CHARITY TAX GROUP: BUDGET SUBMISSION
JANUARY 2024

About the Charity Tax Group

1. The Charity Tax Group (CTG) was set up in 1982 to make representations to Government on the impact of the tax regime on charities and has since become the leading voice for the UK charity sector on tax issues.

2. In making our submission for the 2024 Budget, we are aware of the current difficult economic and fiscal environment and we have separated our comments between those that are relatively low cost to the Exchequer and easy to implement and those that, while significant for the sector, may require longer to implement.

The charity sector: Economic contribution, value for money, employment and growth

3. The charity sector encompasses a wide range of activities including, for example, education, scientific and medical research and support for vulnerable or disabled people. Supporting the sector provides a direct return for society through its contribution towards the provision of essential services in these and other fields.

4. The urgency of the need for support for the charity sector is evident in the results of the NCVO 2023 UK Civil Society Almanac[1]. This shows a decline in the most recent year's performance over a number of measures such as contribution to the UK economy, level of employment and the level of volunteering, after more than a decade of growth. For example:

    - (Direct) contribution to the economy is £18bn (0.8% GDP) compared with £20bn (1.0% GDP) the previous year.
    - At just under one million people, the charity workforce has declined by 4% in the most recent year, compared to growth of 24% over the previous decade.
    - Volunteering has declined and remains well below pre-pandemic figures.

    All of these factors make it more important than ever for charities to be enabled to use their straitened resources for maximum impact. Even with these pressures, work by Pro Bono Economics[2] and by Andy Haldane (formerly Chief Economist at the Bank of England) shows that the value of civil society could be as high as £200bn pa (or 10% GDP). This higher figure takes account of volunteering and spillover fiscal benefits which take account of the impact of charitable activity such as delivering stable accommodation and employment, a reduction in crime, increased tax revenues from the reintroduction of beneficiaries into employment and lower expenditure on public services such as health. The Pro Bono Economics report points out the additional value that charities bring to society:

    "Estimates drawn from our work with different charities suggest each success creates somewhere between £6,000 and £22,000 of economic savings for the Government."

---

[1] UK Civil Society Almanac 2023 | NCVO, published 12 October 2023

[2] Undervalued and overlooked? The need for better understanding of civil society's contribution to the UK economy, Pro Bono Economics, Published May 2020

Measures that we believe can be implemented in the short term

5. We believe that the measures grouped under this heading are capable of being implemented in the short term with modest or little cost.

VAT: Goods donated to charity to relieve UK citizens in poverty

6. Donations of goods made by businesses to charitable organisations for onward sale currently qualify for VAT zero rating whereas product donations to charities for the direct support of individuals and households do not. However, if the charity intends to export the goods to relieve poverty overseas this does qualify for relief. It seems anomalous that VAT relief is given to the goods donated to relieve poverty and suffering overseas but not if the intended beneficiaries are in the UK.

   The current cost of living continues to have a significant impact on UK households and individuals; as a result, charities are struggling to meet the demand for their services with 42% of charities in a recent survey saying that product donations have **decreased** over the previous three months. In Kind Direct's June 2023 Charitable Network Impact Survey of 510 charities found that 75% have reported an increased need for products, with 36% reporting a decrease in income.

   In 2023, between 17% and 22% of the UK population was assessed to be living in poverty[3] and this figure is believed to have risen significantly due to the recent rises in the cost of living. Implementing this zero rating relief could therefore make a marked difference to the ability of charities to help those most in need at a time when there is limited other support available. The costs are assessed to be negligible for both the Exchequer and for commercial enterprises where goods are diverted from non-moving stock or stock destruction. Those living in poverty need help now and we therefore urge the Government to introduce this measure as soon as possible.

   We also propose that s33 VAT relief be extended to those charities which distribute these items to individuals or households, given that they do not have any actual income to zero rate. For example, food banks in particular send volunteers to collect excess stock or short-dated food and drink directly from supermarkets and other retailers; the charity will incur costs in running its operations (premises, vehicles etc).

