The tax administration framework: supporting a 21st century tax system

Response to the Call for Evidence by the Charity Tax Group – 13 July 2021

Introduction and approach to the consultation

1. The Charity Tax Group (CTG) has over 800 charity members of all sizes representing all types of charitable activity, as well as a professional membership of over 50 charity accountants, lawyers and tax advisers. 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. CTG is an active participant in HMRC's Charity Tax Forum and sits as the charity representative on HMRC's Joint VAT Consultative Committee (JVCC).

2. We welcome the opportunity to respond to this consultation. The Call for Evidence provides a unique and important opportunity to examine the core principles underpinning the tax system and a chance to consider long-term and innovative reforms. It is important that this opportunity is not lost.

3. Since 2019, CTG has been co-ordinating a Future of Gift Aid project. This project was set up with common themes to the current Call for Evidence. These include harnessing the benefits of new technology and payment processing technology making the most of third-party data and taking a long-term view of change that needs to be made.

4. As CTG is a representative/campaigning body for the charity sector as a whole, this response does not include any data or discussion of impacts of the proposals on our activities. However, the general theme raises issues for charities, so our response is based on our general knowledge of the position of many charities.

5. Our response starts with a number of observations on the position of charities within the tax system. We then respond to questions particularly relevant for charities. In Annex I, we set out the key learnings from the Future of Gift Aid project and we follow that with Annex II that gives a further three practical examples supporting the principles outlined in earlier sections of the response. CTG would be very happy to discuss these in more detail with you.

Charities and tax

6. The charity sector is wide-ranging and diverse. There are approximately 200,000 charities registered with principal charity regulators in the UK. Of these only approximately 6,000 have an income of £1m or more each year. In addition, it is estimated that there are at least 190,000 other charities in England and Wales that are not required to be registered, either because they are too small or because of specific legislation excepting or exempting them from registration.

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7. As a result, charities all engage with HMRC and the tax system differently. Some have very complex tax affairs and a dedicated HMRC Customer Relationship Manager, while others only engage with HMRC to manage volunteer expenses or process a Gift Aid claim every four years.

8. Charities benefit from important tax reliefs (estimated at £4.03bn in 2019/20[1]) and it is important that reforms to the tax system do not have any inadvertent adverse financial impacts on charities. However, charities already face a cumulative burden of taxation (particularly irrecoverable VAT and employment taxes) and CTG research[2] has shown that the sector is a net contributor to the Exchequer when taxes paid and reliefs received are compared.

9. Research by the sector[3] has highlighted the size of the tax compliance burden faced by charities, yet successive Governments have not addressed the problem. This is a cause for concern as charities tend to devote a disproportionately high level of their resources to compliance: resources which would be better devoted directly to their charitable activities. The administrative costs (both in terms of time and financial cost) involved in complying with new reporting requirements often involves investment in new IT, training and professional advice, with little benefit for HMRC or the charity. Small charities, often run by volunteers, can find tax legislation and guidance daunting and very difficult to comprehend, let alone follow. We have much sympathy with the aspirations of the Call for Evidence, but we consider that very practical issues need to be addressed if these aspirations are to be realised as extensively as they might be. Much of this has been a learning of our Future of Gift Aid Project referred to in detail in Annex I.

10. We consider that there needs to be greater investment in HMRC guidance that is easily accessible to taxpayers and is as easy as possible to understand. For charities Gift Aid guidance is a case in point. This is frankly antiquated. While moves to self-assessment have put a greater burden on the taxpayer, the access to improved guidance framed through an understanding of the likely reader has been very limited. A particular case in point is the Corporate Criminal Offence legislation. This affects very many small charities that are incorporated and often run by volunteers alone. With others in the sector, we tried to get guidance available that summarised complex legislation in a way that was appropriate for a small entity. This was a struggle and HMRC lacked the flexibility to tailor guidance so sector bodies had to step in.

11. The culture in HMRC that we have come across in our Future of Gift Aid project is that legislative change is to be avoided wherever possible. That approach does not appear in line with the aspirations of the Call for Evidence.

