July 2019

charity tax commission

Reforming charity taxation

towards a stronger civil society

Contents

Foreword

In the autumn of 2017, the National Council for Voluntary Organisations (NCVO) commissioned a review of the tax reliefs available to charities. They invited me to chair this Commission, alongside six others. While appointed by the NCVO, who also provided our Secretariat, the Commissioners - one of whom subsequently resigned because of a work conflict - worked independently; this report is ours and does not necessarily represent the views of NCVO.

We deliberately kept the Commission small, to enable informal discussions. But we were conscious of the need, given the breadth and variety of the charitable sector, to ensure access to an extensive range of views. In addition to a general call for evidence, we set up an Advisory Group of people with specific expertise in the charity tax field, and a Reference Group of those with wider interest in and experience of the charity sector. We also held round table discussions with groups representing particular sub-sectors.

I am grateful to all those who were generous with their support and opinions. Inevitably, not all of them will agree with everything in this report, but their views have enabled us to ensure a genuine depth to our discussions and conclusions. It was extremely helpful having representatives of HM Revenue and Customs (HMRC) and HM Treasury as observers at our meetings, to give us a feel for the government perspective and whether our conclusions might be realistic. I should also like to record particular personal thanks to my fellow Commissioners, with whom it has been a huge pleasure and education to work, and to our tireless Secretary, Paul Winyard from NCVO.

Nick Montagu
July 2019

Introduction

Charities and a changing society

Few would question the merits of charity tax reliefs - they have been a feature of the system ever since the earliest days of tax legislation. But the scale of those reliefs - for charities and their donors – now represents a significant sum in public revenue forgone at a time when fiscal policy is relatively tight. In the broadest terms, they can be seen as an implicit recognition of the intrinsic virtues of people coming together to support worthy causes and address unmet needs in society. These reliefs encourage and support a diverse and pluralist sector that is beyond the state or the private sector, and recognise the importance of that elusive concept of "civil society" in realising our values.

These are shifting sands. As our understanding of civil society evolves and changes, so too does our perception of charities and their role. What does not change, however, is the place of charities at the heart of our society and in people's lives, as active participants and supporters or beneficiaries. This provides a clear case for a regular review of charity tax reliefs, to satisfy ourselves that they are as effective as they can be in delivering their purpose against the background of both our ever-changing society and the enduring fundamental position of charities at its heart.

There is now an urgent need for a review. In the 20 years since the last review of charity tax reliefs, we have seen major changes in the sector, in public attitudes, in technology, in the way we think, in our daily affairs, and in the evolution of the public and private sectors. These changes add up to a substantial shift in the role of charities in society.

Principles and practice

Against this background, we set ourselves the task of assessing whether charity tax reliefs were still fit for purpose. This required a sense of what that purpose should be. With that in mind, we have set out in this report our three principles, or pillars, against which to judge how well reliefs are targeted and working, and which can provide an enduring yardstick.

But we also went further, and so must legislators. If the administration of a relief remains paper-bound, failing to recognise how digitisation has become commonplace or how people are increasingly donating electronically, urgent action is required. We must monitor whether this country remains an attractive destination for philanthropic giving against a background of global competition.

Long-term solutions

In our work and in this report, we have highlighted some pressing questions. But we are admittedly shorter on answers.

In many areas we have identified a need for change, but do not yet have enough information to make specific recommendations. Alongside this report we are publishing important research which goes deeper into the data than ever before. But it still only gets us so far. So in several areas, while change is needed, we recommend a review, opening up of the data and further research. This reflects a deliberate determination that our recommendations must be evidence-based.

In some areas, it is the difficulty of finding a practicable solution that has inhibited us from making specific recommendations. Recognising volunteering time is an obvious example.

This should not, however, be seen as short-termist. On the contrary, our work is intended to provide a basis for the development and improvement of tax policy. The principles are now clear. Once the data required to give them effect become available, so can more radical approaches and solutions. We are setting an agenda, and an urgent one, that will lay the foundations for a modern infrastructure of charity tax reliefs.

Similarly, future governments must avoid a narrow or short-term political approach to charity tax reliefs. Charities require a degree of certainty and security in formulating their own policies and planning for the future. On the other hand, government can sharpen up the focus of tax reliefs to target specific areas, based on appropriate evidence.

Constraints

We set ourselves two clear constraints.

First, we would avoid the issue of what should and should not be a charity. Although this is clearly relevant to business rates relief, for instance, it raises public policy issues which go far beyond those of tax law.

Second, none of our recommendations should involve significant additional net public expenditure or revenue forgone.

We also recognise that some taxation policy differs across the UK.[1] However, we did not regard this as a constraint as our proposals can be considered by the devolved administrations unless and until policy divergence requires an alternative approach.

Our recommendations

Within these constraints we offer a number of far-reaching recommendations which could make charitable tax reliefs more effective in achieving their ends. We have concentrated these in three areas - Gift Aid, Value Added Tax (VAT) and business rates relief. Together, these account for the greatest part of the value of the reliefs, and they also featured most prominently in the responses to our consultations.

[1] For example, business rates are devolved to Scotland, Wales and Northern Ireland, while Scotland and Wales have partial (though differing) control over income tax, with potential implications for the future implementation of Gift Aid rules.

Where Gift Aid is concerned, redirecting higher and additional relief to charities and a Universal Gift Aid Declaration Database (UGADD) offer the prospect of lasting advantages for government, charities and donors, while a mandatory Payroll Giving scheme for all but the smallest employers could have significant benefits. We have also included a number of recommendations for relatively minor changes to tidy up or rationalise arrangements which, in their present form, cause irritation and extra work for charities.

The current infrastructure of charity tax reliefs may be fundamentally sound. Certainly, the absence of radical suggestions for change among the responses to our consultation indicates that this may be the prevailing view in the sector. Nevertheless, we believe that contrary to the “If it ain’t broke: don’t fix it” argument, there is scope for improvement before more fundamental reforms can take place. Accordingly, while our recommendations are for the most part not in themselves radical, they are made with improvements to that infrastructure and a pathway to more far-reaching change in mind. We hope that they will be seen both as prudent in the short-term and as setting a demanding agenda for improving the targeting, effectiveness and accessibility of charity tax reliefs over the longer-term.

Executive summary

A healthy civil society and charity sector are a crucial part of a good society. Charitable tax reliefs are currently worth around £5 billion a year. The Charity Tax Commission has looked at how this is distributed and set out to establish whether the current approach was the best way to support the sector, and whether it met public expectations.

There is some urgency here. It has been over 20 years since charity taxation was last reviewed. New technology is changing the ways the sector evolves, and new forms of charity are emerging. The country itself seems divided, with certain geographic areas feeling ‘left behind’, while relatively tight fiscal policy necessitates every pound of tax relief to be targeted as well as it can be.

Evaluating and analysing the tax treatment of charities

To help steer and shape our thinking, the Commission developed a set of principles by which we believe the tax treatment of charities should be judged. We propose that charitable tax reliefs should, taken together, be designed to support:

1. functional activity towards a particular social good or public benefit;

2. individual donations to, participation in, and support of charitable activity; and

3. avoiding disincentives and ideally encouraging charities to increase efficiency and effectiveness, and to innovate and collaborate.

We have aimed to strike a balance between these principles, principally focussing on the three largest reliefs that charities receive: Gift Aid, business rates relief and VAT, along with other suggestions for incentivising giving and philanthropy.

Our proposals aim to discourage too much *ad hoc* political intervention, so that charities can plan with certainty; promote and buttress the democratic nature of individual giving; and address barriers and systemic anomalies that impede efficiency and fairness.

In addition to where immediate improvements are both needed and possible, there are areas where we feel we cannot propose immediate solutions. This is predominantly because of a lack of adequate data and robust research that would allow us to understand the consequences of various possible changes. However, we believe that bold and ambitious thinking is needed in several of these areas and have highlighted these so that they can become the focus of future research and debate.

Our main recommendations are set out below.

Part A: Short-term reforms

GIFT AID

Redirect higher-rate relief to charities

The value of higher-rate and additional-rate relief should be redirected to charities on top of the basic-rate relief they already receive, with an opt-out from this if donors specifically requested it.

This change should be preceded by research to determine how best to overcome the administrative issues that this raises.

Universal Gift Aid Declaration Database

Allowing donors to complete a single, enduring universal declaration covering all their subsequent gifts to charities, a Universal Gift Aid Declaration Database (UGADD) would simplify the administrative requirements for Gift Aid. Charities could then access the database in order to see whether a given donation has a Gift Aid declaration against it. It would also help address HMRC's concerns about the tax gap[2] and ineligible Gift Aid claims.

Government should therefore re-explore the feasibility of a UGADD, including how its operation would potentially impact on charities of all types and sizes. This would help future-proof Gift Aid at a time when donors are becoming more mobile and cash transactions are increasingly digital.

BUSINESS RATES RELIEF

Consult on extending rates relief to wholly-owned charity trading subsidiary companies

Many charities set up a trading subsidiary company in order to comply with the rules on charitable trading. However, this can lead to the loss of mandatory and/or discretionary charity relief when the trading subsidiary is separately assessed for business rates.

However, the primary goal of raising money for charity remains the same. Government should therefore consult on whether to roll out rate relief to all wholly-owned charity subsidiaries.

VAT

Review VAT rules for shared facilities

Current VAT rules on the sharing of facilities, equipment and buildings create irrecoverable VAT[3] for charities and restrict collaborative working and cost saving efficiencies between charities and partners, particularly research institutions.

VAT rules for charities using shared resources should be reviewed to support collaboration. This would help innovative public and private sector collaboration with charity research institutions and help the Government achieve its commitment to raise UK investment in research and development.

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2 The Gift Aid tax gap appears when charities claim Gift Aid back from donations but HMRC doesn't actually receive the equivalent revenue in income tax paid by those donors.

3 See page 37 for further explanation.

Require public bodies to provide the VAT status of funding

Whether the funding a charity receives is deemed to be a contract or a grant for VAT purposes can be highly subjective and open to interpretation. Charities consequently spend significant resources trying to determine whether some funding is within the scope of VAT.

Public bodies should be required to provide the VAT status of any funding, using clear guidance provided by HMRC on how to decide when income from a funding offer or tender is or is not subject to VAT. HMRC should work with the voluntary sector to develop this guidance to ensure public bodies do not automatically adopt risk-averse behaviour to the detriment of charities' beneficiaries.

INCENTIVISING GIVING

Make it mandatory for employers to offer a Payroll Giving scheme

Payroll Giving is an effective way of giving for donors, as donations are taken out of pre-tax income (enabling tax liabilities to be reduced by the amount donated), yet it remains a small part of the overall charitable giving landscape.

To increase take-up, the Government should make it mandatory for employers to offer a Payroll Giving scheme to employees. This could match the rules on pension auto-enrolment, although a minimum size of employer might need to be considered.

IMPROVED DATA AND OPENNESS

The need for better government data

Knowing how tax reliefs are distributed is important for understanding how far they influence public and charity behaviour and deliver their intended social or economic objectives. However, it is currently difficult to determine with any degree of accuracy where most charitable tax reliefs are targeted or the public benefit they support.

The Government should improve the quality of its published statistics on how much tax relief individual charities receive, broken down by type of relief. While changing long-standing rules designed to protect both individual and corporate taxpayers could create unacceptable risks, there is a strong case for internal HMRC guidance to make it clearer to staff that openness which does not breach these rules is itself an imperative. Local authorities should also publish their business rates registers as open data in a standardised format.

Greater openness from charities

Better data from government would show which charities are receiving tax reliefs but reveal little about how charities convert this support into delivering public benefit.

Charities with revenue of over £1 million per annum should publish detailed information in their annual reports about the amount of money they receive from Gift Aid, business rates relief, and where possible, VAT relief.

Part B: Ambitions for the future

A LONG-TERM REVIEW OF BUSINESS RATES RELIEF

Business rates relief disproportionately supports certain types and sizes of charities. Furthermore, property-based reliefs do not necessarily reflect and cater for the full range of charities' activities in an increasingly digital world.

Government should conduct a long-term review of business rates relief for charities, looking at both the equity of distribution and the extent to which this relief is generating public benefit. The sums forgone in business rate relief might be better spent to support a strong civil society in other ways.

A COMPREHENSIVE REVIEW OF VAT FOR CHARITIES

Navigating the VAT environment is often more difficult for charities – particularly smaller ones - than their private and public sector counterparts. The current regime also contains systemic anomalies that disincentivise efficiency and effectiveness and impede charitable activity.

Depending on the terms on which the UK exits the European Union, the Government should conduct a full review of the way that VAT operates for charities. This should bring charities and tax authorities together to explore the challenge that irrecoverable VAT present to the sector and how administration can be made simpler.

ANOTHER LOOK AT THE DISTRIBUTION OF GIFT AID

The distribution of Gift Aid favours certain types of charities, in certain areas and working on certain topics. Geographically differentiated rates of Gift Aid, for example, could address this.

There are many practical problems with this idea that would have to be overcome, as well as its impact on incentives and behaviour. In addition, we are wary of politicians having too significant a role in deciding which charities should and should not receive tax breaks and to what extent. Nevertheless, when public money continues to be tight, we believe there is a case for more research in this area.

The purpose of charitable tax reliefs

The purpose of tax reliefs

Tax reliefs can serve many different objectives. Broadly, they are used as a mechanism to redistribute wealth, support economic growth and influence behaviour. Tax reliefs, both corporate and individual, can further the policies of the government of the day and may be geared towards particular groups or areas (e.g. single parents or under-invested regions), workers and entrepreneurs (e.g. work or business expenses), encouraging particular sectors (e.g. creative industries), promoting desired behaviour (e.g. saving or protecting the environment) or other aims.

The National Audit Office (NAO) states that the purpose of *individual* tax reliefs falls under one or more of the following categories:[4]

- Tax expenditure reliefs which provide incentives for behaviour for economic and social objectives. These are used to encourage certain behaviours, compensate for market failure or promote wider objectives. This includes Gift Aid, which enables charities to claim a tax repayment on donations from individuals, at the basic rate.
- Reliefs introduced by international agreements, such as zero-rated VAT on certain goods and services.
- Reliefs to create simplicity and avoid disproportionate administrative costs, such as the exemption of small gifts up to £250 from inheritance tax.
- Reliefs to improve the progressivity of tax. This includes allowances and thresholds that produce different rates of tax, such as the income tax personal allowance.
- Reliefs to ensure the scope of the tax is as intended by preventing a particular group or activity from being taxed.
- Reliefs to measure income or profits correctly. Such reliefs enable companies to deduct losses from previous years from current profits.