[3] Poverty in the UK:Statistics, House of Commons Library Research Briefing SN07096, Table 3.1, published 1 December 2023.

Proposal 1:

> To increase resources of such charities, we propose that VAT relief be extended to product donations for the direct support of UK charity beneficiaries in addition to those based overseas. A simple amendment to Schedule 8, Group 15 VAT Act 1994, with little cost to the Exchequer, would make a huge difference to charities and the people that they seek to support.
>
> At present, unsold goods typically remain in warehouses or, in some cases, are destroyed. Extending the VAT relief would not therefore lead to a decrease in the output VAT of these businesses. It would also support the public policy objective of moving to a circular economy by giving businesses a greater incentive to send stock to charitable organisations, thereby helping those in the community most in need.
>
> We also propose the extension of Section 33 relief to charities in receipt of goods donated to them where an onward donation is made to the charities' beneficiaries.

VAT relief on Listed Places of Worship

7. The Listed Places of Worship Grant Scheme (LPWGS), first introduced in 2001, provides grant funding to cover the cost of VAT applied to repairs, maintenance and alteration works to listed places of worship. It was designed in this way because it was not possible under the terms of the Principal VAT Directive simply to exempt or zero rate repairs to listed places of worship. Hence, the slightly cumbersome system of matching grants was developed.

   The Principal VAT Directive is no longer relevant to UK VAT law. It would therefore be far simpler to replace the Scheme with zero rating of expenditure currently eligible for a matching grant under the Scheme. Doing so would also give listed places of worship welcome reassurance of continuity, given that the present Scheme is due to end on 31 March 2025.

   There is not expected to be an increase in costs of this measure because it would serve to reduce public expenditure by introducing a matching value of tax relief rather than giving a grant. There may be a one-off cost for altering the nature of the relief and introducing a form of charity certification for listed places of worship to provide to suppliers. However, there will also be cost savings for both Government and charities through the removal of the costs of the administration of the grant scheme.

Proposal 2:

> Replace the cumbersome Listed Places of Worship Grant Scheme with a more straightforward VAT zero rating for relevant repairs etc.

Revalorisation of thresholds

8. The impact of the rise in inflation, both in terms of the tax cost to charities and the significant associated costs of compliance, is increased when tax thresholds are not increased.

9. **Proposal 3:**

We ask that the Government consider increasing the following thresholds in line with inflationary changes since they were last reviewed:

- **The charities small scale non-charitable trading exemption**
  (section 480 CTA 2010 and section 526 ITA 2007)
  Increasing these limits will bring important administrative savings to charities and are highly unlikely to carry a material cost to the Exchequer. We suggest that the threshold rise to £100,000.

- ***De minimis* (relevant value) limit on Gift Aid benefits provided in consequence of the making of a charitable donation**
  (section 197 CTA 2010 and section 418 ITA 2007)
  To maintain the administrative benefit of the thresholds. We recommend that this be increased to £200.

- **The £8,000 Gift Aid Small Donations Scheme top up limit**
  (section 1, Small Charitable Donations Act 2012)
  To maintain the real terms financial benefit of the threshold. While this scheme is very important for churches, its scope is very narrow in the economy as a whole and the Exchequer cost of increasing the threshold would be minimal. An increase would, however, have a significant impact on the charities that currently benefit from it because many of them are small and of great importance to their localities, particularly in rural areas. We suggest an increase to £10,000.

Longer term measures

10. The following proposals carry greater cost implications or a longer implementation period, or both.

VAT relief on social media advertising

11. HMRC has previously accepted that VAT zero rating could apply to most digital advertising by charities, with the exception of advertising on social media, on the basis that it selects individuals by a digital address. CTG does not believe that this limitation is necessary or justified and has obtained legal advice supporting this position. We are grateful that HMRC has agreed to undertake a further review of the application of the legislation to social media advertising.