12. Our Future of Gift Aid project has demonstrated the benefits of partnership working at the earliest stage. The positive involvement of HMRC from the outset has been a fundamental reason for its success to date.

[1] HMRC Charity Tax Statistics 2019/20
[2] Charities and VAT: an evaluation, Charity Tax Group, 2020 p 5
[3] Charity Tax Map, Charity Tax Group, 2011 pp 117-119

Consultation questions

Q1. Are there reforms which HMRC should focus on for the framework review? Which changes should we prioritise to drive improvements in the taxpayer experience?

13. CTG's focus is on issues affecting charities. It is important that HMRC embraces the possibilities that technology and digital solutions can provide in the long term, while noting that any changes must be staggered and recognise the practical realities of many small, often volunteer-led charities, which in many cases would be ill-equipped to make dramatic changes to the way they interact with HMRC.

14. Ensuring that the tax system is future-proofed is very important. This is at the heart of the Future of Gift Aid project, which CTG leads. More information is provided in Annex I.

15. We consider that HMRC should think fundamentally about how guidance is written and can be accessed by different taxpayers. Technology will allow new approaches in this area. The ten-year timeframe set for the reform of tax administration enables a realistic timeline to be set for this. In the past, the focus on short timeframes has made this very difficult.

Q2. Where is the tax administration framework creating challenges to the trust that taxpayers place in the tax system and HMRC's administration of it? How could the framework be reformed to address these challenges?

16. In our experience, most charities trust and respect the tax system, but would welcome increased simplification and an ongoing risk-based approach to compliance. This is particularly true when no tax is payable by the vast majority of charities, but compliance requirements are still enforced as is the case with the preparation of charity tax returns. This often requires expenditure on professional advice and software with little benefit to HMRC or the charity. See Annex II Case Study 2 for more background information.

17. Where an administrative change is presented principally as an improvement for the taxpayer, it should not be made mandatory. If it is truly an improvement, it will be adopted by the tax paying community. If the benefit is to HMRC, this should be stated at the outset as a reason for making it mandatory. This does not preclude using an 'opt out' approach to gaining adherents to the proposed change.

18. We consider that trust in the tax system will also be built up by improving the quality and presentation of guidance that is targeted well to the different groups that will need to use it. This is key to an open and transparent tax system, especially in an age of self-assessment.

Q3. Do you agree that these are the right overarching objectives to guide this review or do you believe there are others it should consider? Do you feel that some of these objectives are more important than others?

19. We agree with the intention that the tax administration framework should:

    - provide certainty and appropriate safeguards for taxpayers.
    - be flexible enough to adapt to changing circumstances and enable targeted support for taxpayers
    - support HMRC's aim to make it easy to get tax right and hard to get it wrong
    - help build trust in a tax system that is recognised as fair and even-handed

- be as simple and transparent as possible, supporting the simplification of tax administration processes to improve taxpayers' experiences, and meet their expectations of a modern, digital tax system
- help reduce the cost for taxpayers of meeting their obligations and drive down the costs to the Exchequer.

20. Of these objectives, reducing administrative costs, ensuring simplicity, planning ahead and embracing technological developments are a priority in our view.

20. It is our experience that changes to the administration of tax have tended to result in increased costs for taxpayers. The burden for compliance has shifted from HMRC to the taxpayer with increases in self-assessment. This has included the requirement to purchase third party software. In some quarters there would be scepticism that changes will reduce costs for taxpayers or that changes are made with this objective in mind.

21. We consider that it is critical that the tax administration framework should include an objective that HMRC should aspire to ask for information from a taxpayer once only. This should be possible as a result of the use of integrated IT systems. An example of this is given in Annex II case study 2.

22. We would also like to see a commitment built into the objectives that HMRC will endeavour to justify why any information that is required from a taxpayer especially where that information is available from another source. Over a period of time, we have asked HMRC to let us know why certain information has been requested on the supplementary pages of a charity self-assessment tax return, but we have never had a satisfactory response as far as we are concerned. This would help support the objective that the tax administrative framework should 'help build trust in tax system that is fair and even handed'.