The main reliefs awarded to charities in terms of cost - Gift Aid, business rates relief and VAT relief - principally fall under the HMRC objective of 'tax expenditure' reliefs as they incentivise behaviour for economic and social objectives. It is important to note, however, that there is an opportunity cost associated with tax expenditures, in terms of the policy objective that receives the relief versus revenue forgone for the exchequer.

The purpose of tax reliefs for charities

Ever since the first *Income Tax Act* in 1842, governments have applied a general principle that charitable income should not be taxed. While there is no official rationale set out by the current Government on the purpose of tax reliefs for charities, it is reasonable to assume that the objectives have not deviated

4 For further information see www.nao.org.uk/wp-content/uploads/2014/03/Tax-reliefs.pdf

greatly from the position outlined in a HM Treasury paper from March 2010. This explains that the Government had two principal objectives in mind when considering charity tax reliefs and exemptions:

1. to encourage more people to give to charity;

2. to support and encourage charitable causes through the system of reliefs and exemptions and 'to improve sustainability of' the sector and 'finance' it through charitable tax reliefs.[5]

While this summarises *what* charitable tax reliefs should seek to achieve, it says little about *why* these objectives are desirable.

Making the case for charitable tax reliefs

The historical case put forward for tax reliefs is that they support the work of charities and allow them to amplify the public benefit they provide. In order to register as a charity, an organisation must have charitable purposes only, which in turn must benefit the public in general, or at least a sufficient section of the public.[6] This public benefit aspect is deemed to be inherent in any charitable organisation. The following is a more specific rationale for charitable tax reliefs set out by Kessler et al:

1. Charities offer a means of delivering public services:

    (a) which may not be provided by the private sector
    (b) which may be more effectively or cheaply provided than by the state (given a charity's special relationship with the community)
    (c) the cost of which may otherwise fall on the State.

2. Charities promote important values, including voluntarism, self-responsibility and participative democracy.

3. Charities constitute an important mechanism for encouraging philanthropy.[7]

The tax treatment of charities may also be justified through an emphasis on fairness. Government uses taxation to raise funds from the public to meet the expenditure required to provide public services and support the needs of society. It could therefore be argued that a charity determined by law to operate for public benefit purposes merits fiscal privileges - without having to justify the value of those purposes - as it exists to serve society in a way that is complementary to the way in which government exists to serve society.[8]

5 Report cited in Charity Tax Group's *Charity Tax Map*: www.charitytaxgroup.org.uk/tax/introduction/

6 Charities Act 2011, c.7, www.legislation.gov.uk/ukpga/2011/25/part/1/chapter/1

7 Kessler, J. QC, Wong, E. and Ashley, M. (2017) 'Taxation of Charities and Nonprofit Organisations (11th Edition)', Key Haven Publications Ltd.

8 www.charitytaxgroup.org.uk/wp-content/uploads/CTG_Charity_Tax_Map_Second_Edition_03-12-12.pdf

Evaluating and analysing the tax treatment of charities – the Commission's 'three pillars' of charitable tax reliefs

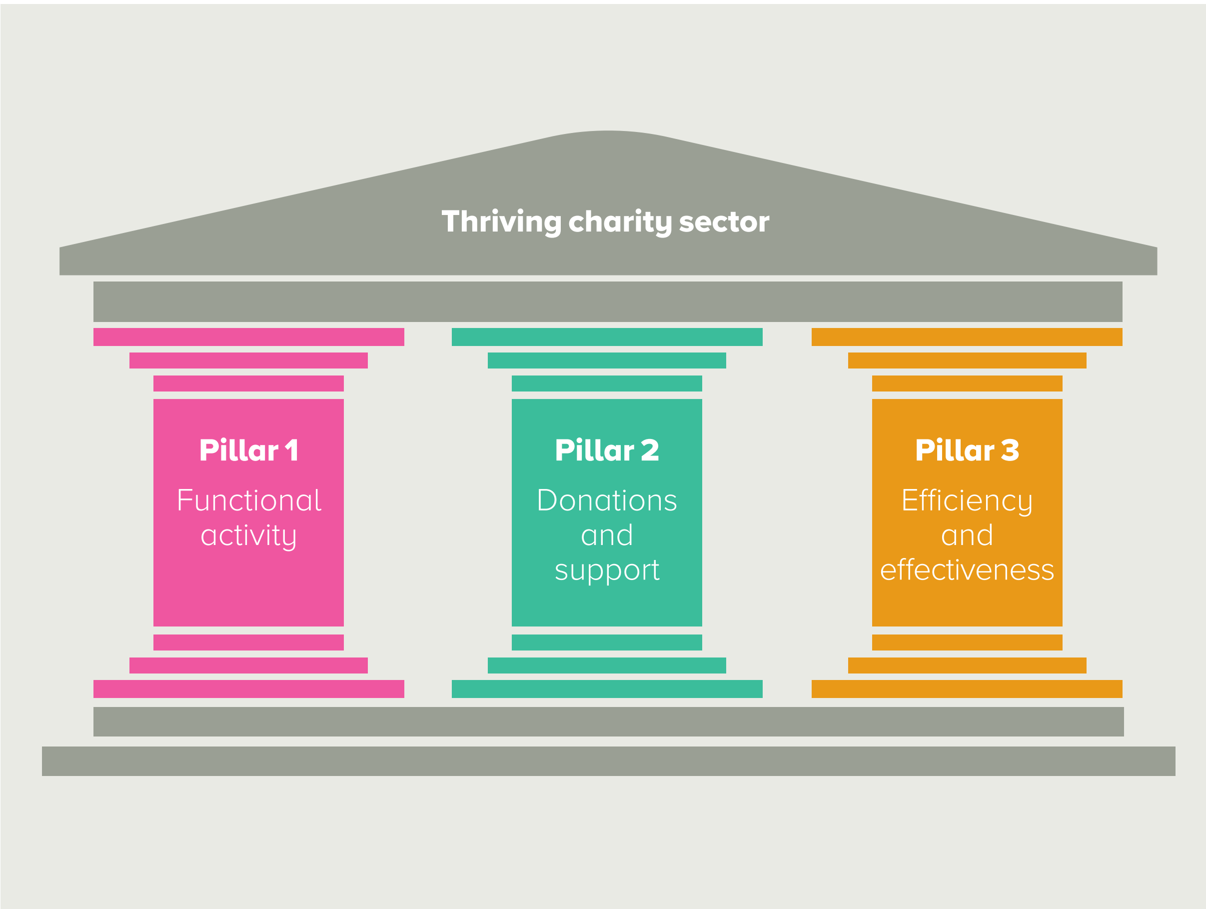
We have developed three main principles as a framework for thinking about the key behaviours and objectives which charitable tax reliefs should seek to achieve. Different reliefs may serve different principles to different degrees, but we believe reliefs taken as a whole should seek to balance these three principles.

Charitable tax reliefs should be designed:

1. *To support[9] functional activity: towards a particular social good or public benefit.*

This includes reducing operating costs, streamlining processes and supporting charities less able to cope with administrative burdens. This is usually one purpose of tax reliefs for any sector or industry and is a natural priority for any effective system for charities.

The principles governing charity tax reliefs should also reflect the distinctive value of the independence of charities and individuals' decisions to support good causes. This recognises the general economic and social benefits of having an active and independent civil society.



[9] Our use of 'support' covers both 'providing incentives for' and 'removing barriers to', as appropriate.

2. *To support individual donations to, participation in and support of charitable activity.*

This includes tax reductions for contributions to charities and incentivising donations (e.g. through matching).

The current system largely reflects these first two pillars, although development of tax reliefs has been piecemeal, resulting in some unintended consequences and a particular distribution of tax reliefs (e.g. across geographies, sectors and sizes of charity).

We believe that, in addition to these first two pillars, we also need a third principle.

3. *To support charities to increase efficiency and effectiveness and to innovate and collaborate.*

This includes facilitating modernisation and removing systemic anomalies that impede desirable charitable activity (e.g. over-complex tax rules).

Openness and transparency are needed to help us navigate all three pillars. Only then can we see the relationship between the tax reliefs and behaviours, and identify distributions and impacts, intended or otherwise.

Summary of the main charity tax reliefs that charities and donors receive

The UK has around 1,100 tax reliefs.[10] According to the latest government figures, the total cost of these reliefs is around £400 billion of revenue forgone each year,[11] equal to approximately 50 per cent of total government expenditure.[12] Just under 1 per cent of these reliefs – £4.0 billion – was awarded to charities in 2017-18.[13]

HMRC provide a statistical summary of the tax reliefs relating to charities.[14] The reliefs are split into two groups – those which apply to charities and those which apply to individual taxpayers on money they donate to charity. In 2017/18, total reliefs were worth £5.1 billion, of which £3.6 billion (71 per cent) applied to the charities themselves (this excludes VAT relief, estimated to be worth £400 million in 2016/17).

[10] This was set out in 2014 www.gov.uk/government/publications/tax-reliefs-review. NB: there is some debate about the exact number of tax reliefs as related reliefs are aggregated in some estimations.

[11] HMRC's estimated costs of principal tax reliefs www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs. 2016-17 figures are rounded to nearest £10bn.

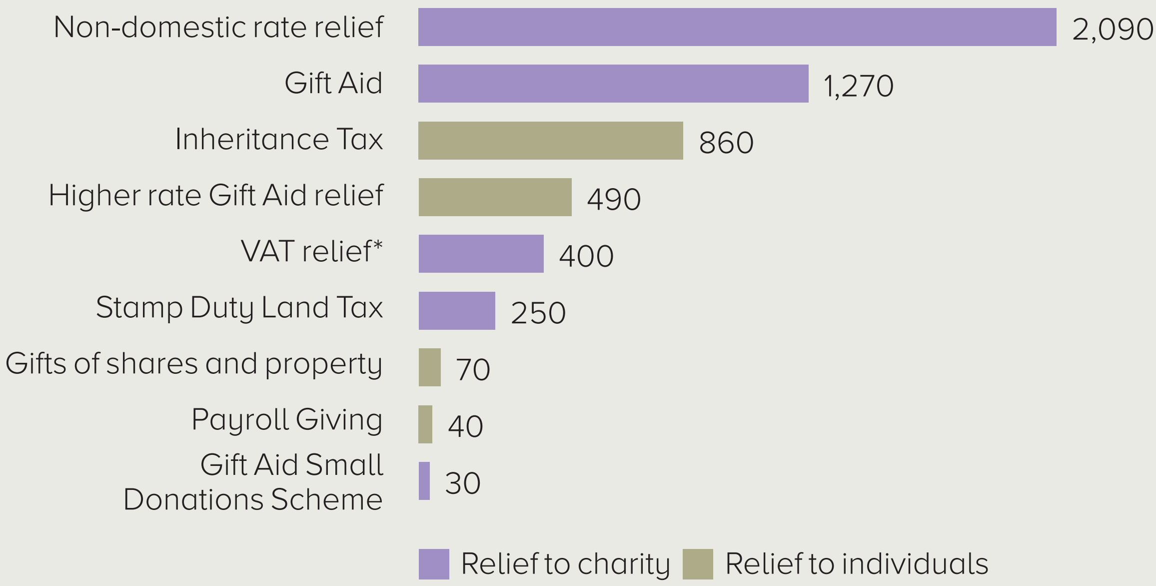
[12] Office for Budget Responsibility's public finance databank - http://obr.uk/data/. 2017-18 figures are rounded to nearest £10 bn.

[13] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719899/UK_Charity_Tax_Relief_Statistics_Commentary.pdf

[14] www.gov.uk/government/collections/charitable-donations-and-tax-reliefs-statistics

Our work has principally focussed on the three main charitable reliefs in terms of cost to the Exchequer – Gift Aid, business rates relief and VAT relief. Combined, these represent approximately 90 per cent of all reliefs received by charities by value. See Appendix B for a full list of reliefs.

Figure 1 - Charitable tax reliefs, £ millions, 2017/18[15]



*VAT relief is estimated based on the latest available figures for 2016/17

[15] Source: HMRC Charity Tax Statistics. *VAT relief is estimated based on the latest available figures for 2016/17. Since this information was published HMRC has said that "Information on the usage of this relief is not required in tax returns and cannot be reliably estimated from other data sources, and the cost of collection for statistical purposes is disproportionate. The ONS data series previously used for this estimate has been discontinued, and the derived figures are no longer considered reliable"

1

Section 1: Short-term reforms

Charities receive support through various tax reliefs. We have contemplated a range of options, some quite radical, for channelling this support more effectively, in order to maximise public benefit. However, we have been inhibited by the paucity of information about how each relief is distributed - in terms of type, size and location of charity - and even less about how this support represents value for money for the Exchequer.

While the data below represent a step forward in what we know about the distribution of the two largest reliefs that charities receive – Gift Aid and business rates relief – they are not comprehensive. This means that we have been unable to determine an accurate picture of the distribution of support – which makes assessing possible reform options difficult. Even more problematic is the absence of published data on other reliefs such as VAT and Inheritance Tax relief, beyond an approximation of their annual cost to the Exchequer. We were similarly struck by the dearth of research - including in other countries - into the effectiveness and efficiency of various tax reliefs, including both the administrative burden they place on charities and the benefits for the taxpayer.

This has inevitably hampered our ambition to think creatively about how the £5.1billion of reliefs each year might be distributed to greater effect. For the short-term, we have therefore decided to focus on relatively modest recommendations. That said, while modest when measured against our initial ambitions, if implemented, they would significantly increase the amount of support directed to charities. We have also set out ideas for bolder reform in future that will require better data and further research (see Section 2).

Gift Aid and Gift Aid Small Donations Scheme

Gift Aid is a tax relief which allows charities, community amateur sports clubs (CASCs) or individuals to reclaim the value of the tax already paid on income if that income is donated to charity. It comes in three main forms:

- After a UK taxpayer donates to a charity, the charity can then claim a further 25 per cent of the donated amount from HMRC, equivalent to the 20 per cent basic rate tax already paid on the income. The charity needs to collect details of the taxpayer making the claim, which are sent to HMRC.

- Charities can also claim a "top-up" payment on up to £8,000 worth of small donations (those of £30 or less) through the Gift Aid Small Donations Scheme (GASDS). The main advantage of this method is that the charity does not need to collect details about an individual making a donation. This is only available to charities who are also making standard Gift Aid claims, and charities cannot claim more than 10 times the amount of full Gift Aid claims. Claims can only be made on donations paid in cash or through a contactless payment card.

- Individuals paying additional and higher-rate tax can reclaim the difference between the basic-rate tax (already claimed by the charity) and their higher-rate. This money is typically reclaimed by the individuals as part of their Self-Assessment tax return and does not affect the amount received by the charity.

