunteer treasurers, who the charity may be unable to help tackle the new digital requirements. Equally, some charities rely on significantly older volunteer bases, in which individuals may be less ready to embrace the digital world. As identified in the consultation document charities will also have fewer reporting requirements than other taxpayers.
3. In our experience, there is great benefit in voluntary registration as it allows charities to transition at a pace suitable to them and avoids costly unbudgeted upfront expenditure on infrastructure and new processes. Given the potential long-term benefits of maintaining digital records we would recommend the production of charity-specific guidance (and case studies) to support those charities that do decide to register voluntarily. We also welcome the Government’s commitment to working with charities, local libraries or other community locations to provide assistance and Wifi facilities.

**Question 31: Should trading subsidiaries of charities be exempt from the requirement to maintain digital records and to update HMRC at least quarterly?**

1. We appreciate the need for there to be a level playing field where charity trading subsidiaries are competing with other non-charity affiliated businesses, but in practice this is not competition in the traditional sense, with any profits being donated back up to the charity and used for charitable purposes.
2. Usually all the shares in a trading subsidiary are owned by the charity, making it a wholly-owned subsidiary. A charity will often use a subsidiary to make its activities tax effective or to accommodate any trading activities. This is often a requirement dictated by administrative, legal and financial practicalities rather than an attempt to compete with non-charity businesses *per se*. The charity is responsible for the administration of the subsidiary and processes and staff resources will often be shared across the organisation. Therefore, if a charity subsidiary was required to comply with these rules, it would mean that the charity would have to operate two systems (which adds complexity) or consider maintaining digital records for the whole charity, undermining the proposed exemption. We therefore believe that an exemption should be operational (for the reasons outlined above), with the option for charities to register voluntarily.
3. If a decision is taken to require charity trading subsidiaries to maintain digital records and update HMRC at least quarterly, we believe it would be sensible to introduce some form of transitional period and consider a size threshold to protect smaller organisations.

**Wider digital developments for charities**

1. CTG has welcomed the Government’s commitment to simplifying the administration of Gift Aid claimed through intermediaries (full response [here](https://www.charitytaxgroup.org.uk/press-release/ctg-responds-hmrc-consultation-gift-aid-intermediaries/)), and we are hopeful that it will remove barriers to donors trying to make Gift Aid claims.  However, it is important that practical implications for charities are proportionate, and that the user journey is simple and not confusing for donors. We therefore believe that the Annual Statement should be made optional or apply only to donors making more frequent or larger donations, and that there should be a passive rather than positive annual confirmation process for charities confirming Gift Aid eligibility.
2. While we are confident that the new rules will work well overall for online platforms, we believe that further targeted work is needed to improve the process for claiming Gift Aid on SMS-giving. We also encourage the Government to give serious consideration to broadening the applicability of the rules to allow a single Gift Aid declaration to be applicable to all intermediaries and consider the long-term viability of introducing changes that are consistent with the aspirations of having a Universal Gift Aid Declaration Database.

**CTG, November 2016**