Q4. How could the review ensure the best coverage of viewpoints and expertise from those who depend upon the tax administration framework? Are there particular models of consultation engagement or collaboration that could work well?

23. CTG engages in regular discussions with HMRC and would be happy to continue this consultation as the review progresses. It is important to remember that many small charities operate on limited resources and are often volunteer led. Engagement can therefore be trickier, so it is important that information is provided in a clear and focused way that can easily be disseminated by sector bodies and advisers. The charity regulators could also have a role in ensuring that all charities provide feedback.

24. Our response includes practical examples of areas currently involving what we consider to be undue tax administration. We believe that earthing the high-level proposals set out in the Call for Evidence in the examination of practical examples is critical to the success of this review.

Q5. Are there other international examples or models of tax administration that could inform this review of the UK's tax administration framework?

25. CTG is aware that there are several levels of digitalisation engagement across various tax jurisdictions that HMRC/HMT can consider. This includes high levels of real time information submission in some countries. In the UK, we are clearly earlier in the process and could benefit from further efficiency measures and simplification, although it will be important to remember that many charities are volunteer led and have

less sophisticated IT capabilities, so any changes need to be planned well ahead with a clear roadmap in place. It is important that taxpayers are not left behind and are given sufficient guidance, support and access to technical/digital expertise where required.

Q6. What are the key challenges with the current legislative provisions relating to the identification and registration of taxpayers?

26. New taxpayers can inevitably find the tax system complex to navigate. New taxpayers should be provided with simple, basic training and guidance on what their requirements are under all tax regimes so that they can assess what will be relevant for them both as an organisation delivering services and as an employer.

27. Many charities are run by volunteers who may have limited understanding of tax or their responsibilities for it. We consider that the best way of handling this is through the development of more targeted guidance which should be much easier to provide with the benefits of technological change. We also consider that this could be achieved if there was a better flow of information between the charity regulators and HMRC.

Q7. What benefits of the current legislation should be preserved?

Q8. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform in the area of identification and registration of taxpayers?

Q9. Are the current approaches to the timing of registration still appropriate, or are there opportunities for reform?

28. Taxpayers should be able to familiarise themselves with all the different taxes that may be applicable in a way that best suits them. For those taxpayers and smaller organisations without specific finance and/or access to tax specialists, a range of training tools should be available. This will encourage greater compliance amongst taxpayers and improve trust of HMRC as they will be seen as supporting taxpayers rather than penalising them.

29. Automatic VAT registration or prompting to register for VAT where a trader submits accounts for direct tax purposes would reduce the risk of failure to notify on time. This could proceed by way of setting up a VAT registration that could be 'opted out' by the taxpayer and thus held in dormancy until it was deemed applicable either by HMRC or the trader. The four-year cap for VAT arrears should be extended to unregistered entities in line with a change consistent with this.

Q10. What key issues relating to the way tax liability is established arise within the existing legislative provisions?

30. Given the complexity of the different taxes, staggered deadlines enable in-house teams to better manage their workload. An overview of when taxes are due would be welcome. For example, an online schedule linked to the taxpayer's account is recommended so that they are fully aware of when returns and payments are due across all taxes; perhaps with the ability to set reminders by the taxpayer of when they should begin certain processes.

Q11. What benefits of the current legislation should be preserved?

Q12. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform in the area of calculating and assessing tax liabilities?

Q13. How could tax return obligations and processes be updated? What should a 'tax return' look like in a digital tax system?