12. This is a clear example of a relief which, as with Gift Aid, needs modernising to ensure that it supports the original intention of the relief: to ensure that charities do not pay VAT on advertising. Given the growth of social media advertising year on year and its power as a fund-raising tool, it is important that legislation and HMRC guidance reflect current commercial practices and are appropriate for the digital age.

Proposal 4:

We urge the Chancellor to simplify the advertising relief by zero rating all charity advertising on social media regardless of perceived technological nuances.

Future of Gift Aid Project

13. The current Gift Aid system was introduced at the turn of the century. It was largely introduced as a paper-based scheme and is in need of urgent reform to make it fit for purpose for the digital age and to recognise the impact of new payment methods. A number of Gift Aid tax reliefs also require modernisation and simplification. We strongly believe in the importance of future-proofing the tax system. As a result, CTG has developed a cross-sector "Future of Gift Aid" project in which charities, HMRC and businesses are collaborating to use technology to reduce the nearly £200 million of relief that is claimed in error each year and to maximise tax reliefs that currently go unclaimed. More details of the objectives of the project can be found here.

    The aims of the project are entirely consistent with the Government's intentions of moving to a digital tax system.

14. We have previously submitted Budget representations that call for specific investment in this project and we again urge that action be taken. With Government support, we hope to work with HMRC to modernise this important relief. We encourage the Government to press forward with initiatives and reforms to modernise the Gift Aid system, reducing costs for HMRC, charities and donors while unlocking additional resources for the sector.

Proposal 5:

We call on the Government to invest appropriately into the aims of the Future of Gift Aid project to help ensure that the relief becomes fit for the digital age, bringing significant benefit to both HMRC, the charity sector and its donors.

Irrecoverable VAT

15. Irrecoverable VAT has always been a serious problem for the voluntary sector. Because charities cannot always pass on the cost of the VAT on the goods and services that they purchase, they are unable to reclaim the input tax in full. The result is that they are obliged to pay the irrecoverable VAT out of their charity funds instead of using those funds for their charitable purposes. This is no small matter: research commissioned by CTG from London Economics in December 2020 estimated the burden of irrecoverable VAT at £1.8 billion annually and we believe that the figure is probably well over £2 billion now.

    We appreciate the steps taken by the Government to provide relief in certain areas by introducing VAT refunds via relief under s33 of the VAT Act. However, this does not address the problem facing many other charities which do not qualify for such relief despite also providing essential services. Our contention is that the best way to resolve this long-running distortion would be to introduce a lower VAT rate on purchases made by charities: this would be a simple and effective solution and would give the Government the reassurance that it could control the level of assistance given to the sector. For example, setting a charity purchase rate of 10% would reduce the VAT burden by £1 billion. If it were 15%, the cost would be £500 million and so on. If the standard rate needed to be increased in the future, this arrangement, if already established by that time, could allow such an increase not to be imposed on charity purchases.

Proposal 6:

> We urge the Government to engage constructively with CTG and other sector representatives towards designing a solution to the problem or irrecoverable VAT suffered by charities.

VAT: Relevant Charitable Purpose for charity buildings

16. Zero rating is available for new buildings used by a charity solely for a relevant charitable purpose – which is defined as being non-business purposes. This is a valuable relief for charities, but it is very restricted in its application due to the requirement to use a building 'solely' for non-business purposes, even if, as a matter of practice, HMRC does allow some *de minimis* business use provided that it does not exceed 5% of the total use. It makes little sense that a new building used 95% for non-business purposes will be eligible for VAT relief whereas a building used 85% for non-business purposes will not be eligible for any relief whatsoever.

