

VAT registration threshold: Call for Evidence

Response by the Charity Tax Group (CTG) – 5 June 2018

Overview

1. The Charity Tax Group (CTG) has over 600 members of all sizes representing all types of charitable activity. It was set up 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 this Call for Evidence on the VAT registration threshold and we were grateful to be able to contribute to the consultation meeting on 23 May 2018.
3. While we recognise the general preference for a reduction VAT registration threshold, we believe that measures could be taken that would help to limit additional administrative complexity for charities and we outline these below.
4. If you would like any additional background information or comment, please contact the CTG Secretariat on 02072221265 or at info@charitytaxgroup.org.uk.

VAT registration threshold

5. CTG believes that charities would generally prefer a higher threshold (as many do carry out taxable supplies but, in many cases, fall below the registration threshold comfortably), but would probably be happy with the status quo too. Increasing the threshold reduces administrative costs and complexities for charities as it could relieve them of the need to be registered.
6. CTG has reservations about the potential decrease in the VAT registration threshold. A lower registration threshold would inevitably result in an increased number of charities and their trading subsidiaries being required to register to VAT.
7. The VAT system treats charities differently depending on the types of service they provide and whether or not they charge for their services. Those that do not charge are treated as the final consumer even when they are not. As a result, they are unable to recover VAT on purchases (input VAT) made to support their activities. Most of the charities that charge for their services also suffer from irrecoverable VAT because their services are exempt. As a result, registering for VAT will not always be in a charity's interest. Navigating the VAT system can be particularly complex for charities due to frequent need to apply partial exemption methods and given the limited access to resources and expertise, often requiring investment in external professional advice.

The voice of charities on Tax

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While all efforts are made by the Charity Tax Group to give assistance to its members, it is not qualified to give technical advice on fiscal matters and cannot therefore be liable in any way for any such advice given.

8. To illustrate this, one of our members wrote to us to say:

"I write as honorary taxation adviser to an organisation with over 2,000 affiliated churches. Some of these churches operate cafes as part of their mission and community outreach but I imagine that the turnover of most of them would be significantly less than the present £85,000 VAT threshold. If, however, there were to be a significant reduction in the threshold this could potentially affect the continuing effectiveness of this kind of activity as well as impose administrative burdens. Therefore, speaking on behalf of such churches, and indeed the wider church and charitable community, I would very much hope that it will not be considered necessary to reduce the existing threshold."

9. A knock-on effect of a lower registration threshold would be that increased numbers of charities (and there are many thousands of smaller local charities) would be subject to Making Tax Digital reporting requirements and the associated requirements to purchase specialist third-party software and train staff to operate it. Organisations below the threshold are excluded from the reporting requirements on the basis of the associated administrative complexity and this benefit would be undermined if the registration threshold were to be dramatically reduced.
10. If the registration threshold were reduced, there are a number of ways the impact on charities could be mitigated, although the solutions proposed would have universal application.
- a. Permitting organisations to share resources, such as staff and IT, with their trading subsidiaries, without any charges for this counting towards the VAT registration threshold.
 - b. Changing the rules so that zero-rated supplies do not contribute to the VAT registration threshold, with only positive-rated supplies included (although it would still be possible for charities to register for VAT voluntarily if that were beneficial for them). This would have a material impact on charities, owing to taxable supplies often being of books and other printed materials.
 - c. Accompanying any lower threshold with simplified tests, such as removing look forward, reverse charge, barter, below a certain level.
11. During our discussions with the Office of Tax Simplification during their VAT Review, we discussed the possibility of charities enjoying a higher threshold than commercial businesses. We therefore request consideration of the possibility of a special charity registration rate at a higher level (perhaps at £150,000 in line with the VAT flat rate scheme).
12. At the consultation meeting there was discussion about introducing a smoothing device by allowing a flat rate scheme with built in 'discount' (related to turnover or in first year) on all non-invoiced supplies (where 'invoice' means 'tax invoice'). CTG endorses this proposal, which would help smaller traders, without the need to retain a very high threshold, which overall should result in lower costs for charities.