31. HMRC should ensure that automation of tax administration and related processes are proportionate and targeted. Making Tax Digital (MTD) is an important case in point. The introduction of MTD for VAT for charities and purported benefits do not directly correlate with the introduction of MTD for Corporation Tax. Making all charities "within the charge to Corporation Tax (CT)" subject to Making Tax Digital (MTD) reporting requirements will not meet HMRC's policy objectives. Charities are impacted by VAT as much as any other business, whereas the impact of Corporation Tax on charities is materially different as very few ever have a CT liability. Additionally, in practice most charities operate outside the scope of MTD for VAT as they are not required to register for VAT due to the nature of their activities or their taxable supplies being below the registration threshold. No such threshold is proposed risking a disproportionate impact on charities. It will be extremely costly and onerous, not only because all corporate charities (many of them very small) would have to invest in additional software purely for this exercise, but also in staff (and/or volunteer) time in understanding the system and producing the data in the new format. We believe that there is a strong rationale for introducing a general exemption for charities from MTD for CT. See Annex II Case Study 1 below for more information.

32. HMRC should review the data required to be provided in the Company Tax Return Form Supplementary Pages for Charities and CASCs (CT600E) and remove any information collected elsewhere or that provides limited benefit to tax administrators. We propose this as in most cases charities believe this benefit is less than is justified given the associated administrative and cost burden that they face in completing returns. The Government previously proposed greater overlap between Charity Commission and HMRC records through a joint portal, but this was never progressed. There may be a case for this being revisited if it can remove duplication of information provision. See Annex II Case Study 2 below for more information.

33. Due to the complexities of the tax system, it is not always possible to fully prepare a tax return digitally within a finance/accounts system. Until appropriate digital solutions are developed it is important that an element of manual intervention is retained where appropriate. We have seen this with MTD for VAT, where, for example, HMRC has agreed that adjustments such as partial exemption, capital goods scheme and the reverse charge can be made manually.

Q14. How could HMRC better establish tax liability in future, to help build trust in a tax system that people see as fair and even-handed?

34. CTG is supportive of Government efforts to stop charities being used as vehicles for fraud and tax avoidance, but has always stressed the need for proportionate and targeted legislation that will not inadvertently catch innocent donors or charities. Charities are often very cautious and will invest resources in tax compliance when this may not be necessary or proportionate. Where appropriate, CTG seeks charity exemptions or dispensations from legislation that was never intended to affect charities, but often this has been after the legislation has been mooted or implemented. We therefore urge that consideration is given to how stake holders such as CTG are involved in the development of new legislation and guidance.

Q15. What key issues do the current legislative provisions relating to the provision and use of data and information present?

35. To determine that a person is a taxpayer in 'real time' presents challenges, particularly at the start of a tax year. It would be a much simpler process if there was an ability to frank a Gift Aid payment with tax paid in a prior tax year. This seems to be the intent of the current legislation but is currently over complicated by the 'old ways' of settling tax liabilities.

Q16. What benefits of the current legislation should be preserved?

Q17. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform in the area of data and information?

36. The recent OTS report on the use of third party data noted that in respect of Gift Aid donations to charities, if HMRC already had the data needed, they could prompt claims or automatically give any appropriate relief, subject to any legislative changes needed to facilitate this.

Q18. What principles should govern HMRC's collection, use & onward transmission/sharing of taxpayer data?

Q19. What additional safeguards would be needed for taxpayers and third parties if the role of third parties/intermediaries was expanded?

37. CTG welcomes efforts to review how technology and the use of third party data reporting can be used to improve and simplify the tax system. CTG welcomes the OTS suggestion that the automated reporting of Gift Aid donations should not be mandated but that HMRC should continue to work with the charity sector to develop better automated systems operating on a voluntary basis. CTG has welcomed the sharing of third party data and use of intermediaries, but noted that any changes must be staggered and recognise the practical realities of many small, often volunteer-led charities, which are currently ill-equipped to submit large volumes of donor data to HMRC.

38. In the longer-term consideration could be given to making a Gift Aid an "opt out" rather than an "opt in" system. This is on the understanding that a donor has a right to tax relief on charity donations that are made for the public benefit. Previously such a system would not work as it could not be verified that a charity supporter was a taxpayer. New technology now means that this is possible. Recent HMRC user research suggests that this is something that many donors would be in favour of. We can provide you with more information about this research if that would be helpful.