17. Charities are encouraged to raise funds to support their activities, and in the university and other sectors to embrace relationships with commercial entities. This leaves charities with a dilemma: should they seek VAT zero rating on their new buildings, which is often worth many millions of pounds, or should they forgo the relief and invite commercial partners to work alongside them in their bright new premises knowing that the income received from this may well be less than the VAT relief that they could otherwise have? It leads to contortions whereby activities are artificially divided such that any aspects which could produce valuable income for the charity need to conducted in different premises. There is an inconsistency in Government policy here: on the one hand, the Government expects charities to use their assets to generate income for their future activity, to commercialise any valuable intellectual property they have and to engage in partnership with the commercial sector while, on the other, it denies them VAT relief should they do the very thing that they are asked to do.

18. To make this a fairer relief which does not lead to unintended consequences such as the exclusion of any kind of commercial or fund-raising activity from a charity's brightest, newest assets, we propose that the relief be reviewed and that zero-rating be granted *proportionally to the non-business use of the new building*. If a building is to be used for non-business purposes for 85% of its use, then it should benefit from 85% VAT relief. A capital goods-type calculation would then deal with future changes of use, as is the case with buildings which have some exempt use. This would allow charities to put their assets to the best possible use without being hindered by VAT considerations which currently act as an inhibitor for collaboration with commercial and other parties.

Proposal 7:

That, to remove the current inhibitors to practical use of new charitable buildings, the relief for buildings used for a relevant charitable purpose be reconstituted to allow partial relief where a building is used only partially for non-business purposes.

Other VAT measures

19. The following measures would help target specific acute needs where charities are providing vital services directly and, in one case, where they are treated less favourably than commercial suppliers. Notwithstanding our call for a wider review of the irrecoverable VAT problems facing charities, we want specifically to recommend the following measures:

VAT relief for provision of care:

- There is an acute need for more care facilities in the UK and yet charities are having to pay 20% in VAT on the costs of providing these services, a cost not borne by public sector care facilities. We propose that charity care sector fees should be zero rated to allow input tax recovery.

VAT relief on removal of dangerous cladding:

- Given the huge costs involved and the urgent need to tackle the problem of dangerous cladding, we urge the Government to allow housing charities to certify zero rated supplies of goods and services connected with the removal of this cladding.

VAT relief for people with disabilities:

- There is some VAT relief available for people with disabilities. However, due to the previous restrictions in EU law which prevented any extension of zero rates, the UK has been unable to modernise this relief to reflect society's better understanding of disabilities, their impact upon individuals and any developments in technology or approach since the early 1980s. The legislation itself is difficult to understand and often leads to misunderstandings, failure to claim relief or errors in relief that has been claimed. Some of the language used in the legislation is outdated: for example, the relief available for talking books for blind people is almost useless nowadays because it refers for the most part to technology which is no longer used and does not encompass developments in technology such as audio books available through the internet.

Proposal 8:

Introduce a zero rate on charity care sector fees to allow full input tax recovery.

Proposal 9:

Introduce a zero rate to housing charities on supplies of goods and services connected with the removal of dangerous cladding.

Proposal 10:

We propose that the Government issue a consultation document with the aim of understanding what improvements could or should be made to bring the VAT relief for people with disabilities up to date, to eliminate unfairness and to ensure that the relief remains relevant.

Other Tax measures

20. There has been much speculation in the press about the possibility of tax cuts. Were a decision to be taken to reduce the basic level of income tax, as originally envisaged in the March 2022 Budget, this would have a very serious impact on the amount that charities are able to receive in Gift Aid. In March 2022, the Government announced plans to introduce a three-year transitional relief to help charities by maintaining the level that charities can claim at 20%. CTG has previously estimated that a 1% reduction in the income tax rate would cost charities £250 million over three years. If the Government were to reduce the income tax rate in the forthcoming Budget, we urge it to introduce a transitional relief to help charities, as originally envisaged in the March 2022 Budget.

Charity Tax Group
Church House
Great Smith Street
London SW1P 3AZ
020 7222 1265

January 2024