In 2017/18, charities received £1.3 billion in Gift Aid repayments,[16] plus a further £30 million through the Gift Aid Small Donations Scheme.[17] This represents tax repayments on around £5 billion of donations.[18] A further £0.5 billion was claimed by individuals who are higher rate taxpayers.[19] The amount of Gift Aid paid to charities registered in Scotland was approximately £80 million in each of 2016, 2017 and 2018.[20]

The Charities Aid Foundation (CAF) estimates that in 2017, the UK public gave £10 billion to charity.[21] Assuming this figure of £10 billion is comparable with HMRC estimates for the amount of Gift Aid (i.e. that they relate to the same set of organisations, and the same type of giving), this suggests that around half the value of donations to charities is claimed for Gift Aid.

Comparisons with data from NCVO's UK Civil Society Almanac (2018)[22] suggest that Gift Aid repayments represent 2.5 per cent of the voluntary sector's total income (in 2015/16), and 6 per cent of its voluntary income (i.e. excluding income that is earned through providing services). Gift Aid repayments are equivalent to the entire spending of all charities based in the North East of England and are around the same value as the total spending of charities working in employment and training.

The distribution of Gift Aid

In 2017/18, 72,000 charities received Gift Aid repayments.[23] These are unevenly distributed by size: 70 per cent of claimants claimed less than £5,000 each in 2017/18, while 46 per cent of Gift Aid repayments went to the approximately 150 charities who claimed more than £1 million each.

We were given access to HMRC data on Gift Aid,[24] which we cross-matched with NCVO Almanac data on general charities. This new research, published alongside this report, provides the most detailed

16 HMRC UK charity tax relief statistics Table 3

17 HMRC UK charity tax relief statistics Table 2

18 HMRC UK charity tax relief statistics Table 3

19 HMRC UK charity tax relief statistics Table 2

20 www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2019-02-04/216364

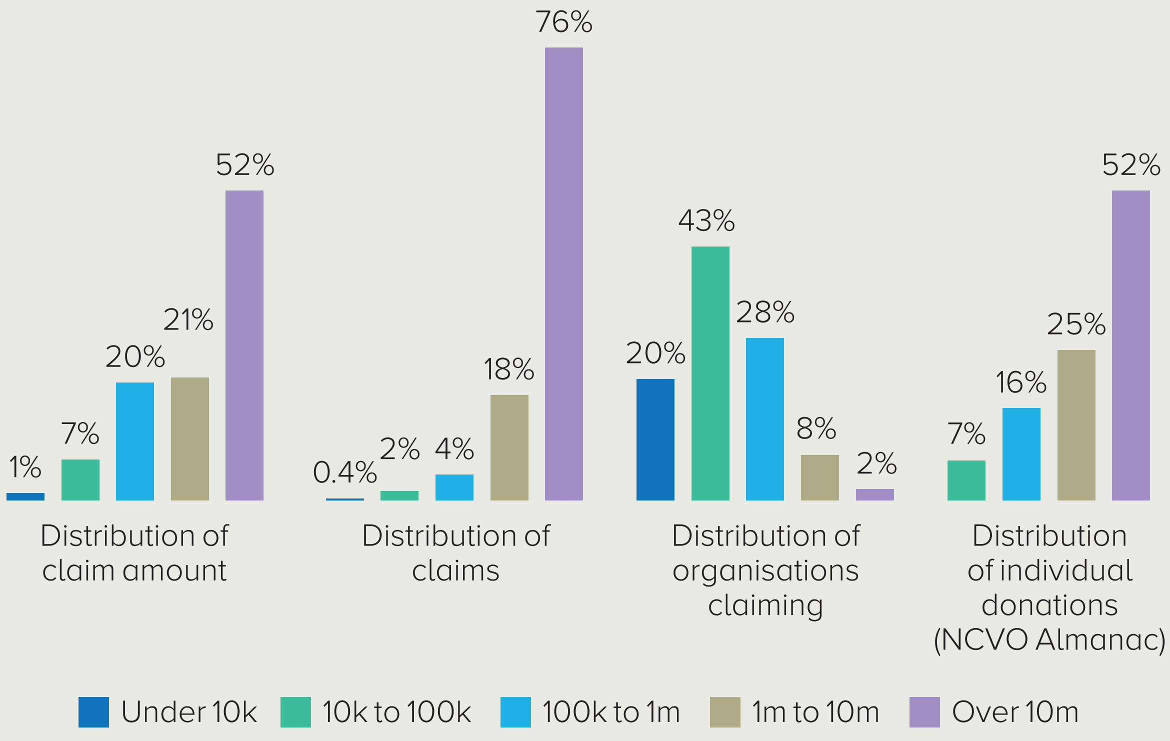
21 CAF (2018) UK Giving 2018 www.cafonline.org/about-us/publications/2018-publications/uk-giving-report-2018

22 NCVO (2018) UK Civil Society Almanac https://data.ncvo.org.uk/

23 This number is not directly comparable to the number of charities registered with the Charity Commission for England and Wales, the Scottish Charity Regulator and the Charity Commission for Northern Ireland, as there are charities which are exempt from registration with the charity regulators but are nevertheless eligible for Gift Aid from HMRC, such as some churches.

24 Data on Gift Aid repayments to charities was obtained through the HM Revenue & Customs "Datalab" service. This service allows researchers to securely access confidential data for research purposes. To complete this research a list of charities registered in England, Wales and Scotland was sent to HMRC. Staff at HMRC then matched this register of charities to the Gift Aid database and produced a de-identified dataset that could be analysed through the Datalab service. Matching was mainly done using charity numbers, with some matching based on the name of charity. While the matching was successful it is important to note that there was not a 100% success rate, so there will be some "false positives" in the data (charities that have been matched to the wrong organisation) and "false negative" (charities that should have been matched but haven't been). Data in this dataset related to the 2013/14 financial year.

Figure 2 - Distribution of Gift Aid claims and claim amount by income band (2013/14)[26]



information to date on the distribution of Gift Aid and represents a step-change in the transparency of the second most valuable tax relief for the sector. But we believe it still lacks the detail required for truly effective policy analysis because of data aggregation requirements stipulated by HMRC. It does, however, provide a useful snapshot of where Gift Aid is directed in terms of size, type and location of charity.

DISTRIBUTION BY SIZE OF CHARITY

The majority of Gift Aid is claimed by the largest charities, but our research suggests that, as a proportion of overall income, it is more important for charities in lower income bands (a picture that is mirrored for business rates).

As Figure 2 shows, in 2013/14, just over half (52 per cent) of Gift Aid by amount donated was claimed by organisations with more than £10 million annual income, with those organisations making three quarters of individual Gift Aid claims. Data from the NCVO Almanac[25] suggest that these organisations receive 52 per cent of

[25] The UK Civil Society Almanac, published by NCVO, is an annual publication of facts and figures on the UK Voluntary Sector. The financial parts of the Almanac use data from the Charity Commission and charities' annual accounts to produce a picture of the income, spending and assets of charities.

[26] Source: Calculations are based on HMRC administrative datasets as well as the NCVO Almanac. NB for NCVO Almanac data, no separate figure is available for organisations under £10k organisations; the £10k-£100k figure includes those under £10k.

the total amount donated by individuals. Organisations with more than £10 million income accounted for just 2 per cent of the number of organisations with claims. Organisations with less than £100,000 income accounted for just 8 per cent of the total amount donated and just 2 per cent of the number of donations.

The concentration of claims, by number and value, in the larger organisations is a result of two factors:

- Larger organisations are more likely to make a claim – 45 per cent of organisations with over £10 million income made a Gift Aid claim in 2013/14, compared to just 10 per cent of those with under £10,000 income.[27]

- Larger organisations make more claims – organisations with over £10 million income made an average of 83,000 claims per organisation in 2013/14, compared to just 36 for the smallest organisations, reflecting the number of individual donations received.

The concentration of large numbers of claims in larger organisations is not linked to the average size of donations claimed by the organisations. The mean amount of donation claimed by the largest organisations is £33, compared to £240 for those with income between £100,000 and £500,000 and £148 for those with under £10,000. Larger organisations are more likely to be able to put systems in place to process large numbers of smaller donations through Gift Aid than smaller organisations.

NCVO's Almanac indicates that small organisations – those with an income under £100,000 - receive a quarter of their income from donations compared to around 15 per cent for organisations over £1million. This suggests there are a large number of small organisations which have not claimed Gift Aid on their donations for one reason or another.

Despite the concentration of Gift Aid claims in the largest organisations, Gift Aid is a more important source of income for smaller organisations, as Figure 3 shows. Taken as a proportion of the income of all organisations in each income band (not just those that claim Gift Aid), Gift Aid donations represent around 10 per cent of the income of organisations with less than £500,000 income, while they make up just 4 per cent of the income of organisations with more than £1 million turnover.

The NCVO Almanac suggests that voluntary income from individuals represents around 15 per cent of the total income of general charities (excluding some large organisations such as universities).

[27] It should be noted that many large organisations engage in activities that do not qualify for Gift Aid.

Figure 3 - Gift Aid donations as a proportion of total income of all charities, by size of charity (2013/14)[28]

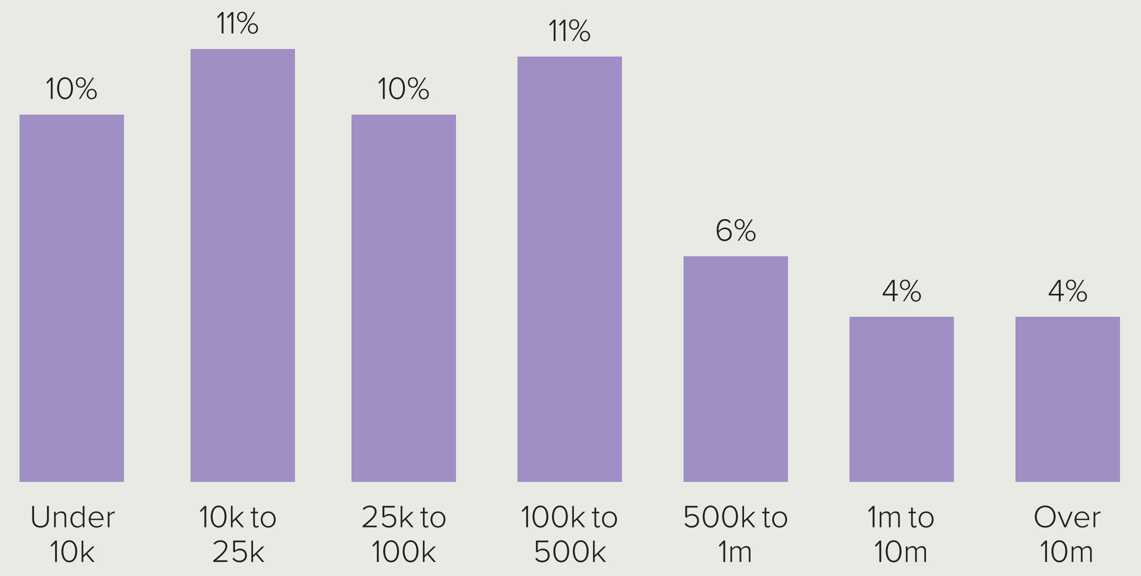
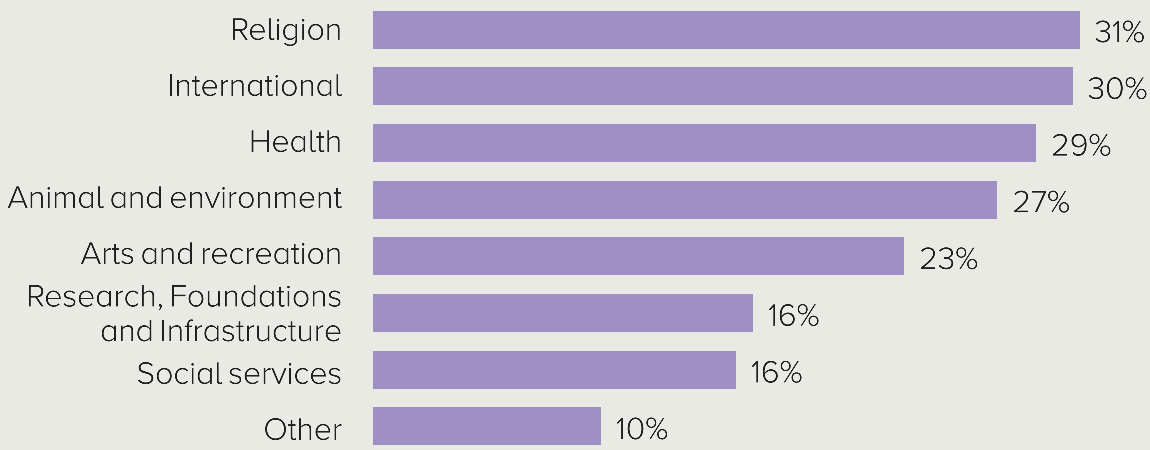


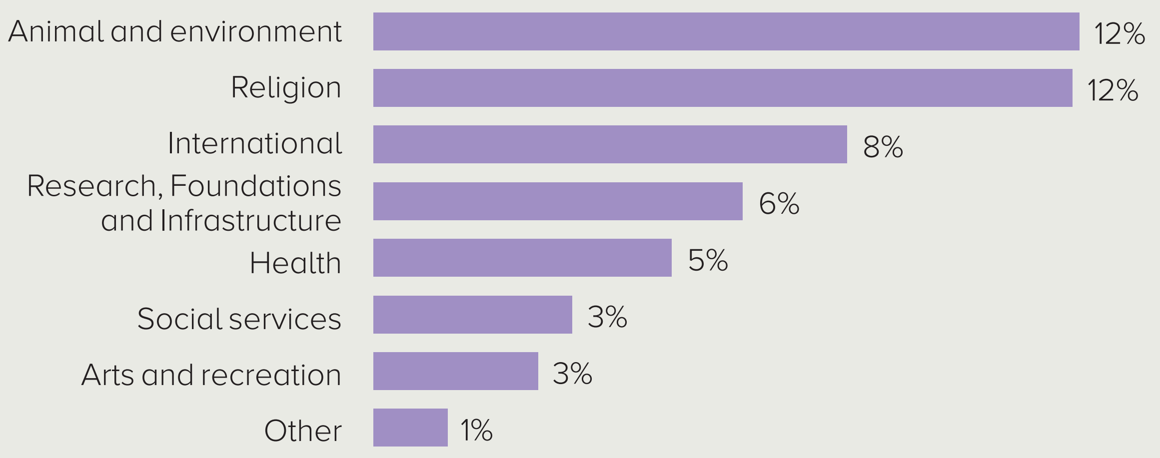
Figure 4 - Proportion of organisations claiming Gift Aid, by sector (2013/14)[30]



[28] Calculations are based on HMRC administrative datasets. These figures include the income of charities that do not claim Gift Aid.