Q20. What key issues do the current legislative provisions relating to payments present?

39. Multiple log ins for each tax create administration. As set-out in question 10, if a summary of key dates and payments is available, across all taxes, "click-throughs" from this page (subject to access authorisations) should simplify the payment process.

Q21. Are there any particular benefits of the current legislation that should be preserved?

Q22. What benefits could a single/reduced set of payment rules, applied across the taxes, bring?

40. Having a single tax account combining all taxes due from a payer into a single debt which can be paid and managed accordingly could result in greater simplicity for charities.

41. Payment flexibility should be a priority – a "one size fits all" approach will not work. Some may welcome, for example, a set monthly payment to HMRC across all taxes, whilst others may wish to pay actual liability and others may wish to make ad hoc on account payments. HMRC should ensure that all of these approaches can be accommodated as cashflow is a very important consideration for charities.

Q23. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform in relation to payments?

Q24. What key issues do the current legislative provisions relating to powers, sanctions and safeguards present?

Q25. What benefits of the current legislation should be preserved?

Q26. What likely changes and developments will the framework need to handle? What are the key priorities for framework reform to support taxpayers to get their tax right and deter non-compliance?

42. It is important that the tax administration framework is agile enough to deal with significant changes to taxes (e.g. as a result of Brexit) or unexpected events (such as pandemics) to enable flexibility in the approach to payments and compliance.

Q27. What principles should govern HMRC powers, sanctions, and safeguards, to build trust in the tax system?

Q28. How should the framework maintain consistency and fairness between taxpayers and groups of taxpayers, while also providing HMRC with appropriate discretion to enable them to take account of individual taxpayers' circumstances and wider concepts of fairness?

Q29. Are there any further suggestions that you have for how the Tax Administration Framework could be reformed?

43. HMRC's plans for the future Tax Administration Framework strategy are forward-looking and innovative, embracing technology and change as part of this process. Unfortunately, in practice we are finding resistance from some quarters in HMRC to ideas that might involve legislative change or tweaks to existing policy. It is important that potential changes are not rejected out of hand. We would be happy to provide examples.

44. Automation of the tax system is important, but it is also critical that HMRC continues to invest in staff who advise taxpayers. This should include increased access to charity specialists via the HMRC helplines to help charities. This will help charities to get their tax affairs right and help avoid unnecessary professional fees or delays in claiming reliefs or paying taxes. In the past, we have suggested that the charity helpline should also be accessible out of office hours when it would be of most use to charity volunteers, but this has not been considered possible. We would appreciate this being thought about again as it would help meet the objectives set in Box 2.2 of the Call for Evidence such as building trust in the tax system.

45. A factor that is of special relevance to charities is the role of the charity regulators. In the past the flow of information between charity regulators and HMRC has been limited. If it is a principle that the tax administration framework is to be as simple as possible exploring what further information could be shared would be a sensible step to take. For example, information on the formation of new charities could be used to ensure those charities were informed of their responsibilities with regard to tax at the earliest possible stage.

46. We also recommend an overhaul of the Gift Aid guidance. It can be very difficult for charities to find the guidance they need. HMRC's Chapter 3 guidance on Gift Aid is in need of updating. CTG is planning to seek funding to prepare new Gift Aid guidance and would welcome help from HMRC's Charities Team to support this process.

47. We recommend that a change is made to the process for the approval of certain loans and investment by charities. It would be simpler if the legislation simply stated that loans or investments will only be 'approved charitable' loans or investments if made for the benefit of the charity and not for the avoidance of tax, rather than adding administrative checks to determine the latter. See Annex II **Case Study 3** below for more details.

Annex I: Key Learnings from the Future of Gift Aid Project

The Future of Gift Aid project is a multi-partner initiative, led by the Charity Tax Group, that advocates a move towards a modern Gift Aid system. This would help to unlock more than £500m of Gift Aid for UK charities that goes unclaimed each year and reduce the £180m of Gift Aid claimed in error.

