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charity tax group

Bulletin

Somewhat later in the day than we were expecting, the government published the draft legislation for finance bill 2025-26 yesterday afternoon (Monday 21st July). In this bulletin we are covering those items which are most relevant to charities.

As anticipated, the legislation published implements three changes to charity compliance measures which were the subject of a consultation issued by the previous government early in 2023. We do not anticipate that these should have a major impact on members as they are primarily targeted on schemes created to benefit people manipulating charity tax reliefs for their own gain.

The three changes which are intended to reduce abuse of charitable reliefs are:

1) The *tax treatment of legacies* received by charities will now fall within the 'attributable income definition', which means the legacy must be spent on the charity's charitable purpose. Failure to do so will result in a tax charge. This aligns the treatment of legacy income with other income sources.

2) For *qualifying investments*, new provisions mean that all 12 of the qualifying investment types will be subject to the requirement that the investment must be made for the benefit of the charity and not for the avoidance of tax. Previously this only applied to the catch all 'type 12' investments.

3) The third change is to 'lower the bar' for *the tainted charity donations* rules which are in place to prevent abuse of gift aid relief. HMRC will achieve this by shifting the emphasis to consider whether the donor gains a financial benefit from arrangements rather than trying to show that the motivation of the donor was to achieve a benefit for themselves. Wording has also changed so that the test of 'financial advantage' has been replaced with 'financial assistance'.

A further expected change, which will be of more significance, is that HMRC would like greater sanctions where charities do not meet their tax compliance obligations, particularly filing of their corporation tax returns. The proposed change was that HMRC could deem the charity to have failed the 'management condition' which requires the 'managers' of the charity to be 'fit and proper' persons. Failing the management condition can result in withdrawal of access to charity tax reliefs. This change has not yet been published because it relates to guidance rather than legislation but should be available shortly.

Unfortunately, the publications issued yesterday did not include the draft legislation for the changes required to Gift Aid legislation to enable charities to continue to claim gift aid on annual memberships once the Digital Markets, Competition and Consumers Act 2024 (DMCCA) comes into force in 2026. We have a scheduled meeting with HMRC to discuss this in August and will update you accordingly.

And finally, for those of you who work in fundraising, you will note that the **draft legislation bringing the value of unused pension funds** and pension death benefits within the member's estate on their death has also been published. This may have some impact on the legacy giving landscape.

Thank you for being a valued member of CTG.