By email:

The Rt Hon. Sajid Javid MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

7 February 2020

Dear Chancellor

Charity Tax Group Budget Submission 2020

Please find enclosed a Budget submission from the Charity Tax Group (CTG).

CTG's overall aim is to seek improvements to the tax system that would result in a simpler and fairer tax system for charities and it is glad to support Government steps that move in this direction. We were very grateful to you for addressing the CTG Tax Conference, in April 2013, and we know that many of these issues, and the value of tax reliefs for charities, will be familiar to you. In this submission, CTG calls on the Government to:

- Commit to a **strategic review of the future VAT system** with the aim of reducing the irrecoverable VAT charities currently incur
- Confirm that **digital advertising by charities is eligible for a VAT zero rate within the current law**
- **Extend VAT zero rating to electronic publications** produced and purchased by charities
- Prioritise resolution of discussions between HMRC and Facebook on the **eligibility of donations received by Facebook (and other fundraising platforms) for Gift Aid claims**
- **Increase the non-primary purpose trading limit** (miscellaneous income) from £80k
- Confirm that the forthcoming **review of business rates in England will protect existing charitable reliefs**
- Consider **tax credits** to stimulate the **funding of bio-medical research** by charities, similar to those provided to investor owned research companies
- Commit to **no further increases in Insurance Premium Tax (IPT) for charities** and consider targeted relief where the insurance is required for activities or premises directly related to a charity's objects
- Allow **Apprenticeship Levy funds** to be used towards the costs of **training volunteers.**

In support of these proposals, we have outlined additional background information below. CTG would be happy to meet you and officials to discuss this submission in greater detail and to provide additional background information where required. For further information please contact the CTG Secretariat.

Yours sincerely

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Chairman

The voice of charities on Tax

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Charity Tax Group Budget Submission 2020

The Charity Tax Group (CTG) has over 700 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. 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). CTG's Budget proposals are outlined below.

VAT

Undertake a strategic review of the VAT system post-Brexit

1. Following Brexit, the Government should perform a wider strategic review of the VAT system to consider what additional support could be provided to charities to enable them to be as effective as possible (both in cost and quality terms) when delivering such services. CTG has proposed the introduction of a special refund scheme for charities in relation to their non-business activities, or the extension of existing reduced and zero rates on supplies to charities to cover all supplies to charities.

2. The Office of Tax Simplification (OTS) has called for a review of VAT rates and we believe that the Government should progress this in consultation with charities and other sectors. The Charity Tax Group is currently undertaking a significant review of the value and scope of charity VAT reliefs which will provide further insights on the socio-economic impact of reliefs to the sector. The first stage of the project is due to report in the Spring and CTG would be happy to present the findings to Ministers and officials.

3. In the meantime, CTG would encourage the Government to introduce additional targeted refund schemes to those included in Section 33 of the VAT Act. Removal of the irrecoverable VAT burden would provide an important income boost for affected charities, decreasing their reliance on state funding and increasing their capacity to provide vital public services, resulting in a wider economic benefit for society.

Confirm that digital advertising by charities is eligible for a VAT zero rate

4. The supply of advertising to a charity is VAT free. However, HMRC has recently indicated that it wants to exclude social media advertising from this charity zero rate, on the basis that it targets individuals by a digital address. A broad coalition of charities and tax advisers disagree and have argued that under the current law targeting via digital advertising should be VAT free. The view taken by HMRC is a strict and restrictive interpretation of the law and is due to the legislation being outdated and from a time when digital advertising did not exist. By restricting the relief in this way, HMRC is essentially taking away a major part of the advertising VAT zero rate, approved by Parliament to relieve charities of VAT on their advertising costs. Charities are still using advertising to raise funds and promote awareness of their cause; it is just that the medium for doing so has changed.

5. HMRC is now starting to raise assessments to recover VAT from some agencies on the supplies made of social media advertising. Many advertising agencies are now applying VAT in line with HMRC's recommendations. The impact on charities amounts to millions of pounds of irrecoverable VAT. This is at a time when charities already face financial challenges and reserves are under pressure. For a charity like Cancer Research UK the impact is of the order of £750k per annum.

6. In practice, charities are reducing their spend on advertising. This is having an adverse socio-economic impact at a time when the Government is seeking an economic stimulus. Charity income is likely to reduce as well as awareness of what services and activities they offer. This is likely to result in more reliance on the public sector.

7. Advertising agencies will inevitably face reduced profits. This will have knock-on effects on the Government's collection of corporation tax payments and PAYE and NICs contributions when staffing is reduced by those agencies. Any revenue increase from imposing VAT on digital advertising is likely to be balanced by the loss of other tax receipts, whilst charities and advertising agencies suffer.

8. CTG has obtained a legal opinion from leading counsel which agrees that there is a strong case for a more generous interpretation of the existing legislation, allowing VAT zero rating on social media advertising without any change in the law. CTG calls for the Government to accept this view in the forthcoming Budget, to avoid the need for this to be tested in the courts, at great expense and inconvenience to all parties.

Extend VAT zero rating to e-publications

9. European VAT Directives now allow Member States to apply, if they so wish, the same VAT rate to e-publications such as e-books and online newspapers as for their printed equivalents. A number of countries have already made changes as a result and CTG calls on the UK Government to take similar action.