[30] Calculations are based on HMRC administrative datasets.

Figure 5 - Proportion of sector income from Gift Aid donations, by sector (2013/14)[31]



DISTRIBUTION BY SECTOR[29]

Religious groups and charities operating overseas are the organisations most likely to claim Gift Aid, with 30 per cent of each of these claiming Gift Aid, and 29 per cent of health charities (including those fundraising for medical research) – see Figure 4.

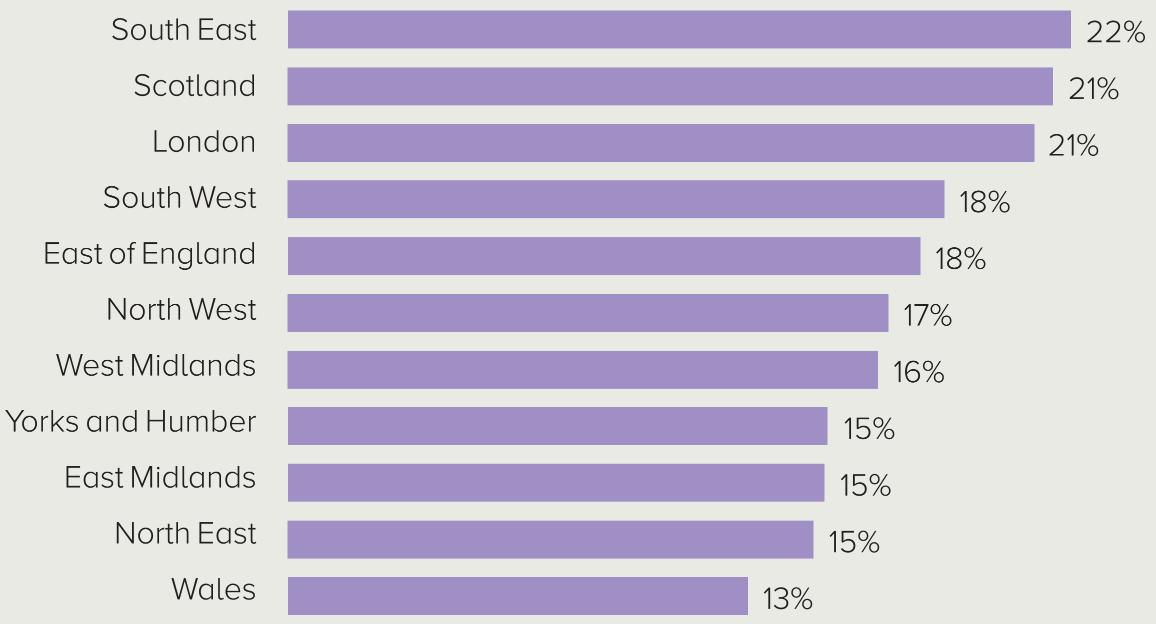
Gift Aid income is particularly important for organisations working with animals or the environment, and religious groups, as measured by the proportion of their total income which comes from Gift Aid donations – 12 per cent (see Figure 5). It is less important for arts and recreation organisations, and for those working in social services.

When considering the sectoral distribution of Gift Aid, certain organisations and causes appear to be more attractive to donors – and are therefore more like to receive Gift Aid. For example, animal welfare receives more donations from the public than substance misuse. Furthermore, certain organisations, such as religious charities, are more effective at claiming Gift Aid because they have good structures and training in place, and often have a well-informed donor group.

[29] The sector in which each charity operates is based on an application of the International Classification of Non-Profit Organisations[29], applied to charities in England and Wales by NCVO. During analysis, some ICNPO categories had to be combined to avoid the possibility of disclosing details of individual organisations, in line with the guidelines for using data in the HMRC Datalab. Where possible, categories were combined with those that are similar in nature, and categories with the greatest weight in the analysis have been kept.

[31] Calculations are based on HMRC administrative datasets.

Figure 6 - Proportion of organisations with a Gift Aid claim, by region/country (2013/14)[32]



DISTRIBUTION BY REGION

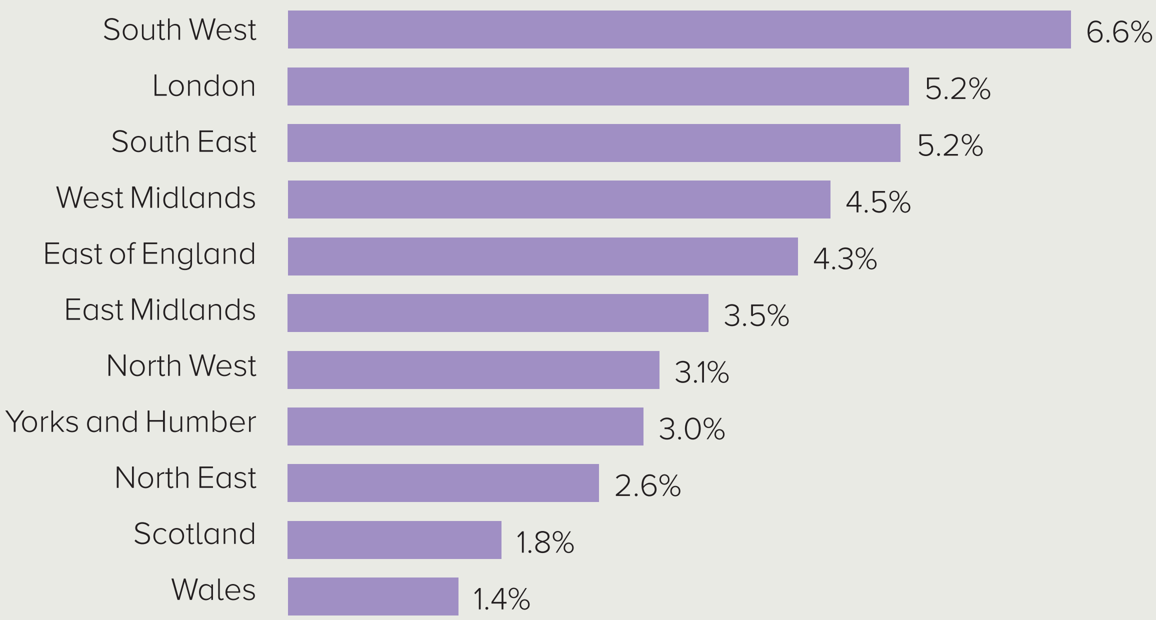
The data on distribution of Gift Aid by region are based on the registered office of the charity. While for most charities this will correspond to the region in which the charity operates, for the largest organisations (and therefore the bulk of Gift Aid claims) and for those that operate over many regions, this will not give an accurate picture of where the donated money is spent (or where the person giving the donation lives). This means that the figures for London and the South East, in particular, are skewed by the number of large organisations with headquarters in those areas.

Nearly half (48 per cent) of the total amount of Gift Aid claims are made by organisations with a registered office in London. This reflects the pattern that the largest organisations are often based in London.

The proportion of organisations making a claim varies by region and country (see Figure 6). Twenty-two per cent of organisations based in the South East made a Gift Aid claim in 2013/14, while just 13 per cent of organisations in Wales did so. While some of these variances will be accounted for by the difference in composition of organisations in each region (for example some regions have fewer large organisations), this does suggest that there is scope to increase take up of Gift Aid in some areas of the UK.

[32] Calculations are based on HMRC administrative datasets. Region is based on the headquarters of the charity.

Figure 7 - Gift Aid as a proportion of total income to organisations, by region/country (2013/14)[33]



There is also some variation in the proportion of total income represented by Gift Aid for organisations in each region or country (see Figure 7). Again, organisations in Wales see the smallest proportion with just 1.4 per cent of total income from Gift Aid, while organisations in the South West see 6.6 per cent of income coming from Gift Aid. These figures probably give an indication of the relative importance of individual giving to organisations in these areas.

Charities' experience of Gift Aid

Gift Aid is of great importance to charities, providing benefits to both small and larger organisations through boosting valuable income. However, smaller charities can be discouraged from operating Gift Aid because of the administrative burden, the complexity of the regulations, and the challenges associated with establishing an audit trail for donations.

Gift Aid can also be complex to understand and explain to those who pay higher and additional-rate tax, because of the concept of sharing the tax relief between the individual (through a tax deduction) and the charity (with a match-style top-up). The Institute of Fundraising suggests that the ability to claim tax back through a taxable deduction is more of an incentive for higher-rate taxpayers at the wealthier end of the scale (where individuals often have wealth managers and advisers). Currently, for donors to give the full value of the tax relief to the charity, they have to claim the higher-rate tax back themselves, receive the money from HMRC, and then donate that tax to the charity, creating a three-stage process that can take months.

[33] Calculations are based on HMRC administrative datasets. Region is based on the headquarters of the charity.

For many charities, the rules on providing benefits to donors can be confusing and can reduce Gift Aid claims on certain donations. In return for a donation, charities sometimes provide the donor with a token of their appreciation (a 'benefit'). If the value of the benefit exceeds certain limits, the donation does not qualify for Gift Aid. At present, the value of a benefit is calculated on the value of that benefit to the recipient, not the cost to the charity. However, it is often difficult to determine how donors perceive the value of their rewards without an equivalent retail value, which is not always obtainable.

There are growing calls for Gift Aid to keep pace with advances in technology. It is becoming more and more common for donors to donate to charities via text message, as the use of smartphones increases, and to make impulse donations (the RSPCA, for example, reports 70 per cent year-on-year growth of these types of donation). In order to claim Gift Aid under the current legislation, a charity must be able to match a donation receipt to a valid Gift Aid declaration. Charities, therefore, must ask text message donors to make a Gift Aid declaration. However, it can be difficult to match the donation receipt to the declaration, as charities rely on information provided by phone companies. Some charities that claim Gift Aid on donations made via text message are worried that if they were investigated by HMRC, they might not be able to demonstrate a sufficient audit trail linking the donation and the declaration.

When Corporate Gift Aid was originally set up, it worked in a similar way to general Gift Aid, with charities claiming back the tax relief so that the donations they received were 'topped up'. This was subsequently changed so that, instead, companies claimed the relief and then made a further donation to charity. This change was supposed to bring administrative and operational advantages for charities, which would mean less time processing and claiming. However, the Institute for Fundraising argues that the available evidence does not indicate any further increase in corporate giving or the amount that charities receive from businesses.

GIFT AID SMALL DONATIONS SCHEME

Despite several efforts to reform the Gift Aid Small Donation Scheme (GASDS), results have fallen far short of the £100 million a year of additional money that was predicted for charities. This is despite recent statistics suggesting that almost 80 per cent of the population made a cash donation to charity in the past year, with these donations often being relatively small and therefore within the scope of GASDS.[34]

There are barriers to maximising the benefits of GASDS. Some charities are unaware or unable to navigate the rules, with research indicating that over a third of small charities (£10,000-100,000 income) report it difficult or very difficult to find out about the scheme.[35] Many small charities consider it not worth the effort to engage with a scheme that seems difficult to use and disproportionate in its reporting requirements.

[34] www.civilsociety.co.uk/news/charities-missing-out-on-600m-in-gift-aid-government-warns.html

[35] https://blogs.ncvo.org.uk/wp-content/uploads/andrew-o-brien/CFG-IoF-NCVO-GASDS-Briefing.pdf

The Scheme's 'matching requirement' requires charities to make a certain volume of Gift Aid claims through the conventional system in order to access the GASDS. The maximum amount of GASDS top-up that can be claimed is 10 times the total amount of Gift Aid donations claimed by the charity or CASC in that tax year. This is more restrictive for smaller charities, as they often have fewer resources to process conventional Gift Aid donations.

While some improvements were made to the Scheme in April 2017, and more recently with an increase in the eligible donation limit to £30 in line with the contactless payment limit, challenges associated with administration and awareness remain.

Short-term recommendations for reforming Gift Aid

REDIRECTING HIGHER AND ADDITIONAL RATE RELIEF TO CHARITIES

If the value of higher-rate and additional-rate relief went directly to the charity as the default (with an opt-out if donors specifically requested it), on top of the basic-rate relief they already receive, charities would receive more income, enabling them to increase the public benefit they generate. While the present system theoretically allows higher-rate donors to achieve the same outcome by simply increasing their donation to allow for the relief, in practice many do not do this or even reclaim their rebate.

Research indicates that to increase overall donations, match-style tax incentives (such as the Gift Aid top-up that charities do receive) are likely to be more effective than rebate-style incentives (such as the tax-deductible portion of Gift Aid that donors themselves receive).[36] Redirecting higher and additional rate relief to charities would therefore buttress our 'second pillar' of charitable tax reliefs: incentivising individual donations to, participation in and support of charitable activity. It would also be clearer to the public that the intention of Gift Aid is to help charities, not the individuals giving donations.

We recognise methodological caveats in the research which require further exploration before changes in the tax system should be implemented. We also note the practical challenges associated with redirecting higher-rate relief to charities, namely that donors would need to indicate on a Gift Aid declaration form that they are higher-rate or additional-rate tax payers, when some may not know their marginal tax rate until the end of the tax year in which the donation was made. But we believe that claims for the higher-rate portion could be made retrospectively at the end of the tax year. The Commission believes the implementation of a Universal Gift Aid Declaration Database (see below) would be helpful in this respect.

[36] Charitable giving and tax policy: a historical and comparative perspective (2012) http://econ.lse.ac.uk/staff/clandais/cgi-bin/Articles/full_volume.pdf

Recommendation: The value of higher-rate and additional-rate relief should be redirected to charities on top of the basic-rate relief they already receive, with an opt-out from this if donors specifically requested it. Research can determine how practical administrative obstacles – such as determining the unknown marginal tax rates of donors before the end of the tax year - could be overcome.

UNCLAIMED GIFT AID

HMRC research suggests that around £560 million of additional Gift Aid could be claimed by existing donors under the current rules.[37] This is mostly due to a lack of opportunities for donors to add Gift Aid and, to a lesser degree, from a misunderstanding of the relief or not recognising eligibility.

A key factor driving this large amount of unclaimed Gift Aid is the tension between two policy objectives simultaneously pursued by Government: first, maximising the Gift Aid claimed on eligible donations, and second, reducing the amount of Gift Aid that is incorrectly claimed where insufficient tax has been paid. Gift Aid declaration forms are not always particularly user friendly, guidance can be unclear, the regulations are complex, and donors may need to go through multiple verification steps online.