A key part of the project seeks to achieve the following objectives:

- Demonstrating the potential for HMRC to use an individual's personal tax account to determine if sufficient tax has been paid for a particular donation to be Gift Aided.
- Use technology to make acquisition of new Gift Aid Declarations seamless
- Showing how automated Gift Aid can work across a number of different donation methods including SMS, retail Gift Aid as well as by direct payment.
- A report that captures the work done, providing suggested revisions to Gift Aid legislation to enable long held historic Gift Aid policy objectives to be met in a different technological age.

The Office of Tax Simplification (OTS) has published a report following its recent call for evidence reviewing ways to make tax easier for people through smarter use of third party data. The OTS has recognised the value of the Future of Gift Aid project and the active involvement of HMRC in this process. The progress we have made to date is promising. But if Gift Aid is to be truly fit for the digital future there will need to be legislative changes to facilitate this. Embracing innovation and the benefits of technology can be a game-changer in terms of making Gift Aid better. It is unrealistic to think that legislation that has changed little for 20 years can cope well with the new opportunities that digital technology provides.

There needs to be a roadmap which recognises the potentially long lead time required to (a) update both HMRC and charity/intermediary systems and (b) to properly utilise the opportunities provided by new technology and payment methods. There is unlikely to be a one-size-fits-all solution for charities and intermediaries. This is an important consideration for future proposals. A cost/benefit assessment needs to be considered. In our view, it would make sense to progressively harness the benefits of technology through a phased approach to change.

For the increased use of third-party data to be as successful as it could be, there will need to be significant investment in HMRC systems and practices, as well as changes to charity/third party systems.

Our experience when dealing with HMRC policy colleagues is that they feel constrained by current legislation as to what proposals might be feasible to consider. While it is appreciated that such change is not in their gift this approach runs the risk of not making the changes that the Call for Evidence makes clear are necessary. Therefore, as a practical point, we urge that consideration is given to how HMRC culture can be aligned with the direction of travel set by the consultation document.

An example of where legislative change would be hugely beneficial is with regard to a Gift Aid donation being related back from one tax year to the previous one. The arrangements for this are quite cumbersome as they were framed in a way that involves an election needing to be made. This is much easier where a donor submits a tax return which happens much less frequently than when the relevant legislation was first enacted. This is almost unheard of where a tax return is not prepared. But the intention of Gift Aid being franked by previous year's tax is clear. In our project, we are looking at the feasibility of checking that someone is a taxpayer in real time before Gift Aid is paid by HMRC. Our work has shown how difficult this can be. For example, at the start of a tax year before an individual has been paid under schedule E, or where a person is self-employed. Being able to frank a donation automatically with tax paid in a prior year would make the process much better reducing risk for both HMRC and the taxpayer in a streamlined digital way. We consider that a proposal like this is in line with the statement in the call for evidence that '*The laws governing tax administration need to change to allow HMRC to deliver world leading services and support taxpayers better as they interact with HMRC digitally.'* (page 10). We can provide further examples where changes to Gift Aid legislation and guidance would help achieve the objectives set in the call for evidence in Box 2.2.

At the 2021 HMRC Stakeholder Conference we were encouraged that when responding to a query about the Future of Gift Aid project, HMRC's Chief Executive noted the importance of legislation keeping up with modern ways of working and the willingness to consider amendments to legislation where necessary to enable HMRC and its customers to work in a modern way.

Annex II: Case Studies

Case study 1: Making Tax Digital for Corporation Tax:

This example highlights that with some current proposals the objectives for the tax administrative framework as set out in Box 2.2 of the call for evidence are not being met. As a result, we are concerned that the ways are found to ensure that the objectives are worked through in a way that ensures that they are more than aspiration.

Making all charities "within the charge to Corporation Tax (CT)" subject to Making Tax Digital (MTD) reporting requirements will be costly and onerous, not only because all corporate charities (many of them very small) would have to invest in additional software purely for this exercise, but also in staff (and/or volunteer) time in understanding the system and producing the data in the new format. HMRC should therefore carry out a cost benefit analysis of the merits of including charities within the scope of the reforms.