10. We note the recent statement by the Financial Secretary to the Treasury that *"Any amendments to the VAT regime as it applies to physical publications and e-publications must be carefully assessed against policy, economic and fiscal considerations".*

11. For charities, the economic impact of a reduced rate for electronic publication is different from that on commercial publishers. Any VAT saving cannot accrue to shareholders but must be applied to provide public benefit. Charities use publications to tell people about their work or to inform the public in an area the charity is dedicated to (such as information about conservation provided by a charity that supports conservation). For this reason, the charity needs to seek funds to enable it to provide the publication, and one of these is charges for the product. The lower the charges are, the greater the dissemination of the material. However, charities will also try to generate extra funds in this way to fund the other activities (such as, in the case of the conservation charity, research into conservation or maintaining conservation sites). A lower tax burden enables more resources to go into these activities.

12. Charities face a critical dilemma in the UK since printed material attracts 0% tax, whereas electronic equivalents attract 20% tax. In general, however, electronic delivery is more cost effective and more environmentally acceptable: moreover, *the public at large increasingly looks to electronic media for its*

information rather than to print. This presents charities with a choice which they find invidious and confusing. Adoption of the reduced rate for such publications will close that gap and make a movement to electronic distribution easier to contemplate.

13. Additionally, the continued imposition of VAT on journals, research publications, reference materials and archives in digital format will have a serious impact on the amount of funding available to support research and the dissemination of its results and maintain the resources required by researchers.

Gift Aid

Confirm that Gift Aid can be claimed on donations received by charities through Facebook

14. Facebook Donate allows people to donate directly on social media pages through donate buttons inserted into page headers or posts. Donors are able to claim Gift Aid on eligible donations and Facebook then makes the Gift Aid claim information available to the charity to make the claim. But there has been uncertainty as to whether HMRC would agree the claims due to concerns about how charities could satisfy the HMRC audit process. Having reviewed the data received by charities, CTG believes that these concerns can be assuaged and has played an active role in facilitating discussions between HMRC and Facebook to resolve this issue, but a proposed meeting has continuously been delayed. Millions of pounds of potential Gift Aid claims are currently being held up, which only adds to the estimated £560m of eligible Gift Aid that HMRC estimates is unclaimed each year. Resolving this issue is a high priority for the sector and should be easy to address quickly. Furthermore, we are concerned that charity supporters have been led to believe that Gift Aid is being claimed on their donations when the HMRC stance does not currently allow this to happen. This issue is also one for any other third-party platform operating on a similar basis.

Other tax issues

Review of the small trading limit

15. Charities are exempt from tax on non-primary purpose trading where turnover is less than £80k per annum. If a charity expects its non-primary purpose trading to exceed this amount, it normally sets up a trading subsidiary, although this does incur additional administrative costs. The limit was increased last year having been set at £50k for nearly twenty years and we recommend that the impact of this change is reviewed again to see if it can be increased and whether a fixed percentage of charity income would be a better test.

Protection of charitable rates relief in the forthcoming review of business rates

16. The Government has committed to launching a fundamental review of business rates in England. Charity rates relief is worth over £2bn in England and is essential to the viability of many charities' operations.

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17. As outlined in the Charity Tax Commission report, improvements could also be made to the administration of business rates claims, by standardising processes. At present, national charities have to deal separately with individual local authorities, each with their own processes and rules, to collect what is mandatory rates relief.

Tax incentives to stimulate R&D by charities

18. The Research and Development Credit (RDEC) was introduced in 2013 but, since then, the legislation has been amended so that universities and charities are unable to claim it. The Government has stated that the rationale for withdrawing the relief is that charities and universities were never the intended recipients of RDEC and that, in the case of universities, equivalent funding is already provided through HEFCE. Investor owned research companies obtain tax credits, but charities receive no such funding. Introducing a new tax credit for charities would provide a major stimulus to R&D in medical research in the UK thereby helping to meet the Government's stated objectives as part of the Industrial Strategy. We believe that there are other imaginative tax measures that the Government could introduce to stimulate charity funding of bio-medical research.

Insurance Premium Tax (IPT)

19. In June 2017, IPT increased from 10% to 12%, more than double the rate it was in 2010. While IPT is a tax on insurers, providers invariably pass on these costs and as charities do not benefit from an exemption they have been affected by the recent increases. IPT has a disproportionate impact on charities (especially those with substantial operational buildings – such as charities that provide activities in their buildings – and extensive transport and travel commitments) and we have serious concerns about rumours that IPT may eventually be increased to 20%, in line with VAT. IPT costs weigh particularly heavily on some of the smallest charities as the insurance related to maintaining their buildings responsibly is a significant cost.

20. We would encourage the Government to ensure no further IPT increases for charities and to review their current IPT burden to assess whether a total or targeted exemption or a reduced rate would be achievable, where the insurance is required to cover activities or premises that directly relate to a charity's objects.

Apprenticeship Levy

21. CTG supports the Government's drive to improve productivity by increasing the number of apprentices in the workplace, but we have serious concerns about the extent to which the Apprenticeship Levy, in its current form, is being utilised to train the charity workforce. On the other hand, volunteers are the lifeblood of the charity sector and, in many charities, they outnumber paid staff by a considerable margin.

22. Three years after the introduction of the Apprenticeship Levy, statistics indicate that the number of charities making full use of their contributions is low. The charity sector has campaigned from the outset for use of the levy to be widened to include training of volunteers. CTG would encourage the Government to support this proposal, both to enable charities to utilise the levy to train a high proportion of their workforce, plus supporting the provision of key skills to a cohort of future employees within the UK.