Universal Gift Aid declaration database

Allowing donors to complete a single, enduring universal declaration covering all their subsequent gifts to charities, a Universal Gift Aid Declaration Database (UGADD) could simplify the administrative requirements for Gift Aid and help address HMRC's concerns about the tax gap and ineligible Gift Aid claims.

Such a system would require donors to complete a single declaration and submit this to a separate database, rather than making the declaration for every donation. Charities could then access the database in order to see whether a given donation has a Gift Aid declaration against it, possibly using a unique identifier, such as a national insurance number, or a 'Gift Aid card' to show a donor has signed up to the database. This would provide a better customer experience for donors and a more efficient and simpler claims process for charities, thereby increasing take-up of Gift Aid.

Investment in digital infrastructure such as a UGADD would also help HMRC eradicate incorrectly claimed Gift Aid, as it would enable the automatic cross-checking of income tax records with donations to determine whether sufficient tax has been paid to cover a Gift Aid claim. It could also help shed more light on the distribution of Gift Aid claims.

37 Charitable giving and Gift Aid research report, HMRC, 19 March 2018. Note this research was conducted in 2016 and is based on a telephone survey of 1,314 donors and 63 non-donors.

Recommendation: Following its consultation on Gift Aid and Digital Giving in 2013, government should re-explore the feasibility of a UGADD, including how its operation would potentially impact on charities of all types and sizes. While the Government was not inclined to develop a database at the time, technology has advanced since the consultation. It is our view that the creation of a UGADD would represent an important step towards the future-proofing of Gift Aid as donors are becoming more mobile and cash transactions increasingly digital.

Increasing awareness and making Gift Aid easier to administer

1 The amount of unclaimed Gift Aid on eligible donations is partly due to a lack of awareness and understanding of the relief among the general public. There is consequently an opportunity to increase Gift Aid claims among eligible donors by providing information about Gift Aid at the point of donation.

For charities, providing better information on websites and online sponsorship portals which offer the option to add Gift Aid to donations would help increase take-up and avoid incorrect claims caused by the misunderstanding of eligibility. Better information should also be provided alongside direct debit forms, which generate the highest value of donations and represent the largest proportion of unclaimed Gift Aid.

New technologies present opportunities for improving the administration of Gift Aid. Open Banking, blockchain technology, Personal Tax Accounts, and the Universal Gift Aid Declaration Database proposed above could all play a part in the future automation of Gift Aid claims, making it easier to track donor eligibility.

Recommendation: Government should do more to promote awareness and understanding of Gift Aid, including the benefits and eligibility criteria. For example, HMRC should include information about Gift Aid when corresponding with both the taxpaying and non-taxpaying public. This could be included in letters that advise taxpayers of a change to their tax code or as part of the Self-Assessment form. Increasing donors' understanding of Gift Aid could also be achieved with more targeted guidance, such as in the form of animated videos and other easily accessible media, highlighting the benefits of Gift Aid and its value to charities. Improving the promotion of Gift Aid will also need to consider the requirements of future generations of donors, including whether branding and methods of communication remain suitable.

Recommendation: HMRC should consult with voluntary sector organisations and phone companies on the practicalities of text donations and Gift Aid declarations with a view to providing guidance on the processes that need to be in place for a sufficient audit trail. Building on the work of 'Future of Gift Aid' group convened by the Charity Tax Group, HMRC should also look at how emerging technologies can make the administration of Gift Aid easier and more efficient.

Recommendation: To improve accessibility further and reduce the administrative burden associated with the Gift Aid Small Donations Scheme, government should explore removing the matching requirement which stipulates that claims cannot be more than 10 times the Gift Aid claimed in the same tax year. Increasing the amount that can be claimed each year from £2,000 (on £8,000 worth of donations) would also encourage more organisations to engage with GASDS, while allowing text donations would reflect the increased use of smartphones and the growth in impulse donations.

REVIEW CORPORATE GIFT AID

When Corporate Gift Aid was originally set up, it worked in a similar way to Gift Aid for individuals, with charities claiming back the tax relief so that the donation they received was 'topped up'. This was subsequently changed so that companies claimed eligible relief, and then made a further 'pure'[38] donation to charity. This change was supposed to bring administrative and operational advantages for charities through less time processing and claiming. However, the Institute for Fundraising finds no evidence to suggest this change has resulted in any further increase in corporate giving or the amount that charities receive from businesses.

Recommendation: The Government should conduct a review of Corporate Gift Aid to assess whether the previous changes have been successful and examine how to maximise the amount of money charities receive through tax incentives for corporate entities.

Business rates relief

Non-domestic rates, commonly known as 'business rates', are collected by local authorities and apply to non-domestic properties. In 2018/19, total business rates collected in England were forecast to be £26.4 billion.[39]

Charities can claim relief from 80 per cent of the business rates on property used for charitable purposes ('mandatory relief') as well as up to 20 per cent additional relief, depending on the local authority's own criteria ('discretionary relief'). In 2018/19, mandatory reliefs were forecast to be worth £1.9 billion to charities in England, with a further £47 million in discretionary relief. 97 per cent of relief for charities is mandatory relief.[40] Business rates relief is therefore the largest tax relief received by charities, significantly greater than even the £1.3 billion Gift Aid repayments that charities received in 2017/18.

Business rates are devolved in Scotland, Wales and Northern Ireland, with a divergence of policy across the UK.[41] The Scottish Government is currently reviewing business rates and has introduced a Bill which recommends that independent schools should no longer be able to claim charitable relief.[42] Meanwhile, the Welsh Government plans to consult on removing charitable rate relief for private schools and hospitals.

38 Not qualifying for Gift Aid.

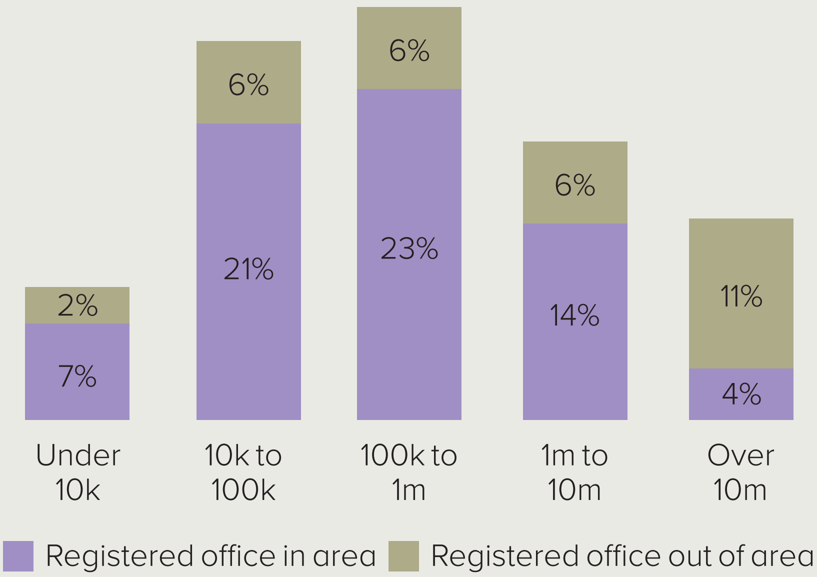
39 MHCLG *National non-domestic rates collected by councils in England: forecast for 2018 to 2019* Table 1

40 MHCLG *National non-domestic rates collected by councils in England: forecast for 2018 to 2019* Table 2

41 Charities in Northern Ireland currently benefit from full exemption from business rates.

42 This follows the Barclay Review which made a number of recommendations on reforming the business rates system -

Figure 8 - Size of charities receiving business rate relief, by registered office location[45]



The distribution of business rates relief

In contrast to the relatively detailed data available on Gift Aid, the data for business rates relief are less comprehensive, owing to a lack of publicly available and accessible information. However, using data made available by 18 local authorities in England, we have been able to examine the characteristics of a sample of charities that have received mandatory business rates relief.[43] Full data are published in our accompanying report.

In 2017, 92,000 charitable properties received mandatory relief, with a further 27,500 receiving discretionary relief.[44] This suggests an average mandatory relief per property of £19,300 and average discretionary relief of £1,860. But most charities will likely receive a lower amount of business rates relief, as the average will be skewed by a small number of valuable properties. Some charities will receive a larger amount of relief as they have multiple properties.

By comparing the registered address of the charity to the area in which they are paying business rates, it is possible to determine whether the charity is a "local" charity or a national or international organisation. Thirty per cent of the charities in our sample are registered outside the local authority sampled ('out-of-area' charities), suggesting a branch of a national or regional charity operating in that local authority. These make up 28 per cent of the estimated value of

[43] Local authorities were selected randomly across different types of authorities to get a good spread of local authority characteristics, with the aim of producing a sample of charities that is representative of the characteristics of charities in the UK that receive business rates relief more broadly.

[44] MHCLG *National non-domestic rates collected by councils in England: forecast for 2018 to 2019* Table 4

[45] Business rates data published by a sample of Local Authorities.

Figure 9 - Distribution of business rate relief by size of charity[46]

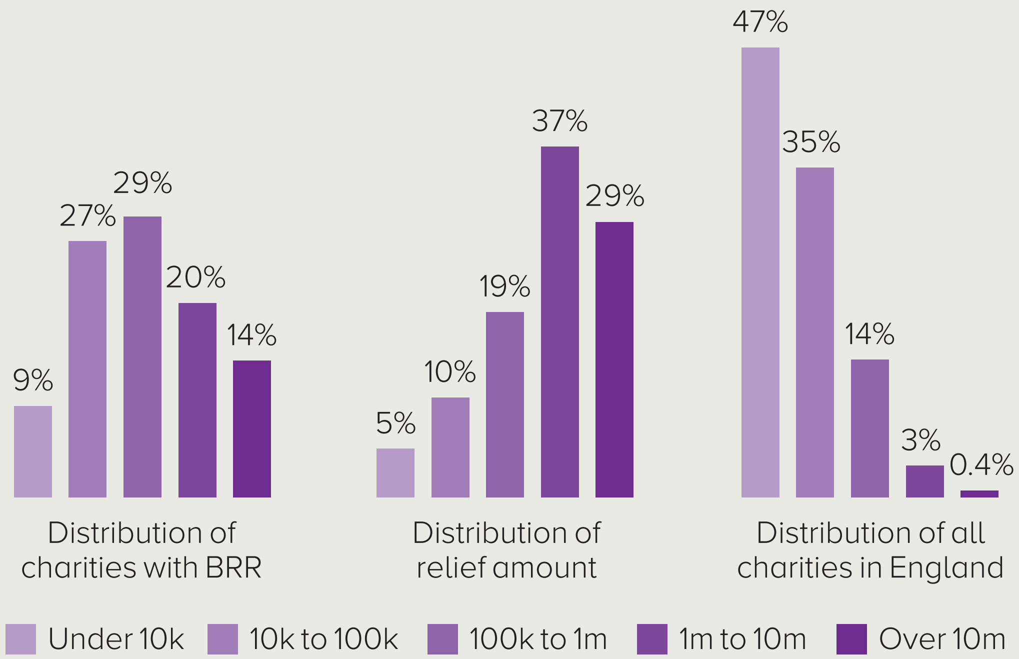
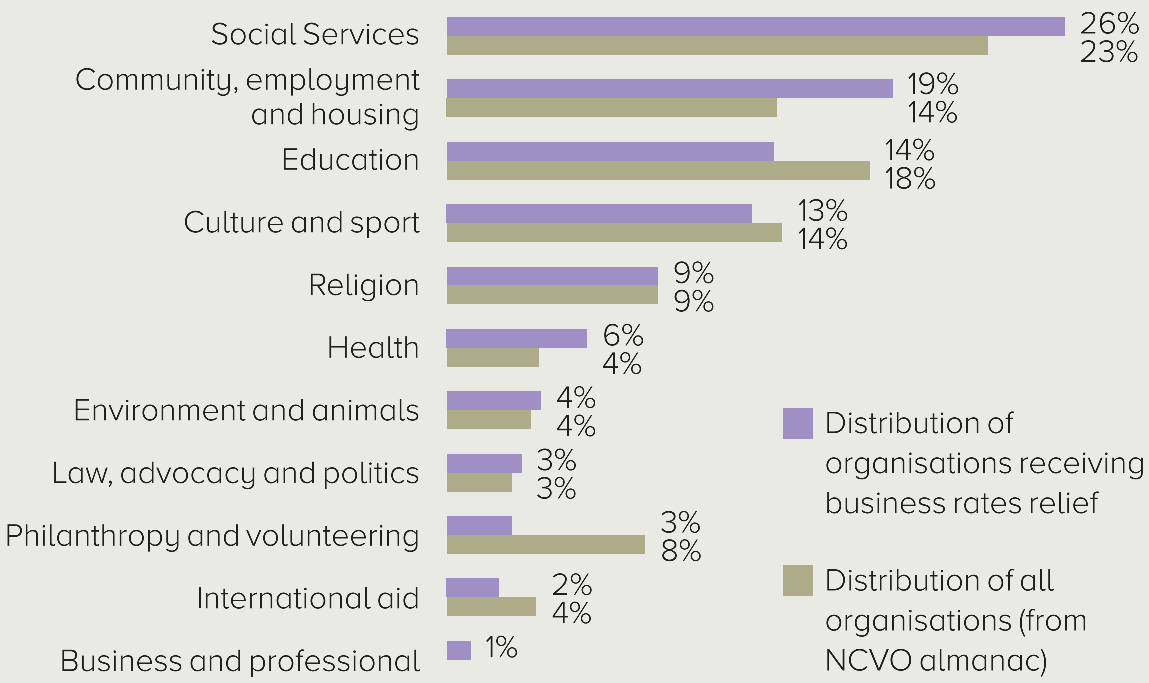


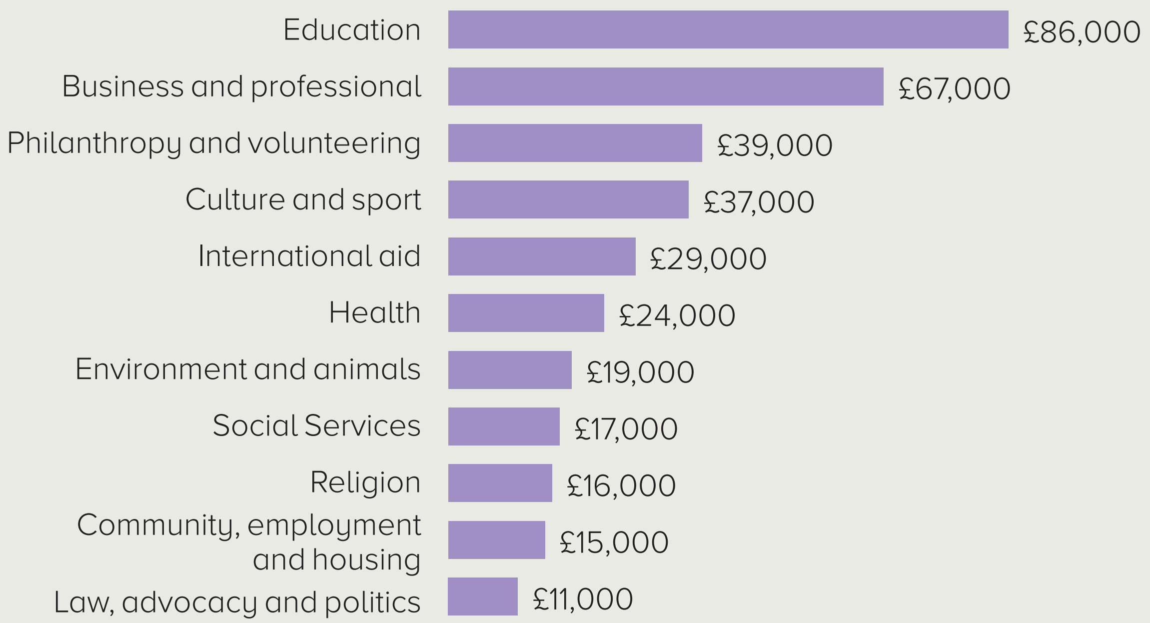
Figure 10 - Distribution of charities receiving business rates relief by sector[47]



[46] Business rates data published by a sample of Local Authorities. Proportion of charities in England from NCVO Almanac.