We believe that there is a strong rationale for introducing a general exemption for charities from MTD for CT. HMRC accepted that this was appropriate for all charities in the government response to the MTD for Business consultation in 2016-17 and, notwithstanding the subsequent introduction of MTD for VAT, we see no reason to change that assessment. As regards the relatively few charities that have a regular corporation tax liability or need to submit a CT return to claim a relief, we consider that there should be separate discussions about how they should be dealt with under MTD for corporation tax. We fail to see any benefits of subjecting charities and their non-charitable subsidiaries to quarterly reporting to HMRC, given this information is not likely to be useful to HMRC. At the very least, there should be a *de minimis* threshold such as effectively applies with MTD for VAT. If smaller charities are required to comply HMRC should give serious consideration to the provision of a free filing software product.

In our view these proposals do not meet the objectives of helping build trust in a tax system that is fair and even handed, is as simple as possible and does not help reduce the cost for taxpayers of meeting their obligations.

Case study 2: Form CT600(E) - Company Tax Return Form Supplementary Pages for Charities/CASCS

This example demonstrates the need for integrated HMRC systems to ensure that the same information is only asked for from the taxpayer once and not always where it is available from another source.

It is not clear why charities are required to provide details of their charitable income and expenditure, and figures from their balance sheets on this form and it is not clear why this information is of use to HMRC. It is available from the charity's financial statements (in many cases these will be filed electronically, and tagged in iXBRL format, making it even easier for HMRC to access this information).The current Making Tax Digital for Corporation Tax proposals would make it even more difficult for charities to complete the supplementary pages (because their financial systems would need to capture this information and transfer it to the supplementary pages of the tax return). Other information required on the supplementary pages should be available to HMRC from other sources such as the amount of Gift Aid the charity has claimed.

In our view as part of its integrated review of tax administration HMRC needs to consider cases like this to establish whether providing this detailed information on the supplementary pages is necessary going forwards.

This would help meet the objective in Box 2.2 of the Call for Evidence that the framework should, 'help reduce the cost for taxpayer of meeting their obligations'.

Case study 3: Approved charitable loans and investments

This example illustrates how the current tax administration framework can be more complex than necessary with little benefit to HMRC.

Charites can suffer a loss of their corporation tax exemptions if they make loans or investments that are not 'approved charitable' loans or investments. The legislation sets out various loans and investments that are regarded as 'approved charitable' loans and investments, but these do not include, for example, loans or investments made to/in subsidiary companies. Instead, such loans or investments will only be 'approved charitable' loans or investments if an HMRC officer is satisfied, on a claim, that it is made for the benefit of the charity and not for the avoidance of tax. This places an administrative burden on charities (and HMRC) – every time they make a loan or investment to a subsidiary company they must (according to the law) make a claim, in writing, to HMRC. We do not believe that this can be the best use of resources for either charities or HMRC. It would be much better (and would be consistent with the principles of self-assessment) if the legislation simply said that loans or investments will only be 'approved charitable' loans or investments if made for the benefit of the charity and not for the avoidance of tax. Therefore, no claim would be required but a charity would still be required to self-assess tax if the loan or investment is not made for the benefit of the charity or is made for tax avoidance purposes. HMRC would still have the ability to assert, on enquiry, that a loan or investment is not an 'approved charitable' loan or investment.

In our experience it is rare for a charity to make a loan or investment that is not capable of being an 'approved charitable' loan or investment. If tax fraud / avoidance is the motive it is highly unlikely that the taxpayer would put their head above the parapet and draw HMRC's attention to their activities by making a claim. As a result, the potential loss of tax by removing the need to make a formal claim is likely to be very low.

Reform in this area would meet the objective of the tax administration framework set out on Box 2.2 of the Call for Evidence that it should 'be as simple and transparent as possible.'

CTG, July 2021