[47] Business rates data published by a sample of Local Authorities.

Figure 11 - Average value of business rate relief per charity, by sector (for charities that claim business rates relief[48]



reliefs (based on the rateable value of the property). Sixteen per cent of out-of-area charities receive discretionary relief, compared to 27 per cent of local charities. See Figure 8 for more detail.

Like Gift Aid, the distribution of business rates relief supports certain charities more than others. The income distribution of charities receiving business rate relief is very different from the distribution of charities in England, because, for instance, organisations that own or rent property are likely to be larger. The majority of mandatory relief – 66 per cent - consequently goes to charities with more than £1 million income (see Figure 9 for more detail). But like Gift Aid, the relief is more important to smaller organisations as a proportion of their income. Business rate relief is equivalent to around a third of the income of those organisations with an income between £10k and £100k that receive the relief, compared to less than two per cent of the income of organisations with income between £1 million and £10 million.

Broadly, charities that receive business rates relief correlate with the distribution of charities in society more generally, in terms of their type of activity. However, our research indicates that charities working in education (including independent schools) benefit most from business rate relief, with an average relief per charity of £86,000, compared to £17,000 for organisations operating in the social services category, for instance (see Figure 11). This is partly explained by the fact that these organisations often have large grounds. See Figures 10 and 11 for further detail.

[48] Business rates data published by a sample of Local Authorities. It is the Commission's understanding that these are properties that are eligible for paying rates, but have received rates relief, and so exclude those properties that are

The distribution of *discretionary* relief, conversely, favours smaller local charities. Yet most local authorities offer less than 5 per cent of the possible 20 per cent relief that can be awarded, probably because of current financial pressures.

We were not able to determine the geographical distribution of business rates relief, owing to the relatively small sample of councils analysed. Similarly, we were unable to look at the charity retail sector in any detail. However, research conducted by Demos in 2013 showed that charity shops in England account for around 5 per cent of charitable rate relief, and under 3 per cent of all rate relief.[49] Perhaps because of their role in increasing footfall on high streets, charity shops are almost three times as likely as other charities to receive any discretionary relief from local authorities.

Charities' experience of business rates relief

Property costs are typically the second largest item of expenditure for most charities after labour costs. Business rates relief is valuable for the charitable sector, representing at least a third of the value of all reliefs received. Unlike Gift Aid, claiming business rates reliefs does not present as many administrative challenges, particularly for smaller organisations, with several of the charities we spoke to noting how relatively easy it is to apply for the relief.

Business rates relief is particularly important for charity shops. Charities that run charity shops argue that having a high street presence is hugely important for brand awareness, for recruiting volunteers and generating income to direct to delivering public benefit. Donated goods sold in shops also benefit the environment by avoiding landfill and provide affordable clothes for members of the public. The Charity Retail Association claims that in return for £69 million[50] in reliefs, the charity retail sector generates four times as much money towards charitable causes. Cancer Research UK, for instance, has 84 charity shops in Scotland alone. If the organisation were to pay full (100 per cent) rates on these properties, their annual bill would be £991,961. The charity estimates that the income raised by these shops would fall by 21 per cent and they would have to close six shops in Scotland as they would be unprofitable.

While local authorities can grant up to 20 per cent of discretionary relief, our research indicates that some offer no discretionary relief at all, while a further 270 authorities (83 per cent of the total) offer less than 5 per cent of the available discretionary relief. This reflects the fact that local authorities' budgets continue to be squeezed. This is further compounded by the growing retention of business rates income by local authorities, currently 50 per cent and due to increase to 75 per cent and potentially 100 per cent in future. This means it is increasingly the local authority which takes on the expense of granting the relief to charities, rather than the relief being absorbed by the 'National Pool'.

49 https://demosuk.wpengine.com/files/DEMOS_givingsomethingbackREPORT.pdf?1385343669

50 This figure is quoted in the Charity Retail Association's response to the Commission's call for evidence and is based on the last year for which DCLG published figures of the total cost of mandatory and discretionary rate relief to charity shops.

Furthermore, there is a lack of consistency between the policies of individual local authorities when it comes to granting rates relief. For some charities, setting up a trading subsidiary company in order to comply with rules on charitable trading can lead to a loss of the mandatory and/or discretionary business rates relief. For example, a museum shop might be separately assessed for business rates because the trading subsidiary company is deemed to be the occupier. The 'wholly or mainly' for charitable use condition leaves a variety of interpretations and can create problems when charities partner with other organisations that are not charities. Navigating these rules on trading can be onerous and particularly burdensome for smaller organisations. Meanwhile, every billing authority has a different form (usually a paper version) for applying for business rates relief and some require these to be completed every year or two, leading to unnecessary bureaucracy for charities.

Some charities are concerned about the Government's policy of moving towards greater (even complete) retention of all business rates by local government, which is currently being piloted in some areas. They fear that as cash-strapped councils gain more control over business rates and begin to rely more and more on this as a majority source of their income, many might be disinclined to offer the level of relief charities currently receive. It should be noted, however, that while the Government is committed to increasing local authority business rates retention, there are no official plans to devolve other aspects of business rates policy, including the mandatory reliefs. We are also conscious that the whole concept of business rates is under debate as the economy is moving towards more digital and less property-based business models, for example in retail.

Short-term recommendations for reforming business rates relief for charities

We recommend that government implement two short-term reforms that would simplify the current business rates system, enabling charities to direct more time and resources to better support their beneficiaries.

CONSULT ON EXTENDING RATES RELIEF TO WHOLLY-OWNED CHARITY TRADING SUBSIDIARY COMPANIES

1

Many charities set up trading subsidiary companies in order to comply with the charity rules on trading, such as a charity shop or a café in a museum. However, this can lead to the loss of mandatory and/or discretionary charity relief when the trading subsidiary is separately assessed for business rates and deemed to be the occupier. In principle, we believe this runs counter to the spirit of rate relief legislation and is an unintended consequence of the charity trading subsidiary model.

We are, however, conscious of concerns to avoid a distortionary effect on competition with the private sector, and we recognise that extending relief to wholly-owned trading subsidiaries would need to be robustly policed with adequate safeguards to mitigate against potential abuse. We also support the principle of evidence-based policy and know that local charities themselves – often deeply rooted in and committed to particular local communities – would not wish to undermine local economic resilience. Research from Demos[51] suggests that charity shops benefit struggling town centres. For instance, two thirds of charity shop managers report that their shop fills premises that would otherwise be left vacant. Demos also found that where economic conditions are improving, charity shops are also playing an active role in supporting high street rejuvenation.

There seems to be little evidence that reliefs, or other additional support, for charitable trading subsidiaries would damage the local private sector or local economies. In principle, we therefore support extending rate relief to wholly-owned subsidiaries.

Recommendation: However a charity decides to set up its structure, its need to raise money for its charitable purpose remains the same. We therefore recommend that government consult on whether to roll out rate relief to all wholly-owned subsidiaries. We agree with the Charity Tax Group's suggestion that this could take inspiration from the VAT legislation on donated goods. This should be accompanied by guidance aimed at improving understanding of how charities operate, to tackle the perception that many charities enter into artificial arrangements, such as short-term tenancies, to claim business rate reliefs.

CLEARER GUIDANCE AND A STANDARDISED APPLICATION PROCESS FOR RATES RELIEF

13

Recommendation: To help charities plan their finances with confidence, criteria for discretionary rate relief should be published and easily accessible on all local authority websites. Government should also issue guidance to billing authorities clarifying that mandatory relief is available to smaller unregistered charities, not just those registered with the Charity Commission. To save charities and billing authorities time and effort, the Government should create a standard downloadable form available on GOV.UK, recognised by all billing authorities and which could be submitted electronically to each billing authority.

VAT

VAT relief was worth approximately £400 million to charities in 2016-17.[52] There is no general VAT relief for charities, but several special reliefs, exemptions, zero ratings and concessions which cover many supplies to and by charities.

A lack of available data from both government and charities themselves makes it impossible to determine the distribution of VAT reliefs. Without more information, it is difficult to know what types or charity – whether by size, activity, or location – benefit most from the various reliefs available. This has placed a significant constraint on our ability to consider the distributional impact and net value of VAT reliefs to charities. What is

[51] www.demos.co.uk/wp-content/uploads/2017/09/Shopping-for-Good-the-social-benefits-of-charity-retail-.pdf
[52] HMRC Charity Tax Statistics. VAT relief is estimated based on the latest available figures for 2016/17.

clear, however, is that VAT can be a very challenging tax for charities to administer.

Charities' experience of VAT

The everyday administration of VAT creates substantial challenges for many charities. VAT is one of the most complicated areas of taxation, and the rules facing charities are one of the more complex areas of VAT. Navigating the VAT system can therefore be particularly onerous for charities, for example when it comes to rules such as partial exemption methods and business/non-business apportionment.

As a result, charities spend valuable resources on sourcing external professional advice to help them navigate the VAT system they face, which could be more directly spent towards public benefit. Indeed, the general feedback on VAT we received was that the current system is rationally indefensible and charities have been forced to perversely optimise their operations accordingly.

The impact of VAT on charities depends on the activities they undertake and whether they charge for their services. Those that do not do so are treated as the final consumer even when they are not. As a result, they are unable to recover VAT paid on purchases (input VAT) that support their activities. In addition, most charities that charge for their services are unable to recover input VAT because their services are exempt. The Charity Tax Group estimates that this irrecoverable VAT burden costs the sector at least £1.5 billion a year.[53] While larger charities often have trading arms and employ accountants and tax specialists to ensure that they can use the available VAT reliefs, smaller charities are rarely in this position, despite much of their operating costs attracting irrecoverable VAT. They often use accounting systems that are unable to determine the amount of VAT they pay.

Some VAT rules are administratively challenging for charities because they have not been kept up to date. For example, the partial exemption *de minimis* limit has been set at £7,500 per annum for over 20 years. Similarly, the thresholds for the Capital Goods Scheme have remained unchanged for even longer. The Chartered Institute for Taxation suggests that such requirements mean small charities often need to consider complex VAT rules with minimal or no financial benefit. Meanwhile many charities are concerned that any potential lowering of the VAT threshold – which the Government has indicated it will revisit once the terms of the UK's exit from the EU are clear - would begin to encompass an increasing number of small- and medium-sized charities, many of whom have seen significant falls in income since the recession and subsequent recovery.

The increased use of funding agreements that are hybrids of grants and contracts – such as performance-related grants – can create challenges for charities delivering public services. There is often a subtle distinction between grants (non-VATable) and contracts (VATable), resulting in charities spending valuable resources trying to determine whether funding is within the scope of VAT before entering into agreements with public bodies. The Chartered Institute of Public Finance and Accountancy (CIPFA) believes these

53 www.charitytaxgroup.org.uk/consultation/charity-tax-commission-call-evidence/

difficulties are impacting on charities' interactions with the public sector and can discourage them from applying for funding from, or partnering with, central and local government funders. This is especially true for smaller charities, who rarely have in-house tax experts, meaning that the assessment of funding agreements often requires expensive, external specialist advice.

HMRC's guidance on grants and contracts is often inaccessible and unclear. Obtaining a ruling from HMRC can be very difficult, while the consequences of incorrect decisions can be significant – including ones made in the fairly distant past. If HMRC disagrees with the VAT treatment applied, this can lead to unnecessary litigation, the outcome of which can be unpredictable and can have significant financial ramifications, distracting the charity from its charitable objectives. In their response to our call for evidence, the Chartered Institute of Taxation highlighted a case where HMRC sought to enforce a retrospective VAT liability of nearly £75,000 (along with increased VAT costs going forward) where it considered the charity had misapplied these complex rules. They noted that, while there is a dedicated charities team within HMRC, its capacity seems to have been reduced in recent years.

The current VAT rules on the sharing of facilities, equipment and buildings create irrecoverable VAT for charities. But worse, they restrict collaborative working and the scope for cost-saving efficiencies between charities, industry, and particularly, research institutions. The Association of Medical Research Charities (AMRC) note how publicly funded research institutes are currently eligible for VAT zero-rating when the building is to be used for relevant charitable purposes (RCP). However, commercial activity is restricted to 5 per cent of the building's on-site work and, if this is exceeded in the first 10 years of the building's existence, the charity, subject to a tapering relief, may be liable to the full rate of VAT. This allowance is often taken up by other commercial activities such as catering and facilities, thereby significantly restricting on-site industry-charity collaboration.

Whilst zero-rated VAT relief for charity advertising is available for newspapers, magazines and billboards, its application to digital advertising is less clear. The way charities advertise in the digital age is changing, with many choosing online channels including social media. HMRC currently disputes whether VAT zero rating should apply to what charities deem to be online advertising, arguing that this is not advertising but targeted marketing and is ineligible for relief. The Charity Tax Group suggests this has significant potential implications for charities, given their collective annual expenditure on advertising via these new online platforms. They argue that an additional 20 per cent cost will not be sustainable for many charities and would have knock-on effects for levels of fundraising income and therefore resources available for delivering public benefit. Macmillan Cancer Support, for instance, say they alone would lose around £1 million per year if this relief were removed.

Furthermore, charities that use publications to promote and publicise their work often face a dilemma, as printed material is zero-rated for VAT, whereas digital equivalents incur 20 per cent tax. Yet digital can be more cost-effective and more environmentally sustainable. These VAT rules were drafted when printed material was the norm.

Short-term recommendations for improving VAT relief for charities

We recommend that government implement two short-term reforms that would improve the current VAT rules, allowing charities to delivery more public benefit to their beneficiaries.

REVIEW VAT RULES FOR SHARED FACILITIES

The current VAT rules on the sharing of facilities, equipment and buildings create irrecoverable VAT for charities and thereby restrict collaborative working and cost saving efficiencies between charities, industry and, particularly, research institutions. At present, charities have to charge VAT to other charities on the hire of administration office space if they have opted to tax their premises or if they are not granting a licence to the other charities.

Recommendation: VAT rules for charities using shared resources should be reviewed to support innovative collaboration. This should include a review of guidance around the practical implementation of the relevant charitable purpose (RCP) rules, as they apply to VAT. This would help support innovative public and private sector collaboration in charity research institutions and help the government achieve its commitment for UK R&D spending to reach 2.4 per cent of GDP by 2027.

REQUIRE PUBLIC BODIES TO PROVIDE THE VAT STATUS OF FUNDING

Decisions on whether funding relationships are contracts or grants for VAT purposes can be highly subjective and open to interpretation. Agreements are often hybrids of grants and contracts, such as performance-related grants. Many charities believe HMRC's current guidance lacks clarity. Charities are consequently spending valuable resources trying to determine whether funding is within the scope of VAT or not. This is particularly problematic for smaller charities.

Recommendation: Public bodies should be required to communicate the VAT status of any funding relationship, using clear guidance provided by HMRC on how to decide when a funding offer or tender is or is not subject to VAT. HMRC should work with the voluntary sector to develop this guidance, informed by real-world examples of complex past judgments to ensure public bodies do not automatically adopt risk-averse behaviour to the detriment of charities. This will enable charities to avoid spending disproportionate time and resources trying to determine the correct treatment and making potentially costly mistakes.

Incentivising giving

According to NCVO's Civil Society Almanac, voluntary income for charities – both donations and legacy giving - has remained relatively stable in recent years.[54] Despite this, many charities believe that the UK's potential for philanthropic giving is not being fully realised. For instance, evidence submitted to the Commission by Philanthropy Impact indicates that among the UK's millionaire population the median annual amount given is just £240-£500, while only 5 per cent of the UK's 400,000 millionaires give at a level that could be considered generous.[55]

We believe the voluntary sector should continue to explore behavioural insights to increase philanthropy and giving. Behavioural insights have been adopted in many areas of public policy in the UK and around the world. This could build on previous research from the UK Government Behavioural Insights Team and the Charities Aid Foundation (CAF) which tested a number of different scenarios in which small changes to the timing of choices about giving, or the way in which they were presented, had a significant impact on people's likelihood of donating.

We think it is important that government closely monitors how the UK tax system compares to other countries, and its subsequent ability to attract and compete for overseas philanthropy. If our tax system creates an environment in which charities are disincentivised from certain activities - such as joint research - then an internationally mobile philanthropist or foundation may choose to fund activities – such as medical research - in another country. This is particularly true for activities or causes that transcend national borders, such as looking for a cure for cancer. We need to ensure the UK keeps pace with advances in technology and the opportunities these present for promoting and administering philanthropic giving, such as Open Banking, blockchain technology or Personal Tax Accounts.

We have considered a range of options put forward by respondents to our call for evidence. These included the idea of 'living legacies', where donors can make an irrevocable gift to a charity during their lifetime – such as a capital asset - but can continue to benefit from the income generated by the asset while still alive. However, we believe this is already possible, even if the tax treatment is not ideal. We also believe living legacies could result in problematic outcomes, such as disputes around social care costs, for example, if the donor had irrevocably pledged their remaining assets to a charity.

We also considered representations on simplifying Inheritance Tax relief. This included applying the reduced rate of tax to 10 per cent of the gross estate, rather than the net amount to make it easier for executors to make calculations. However, while we are conscious of the important role that legacies play in providing funding for charities across the country, the Commission decided that such a change would be too costly for the Exchequer.

[54] https://data.ncvo.org.uk/a/almanac18/income-from-individuals-2015-16/

[55] Philanthropy Collaborative, based on high-net-worthy survey data provided by Scorpio Partnership.

Make it mandatory for employers to offer a Payroll Giving scheme

Payroll Giving, Workplace Giving or Give As You Earn (GAYE) is a tax-free way for UK taxpayers to give money to registered charities. It allows employees to give money to a registered charity of their choice by having a deduction taken straight from their gross pay. Payroll Giving is a tax-effective way of giving for donors, as donations are taken out of pre-tax income, enabling the tax liability to be reduced by the amount donated.

Figures provided by the Charities Aid Foundation (CAF) suggest that Payroll Giving uptake has risen steadily over the last 30 years (maintaining a real terms annual growth rate of 9.7 per cent; just ahead of the rate of growth of employee numbers at 5.9 per cent). It has also seen marked spikes in response to specific initiatives designed to increase participation, such as *The Children's Promise Millennium Final Hour Appeal* in 1999; the *SME Employers Grants Incentive* which ran from 2004-2009; and the Government's *Matched Giving* scheme which ran from 2004-2007. Despite this, the system remains a small part of charitable giving landscape. CAF's 2017 UK Giving[56] report found that 3 per cent of donors had given via the payroll in the last month, compared to 58 per cent who had given cash or 31 per cent who had given via direct debit.

Recommendation: To increase take-up, government should make it mandatory for all employers over a certain size to offer a Payroll Giving scheme.[57] This would have the effect of reinforcing our 'second pillar' of charitable tax reliefs: incentivising individual donations to, participation in and support of charitable activity. This could work in conjunction with an *account-based* model of operation advocated by the Charities Aid Foundation. Such a model would allow payroll donations to be used to fund a charity account or donor-advised fund, which the donor can then use to make regular or *ad hoc* donations to whichever charities they want. From the individual donor's point of view, they would not need to commit to a single charity or set of charities when setting up Payroll Giving but can retain flexibility about where they wish to donate their funds. An account-based model is also more portable if a donor moves employer.

REMOVE VAT CHARGES FROM THE COST OF WRITING A WILL

For charities, one of the biggest benefits of Inheritance Tax relief is that it provides an opportunity for advisers to talk to clients about charitable giving. The Institute of Fundraising suggests that this is critical for legacy giving, as experience shows that there is a direct correlation between a conversation with an adviser during the will-writing process, and the likelihood of that individual leaving a gift in their will.

[56] www.cafonline.org/about-us/publications/2017-publications/uk-giving-report-2017

[57] There is obvious case for aligning this with rules on the provision of automatic enrolment in pensions – namely all employers - although we recognise this could create an unwelcome burden for small organisations and a minimum size of employer might need to be considered.

Remember A Charity research indicates that 35 per cent of people in the UK say that they would be happy to leave a gift to charity in their will after having taken care of their friends and family, but currently only around 6 per cent do so.[58] Removing VAT charges from the cost of writing a will when a legacy gift is included would give solicitors a greater incentive to raise the question of whether someone wants to leave a gift to a charity in their will. It is estimated that if all professional advisers referred to the potential of legacy giving, this could generate a further 15,000 charitable legacies a year.

Recommendation: The Government should make fees for writing charitable wills exempt from VAT. Remember a Charity estimates that the annual cost to the Treasury would be in the region of £375,000 for the additional gifts generated (and £750,000 in total), while a conservative estimate of these additional gifts' value would be a further £72 million a year for good causes. We believe this modest change could therefore result in far more charities receiving legacy income, enabling them to increase the public benefit they deliver across the country.

Charity fundraising and trading

A number of fundraising activities acceptable under charity law can lead to a tax liability where the tax regime treats many of these activities as trading. Under charity law, charities can only undertake trading when this is directly carried out as part of the charity's primary charitable purpose(s) or when it is carried out by the charity's beneficiaries. Relief is also available when the trade qualifies for the small trades' exemption. As a result, charities often set up trading companies to carry out these activities, using Gift Aid to help manage the tax liability. The tax rules in this area are complex and charities incur costs in setting up and administering trading companies.

By way of example, the display of a corporate donor's logo can change a donation into trading income that might need to be channelled through a trading subsidiary instead of the charity to avoid a tax liability. Similarly, if an arts charity sells an art book, the income can be treated as a primary purpose trade but if it sells other items, such as a souvenir mug, this is not considered primary purpose trading. A charity museum or art gallery can treat a café as ancillary to the primary purpose if it is within the museum or gallery, but if the café can be accessed by a door onto the street this becomes a taxable trade. We recognise that there are many such subtleties, and that solutions to these can be difficult. However, we believe that this area merits further consideration and consultation, possibly extending the primary purpose trades tax exemption to all trades so long as the profits of the trade are applied for a charity's objects.

Some observers have raised the issue of unfair competition if charities do not pay tax on their trading profits whereas trading companies do. In practice, there is rarely any tax paid by a charity's

58 www.rememberacharity.org.uk/news/remember-a-charity-leads-sector-campaign-for-vat-exemption-on-charitable-wills/#_ftnref5

trading company as they use Gift Aid when transferring profits to a charity and do not have to pay tax (this option to use Gift Aid to reduce a tax liability applies to any trading company even if it is not connected to a charity). There would therefore be little or no impact on the tax take or any competition issues. Many charities also derive most of their income from trading, and a charity providing residential care, for instance, is already competing with private sector providers, as is an arts charity selling theatre tickets.

Better data, greater transparency and further research

The UK is currently spending around £5 billion on charity tax reliefs without knowing why and to what effect. If, as a society, we want to know the impact that charitable tax reliefs are having and want to design a system that seeks to maximise the public benefit generated, steps must be taken to improve data, conduct further research and promote more openness from charities about how they use tax reliefs.

THE NEED FOR BETTER GOVERNMENT DATA

The value of charitable tax reliefs has increased in real terms over the past two decades. In recent years, this growth has coincided with a decrease in public spending. It is therefore only right that the distribution and impact of this support are examined in proper depth.

Knowing how tax reliefs are distributed is important for understanding the extent to which they influence behaviour, and where 'tax expenditure' reliefs are concerned, the extent to which they are delivering the intended social or economic objectives. Each tax relief has an administration cost and an opportunity cost associated with revenue forgone. Reliefs can also have unintended consequences, such as the distortion of markets, which are an important part of understanding their impact.

It is currently difficult to determine with any degree of accuracy where most charitable tax reliefs are directed, not to mention the public benefit they generate. This is perhaps most acutely demonstrated by the lack of data on VAT reliefs - the most recently published figures by HMRC for the aggregate level of VAT relief provided to charities are merely an *estimate* based on figures for 2016/17.

Even the detail of the most complete dataset at our disposal – that relating to the distribution of Gift Aid – was considerably limited by HMRC reporting restrictions, designed to prevent disclosure of individuals' data. Consequently, during analysis, some datasets of charitable activity had to be combined to avoid the possibility of disclosing details of individual organisations, such as combining 'arts' with 'recreation'. So, while the analysis provided through our research is arguably the most accurate and useful to date, these reporting restrictions significantly compromised our ability to determine with precision what specific sub-sectors benefit most from Gift Aid.

Our research into the distribution of business rates relief was similarly disadvantaged by the lack of available and consistent machine-readable data.

This meant that we only had a relatively small sample of data to analyse and were unable to identify, for example, charity shops. This is not an insignificant limitation, given their centrality to the continuing debate on business rates relief.

Meanwhile, current data on the distribution of VAT reliefs to the sector are non-existent, even at an aggregate level. This lack of information is problematic, given the need to weigh up the administrative burden placed on charities against the benefit provided to the public.

Recommendation: Given the importance of accurate and timely data for policymaking and public trust in charities, we recommend that government improve the quality of its published statistics on how much tax relief individual charities receive, broken down by type of relief. Improved co-operation and data sharing between HMRC and the Charity Commission would facilitate the creation of a dataset using unique identifiers, such as charity numbers, that could be cross-referenced with other databases, such as that created by the NCVO Civil Society Almanac. The distribution of reliefs could then be analysed according to such variables as income band, sub-sector, geographical location and assets, for instance. This would increase government's accountability for its spending decisions, make it easier for members of the public, Parliament and charities themselves to scrutinise the distribution of reliefs, and help achieve greater understanding of the behaviour and actions of charities and donors. Similarly, local authorities should publish their business rates registers as open data, to a standardised format, using charity and company numbers collected during the application process.

HMRC should also release its register of charities as open data, as this would enable better understanding of organisations that receive tax reliefs but are not registered charities with the Charity Commission, such as universities, academies and housing associations.

While some may argue that charities themselves should disclose how much they receive in tax reliefs – such as through their annual return – as in some other countries, we believe this is currently an inefficient solution for two reasons. First, making it mandatory for charities to make additional disclosures in their accounts could result in disproportionate administration costs for small charities. Second, central and local government bodies already hold much of the information.[59] Demanding charities report pre-existing information would therefore not only be an unnecessary duplication of data collection, it would also significantly reduce the consistency in how data are recorded. To be truly useful, open data need to be both machine-readable and consistent in format.[60]

[59] It is our hope that in the longer term the Charity Commission will have enough resource to also make any relevant information disclosed in charity accounts into consistent, machine readable data.

[60] We understand that HMRC intends to publish new estimates for a significant number of additional reliefs over the coming years - www.parliament.uk/documents/commons-committees/public-accounts/Correspondence/2017-19/Letter-from-Sir-Jonathan-to-Chair-in-response-to-report-on-HMRC's-Performance-in-17-18-recommendation-13-and-4-190430.pdf. However, this will not necessarily mean collecting additional information from taxpayers and charities, or mandating other requirements, so it is unlikely this will lead to the sort of detailed data required.

Clearly, tax data on individuals and individual charities must be protected. We are aware that under current laws, HMRC officials who divulge the tax affairs of individuals can face criminal sanctions and that this has created an excessively risk-averse culture that inhibits greater openness and reporting. While changing long-standing rules designed to protect both individual and corporate taxpayers could create unacceptable risks, there is a strong case for internal HMRC guidance to make it clearer to staff that openness which does not breach these rules is itself an imperative.

GREATER OPENNESS FROM CHARITIES

Improved data and greater openness are not just for government. We believe that any reforms should be part of a wider, positive publicity and educational programme describing the purpose and benefits of charitable tax reliefs. We are clear that charities themselves must play a key role in this. Indeed, the above reforms, if implemented alone, would only show which charities are receiving tax reliefs, but would say little about how they convert this into delivering public benefit.

In the modern world, where everyone has data at their fingertips, we find it strange that there is so little information about how charities benefit from tax breaks. When public finances are under such strain, a citizen should have a right to know what happens to money that could have been spent on public services - such as the NHS - but instead was directed towards a charity tax break. In other countries, such as the USA and Canada, there is far greater transparency of charities' tax, revenue and expenditure details as a standard part of their regulation. Such transparency is considered unexceptional and has cross-party support.

Recommendation: To demonstrate their openness, we believe that charities with revenue of over £1 million per annum should publish detailed information in their annual reports about the amount of benefit they receive from Gift Aid and business rates relief. HMRC and charities should consult on an approach that allows further information to be gathered on the VAT reliefs obtained and the irrecoverable VAT suffered by charities. Putting this information in their annual reports would help explain how these tax breaks go towards the public benefit. Being more open would help dispel some of the myths around charities and tax reliefs that have gained traction in some quarters of the press. We recognise that some charities might find this daunting, not just because of the time and resources required, but also because it requires a change in organisational culture. However, we believe that greater openness of this kind is an essential part of addressing narratives which potentially undermine public support for tax reliefs. This is particularly true of the bigger, household name charities with a prominent public profile.

THE NEED FOR FURTHER RESEARCH

Until clear, accurate and timely data are available for analysis, policymakers will be unable to plot precisely where charitable tax reliefs go and, as a consequence, make recommendations on how to make the distribution of this support more equitable. Understanding the extent to which various tax reliefs deliver public benefit and value for money for the taxpayer is central to analysing the effectiveness of the current system.

Apart from research examining the extent to which Gift Aid leverages donations, there is little or no research into the effectiveness and efficiency of other areas of charitable tax reliefs, such as VAT and business rates relief. This presented a significant challenge for us when considering ideas for reform; the lack of available data and empirical – and even theoretical - research placed significant constraints on our ability to think creatively. This dearth of information is not confined to the UK. Alongside our research into the distribution of tax reliefs, we endeavoured to conduct an international comparative overview of various charity tax reliefs and incentives in other countries, including an analysis of their effectiveness at encouraging philanthropic behaviour and helping charities generate public benefit. We were struck by the scarcity of useful and comparable data upon which to draw. The literature on comparative tax law is sparse and fragmented. The definition, measurement and reporting of tax reliefs vary considerably between countries, while comparative tax research is further complicated by three aspects of tax law: rapid legislative change, the complexity of tax systems and the heterogeneity of local tax codes. Similarly, while there is a broad international academic literature on the manner and extent to which tax reliefs incentivise charitable giving, there is very little empirical analysis of the practical effectiveness of specific systems.

International comparisons aside, we believe more should be done in the UK to understand better the effectiveness of the charitable tax reliefs currently available. When looking to evaluate tax reliefs, the following questions should be considered:

- Do they achieve their intended objectives?
- Are the purposes of the relief better served by a spending subsidy?
- Are they fully utilised?
- Does a lack of awareness or complexity negatively impact take up?
- Are the costs of claiming reliefs excessive?
- Are they value for money?
- Do they result in skewed take-up, for example, by region/country or beneficiary characteristics?
- Are recipients of reliefs (both charities and donors) sufficiently accountable for them?
- Are they robust against abuse?
- Should they contain a sunset clause to prevent them outliving their usefulness?

We recommend research into the following areas:

- the extent to which individual reliefs generate public benefit for society and value for money for the Exchequer, as well as the impact if they did not exist or were reduced;
- the impact of business rates relief for charities on small businesses and local high streets;
- the bureaucratic challenges associated with the administration of reliefs and rules, especially Gift Aid, VAT and direct taxation;
- the opportunities that advances in technology present for the administration of reliefs and promoting philanthropy;
- how the UK tax system compares to other countries, and its ability to attract and compete for overseas philanthropy; and
- the potential for providing tax breaks for organisations that attract volunteers.

2

Section 2: Looking to the future

When we set out to review the tax treatment of charities, we were determined to think big. We had ambitions for developing bold and radical proposals. We started from the position that to design a suite of tax reliefs from scratch, of a similar cost to the current system, would require a clear understanding of how it would differ from the current system with its systemic and distributional anomalies.

As we progressed, however, it became apparent that we simply do not have the necessary data on the distribution of the various reliefs available; evidence of their effectiveness in leveraging public benefit; or research into their administrative efficiency (for both charities and government), to make confident recommendations for reform. We therefore reluctantly accepted the need to focus, for the short-term at least, on a set of modest common-sense changes to the current system that seek to improve the support for charities, with minimal cost to the Exchequer.

Despite this, we firmly believe that there is a need for more radical reforms to be on the agenda in the future. Our research into the distribution of Gift Aid and business rate relief have revealed that the lion's share of support is not evenly distributed across the charitable sector, while the evidence we have collected on charities' experience of VAT clearly suggests that the system of charitable exemptions has little coherence or logic. It is our view that these issues need to be revisited once better data become available and further research has been conducted.

This section sets out our rationale for the long-term review of business rates relief and VAT relief for charities. We also suggest that another look at Gift Aid should be considered – which will be much easier when more data and evidence become available, and we hope to see this sooner rather than later. In addition to the systemic and distributional challenges, it is our view that other societal trends and factors should inform these reviews. The way people support causes is changing, and the future of taxation needs to adapt accordingly. For example, the market for ethical goods and services has grown rapidly over the last two decades, while the rise of crowdfunding and individuals asking directly for support has in some cases reduced or removed the role of charities as intermediaries. As the growth of social enterprises continues to gather pace, we believe the long-term reviews proposed below should consider whether the tax system is adequately supporting new models for delivering public benefit.

We believe it would be of great advantage to the UK if a way could be found of providing tax breaks for organisations that attract volunteers, including those who volunteer their time as trustees. Mindful of the value that volunteers bring to civil society, we deliberated over how gifts made of time rather than money could be recognised by the tax system. However, after considering such issues as how to determine the monetary value of volunteering; which taxes might attract relief; and the various regulatory difficulties of administering such a potential tax break, we were unable to arrive at any solid conclusions. Nonetheless we believe this to be an important issue for future exploration and research.

Finally, the implications of emerging technology for charity taxation must be taken on board. Embracing technology and digital innovations – in terms of both the administration of reliefs and how people give - will be vital for future-proofing the tax treatment of charities. For example, electronic and contactless donations could soon become the norm, so ensuring Gift Aid is compatible with an increasingly digital world will be vital. The use of blockchain technology in the form of 'crypto-philanthropy' may potentially also lead to more robust administration and reduced abuse of tax reliefs for donations.[61]

A long-term review of business rates relief

1 The distributional impact of business rates relief inevitably supports certain types and sizes of charities more than others. Most obviously, business rates relief only benefits charities that own or rent property. Our research also indicates that 66 per cent of mandatory relief goes to charities with more than £1 million income, and that education charities (including private schools) benefit most from business rates relief, on average. This finding will inevitably fuel the continuing debate around what constitutes charitable activity and what causes are deserving of tax reliefs. This is illustrated by current moves by the Scottish[62] and Welsh[63] Governments to review rates relief for private schools.

However, from the outset, we have been clear that we would not concern ourselves with issues relating to charity law. It is our opinion that if certain activities are not deemed to be charitable, steps should be taken to modify charity law, rather than create exemptions. In other words, if the real issue is whether these organisations should be charities in the first place, this would be better addressed by amending the charity test conducted by the Charity Commission, rather than subjecting certain charities to a financial penalty. Further, there is a danger that facilitating the creation of a two-tier charity sector by withdrawing rates relief for certain organisations could potentially damage the charity 'brand'.

When considering options for reforming rates relief, we have been mindful of the debate about whether charities shops are negatively impacting on the complexion of local high streets and 'crowding out' small businesses. Some argue that if rates for a property are lower for certain organisations, such as charities, the property is more likely to be occupied by these organisations than other businesses which people may want to see on the high street. A 2016 study by Demos, commissioned by the Charity Retail Association and Carnegie UK, gives a different perspective. It notes how charity shops are important for struggling town centres and that where economic conditions are improving, charity shops are playing an active role in supporting high street rejuvenation through diversification and specialisation,[64] a viewpoint that was echoed by several respondents to the Commission's call for

61 For example, see https://blockchain.surrey.ac.uk/projects/swiftaid.html
62 www.heraldscotland.com/news/17559997.scrapping-of-business-rates-relief-for-private-schools-under-review/
63 www.charitytaxgroup.org.uk/news-post/2019/welsh-government-consult-removing-charitable-rates-relief-private/
64 https://demosuk.wpengine.com/wp-content/uploads/2017/09/Shopping-for-Good-the-social-benefits-of-charity-retail-.pdf

evidence. With regard to the associated argument that charity shops are exerting inflationary pressure on high street rents, another study by Demos conducted in 2013 suggests the opposite may be true, and that there may, in fact, be a negative correlation; as the number of charity shops increased, rents decreased.[65] Arguably, a more significant socio-economic trend explaining the changing complexion of many high streets is the huge shift to online retail seen in recent years, where out of town e-retailers such as Amazon do not require a high street presence.

If business rates relief were scrapped for charities, there would be the potential for a new relief or to enhance existing ones to maximise the overall public benefit generated. We briefly considered various options here to make the distribution of tax relief more equitable, in terms of the size and activity of charities that can benefit from this important charitable relief. These included exploring ideas such as an irrecoverable VAT refund scheme or the creation of a new relief altogether. While these alternative uses could theoretically tackle some of the perceived imbalances of the current distribution of rates relief – such as providing greater support to smaller organisations that do not occupy property – we believe that such a move at this time would be too disruptive and economically harmful for thousands of charities across the country, at least until a worthwhile alternative is identified. Business rates relief is the largest relief the charitable sector receives and is therefore currently an essential source of support for many organisations. Indeed, our research indicates that, as a proportion of income, it is more important for smaller charities that receive it. So despite its drawbacks, without careful handling and a sensible replacement, the redeployment of rates relief would put the work many charities do under pressure. It would also affect the fundraising and volunteer recruitment capacity of charities with a high street presence.

Once again, our ability to develop proposals for reforming rates relief or to propose alternative uses for the £1.9 billion currently provided each year through this relief was impeded by the lack of accurate data on its distribution across charities, and the absence of research looking at its behavioural impacts or whether rates relief represents value for money to the Exchequer.

As a result, we recommend that government conduct a long-term review of business rates relief, looking at both the equity of its distribution and the extent to which it is generating public benefit. Our ‘first pillar’ of charitable tax reliefs posits that tax reliefs should incentivise functional activity by reducing operating costs, streamlining processes and supporting charities less able to cope with administrative burdens. However, it is our view that the current system of rates relief is not sufficiently achieving this goal. It is not supporting as many charities – particularly the smallest - as it could or should be; is supporting some sectors far more than others; and missing out some charities and categories of charity completely. We are also mindful that property-based reliefs are somewhat of a legacy of a bygone era, resulting in a system which does not necessarily reflect and cater for an increasing online world.

[65] https://demosuk.wpengine.com/files/DEMOS_givingsomethingbackREPORT.pdf?1385343669

Any review would require more accurate information on the current distribution of rates relief and should therefore be conducted in tandem with the open data and openness reforms highlighted in Section 1. Our own research into the distribution of business rates relief across the charitable sector is limited by the lack of open, machine-readable data available for analysis. A review should therefore seek to build a more complete picture of where rates relief is going – including type, size and location of charities - and examine the public benefit currently being generated. We also believe that more research into the economic impact of charitable business rates relief on small businesses is needed, as is more rigorous research into public attitudes about charity shops and the complexion of local high streets. We are clear, however, that at nearly £2 billion per annum, business rates relief delivers an important amount of support for the sector. It is therefore vital that the sector as a whole is no worse off (and preferably in an improved position) if there is to be radical reform of the system.

Review VAT for charities – in or out of the EU

The lack of available data on the distribution of VAT reliefs to charities makes it difficult to determine with any accuracy which types of charities benefit most from this support. Indeed, we were astonished that even the £400 million figure for the overall VAT relief provided to charities is an estimate based on the latest available figures for 2016/17.[66] According to HMRC, this is because information on the usage of this relief is not required in tax returns and cannot be reliably estimated from other data sources. It is our view that data on VAT reliefs for charities are an area in need of urgent improvement.

Lack of data aside, navigating the VAT environment is often more difficult for charities – particularly smaller ones - than their private and public sector counterparts. Consequently, charities often find themselves spending valuable time and resources on managing their VAT affairs and seeking professional advice. We considered the idea of abolishing all charity VAT exemptions for charities - to create a much simpler system and potentially level the playing field with other sectors. While this would come at a cost to, particularly, smaller charities (although we would argue for any net loss to be re-injected into the sector through another means) – it would potentially save a significant amount of time and resources from charities not having to deal with complex administrative issues such as partial exemptions and so on.

However, we were unable to consider a reform of this magnitude as we do not yet fully know where the balance lies in terms of time and money spent by charities on administering VAT versus the estimated £400 million of relief provided to the sector each year or, importantly, to which charities this support goes. While Charity Tax Group research conducted in 2011 indicated that the preparation of many tax bills consumes a share of charities' resources which is disproportionate to

[66] The ONS data series previously used for this estimate has been discontinued, so HMRC no longer consider figures derived from it to be reliable. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719899/UK_Charity_Tax_Relief_Statistics_Commentary.pdf

their actual value to HMRC, it emphasised the need for further research on compliance costs, particularly where VAT is concerned.[67] The Charity Tax Group has further research planned for 2019 which should provide greater clarity on the value of VAT to the sector.

The issue of irrecoverable VAT – input VAT that many charities are unable to recover - is possibly as important as administrative complexity to many charities. Many respondents to our call for evidence argued that addressing the irrecoverable VAT burden would boost the public benefit generated by the sector and allow charities to increase their participation in public service delivery at a time when many local authorities are under financial pressure. To address the issue, several advocated the creation of a VAT refund scheme similar to the scheme air ambulances and blood bikes can currently access. However, given that irrecoverable VAT amounts to approximately £1.5 billion a year for the sector, addressing the issue in a fiscally neutral way would require cutbacks in other areas, such as business rates relief.

It is sometimes claimed by policymakers that the current EU VAT rules prevent certain changes to VAT policy, and that until negotiations on the UK's departure from the EU are complete, our rights and obligations under EU VAT rules will remain unchanged. Several members of our Advisory Group suggested that this was exaggerated – and that there is a lot of room for reform even if we were to stay in the EU. If we do leave the EU, this will be an unmissable opportunity to reassess the scope for making charity-friendly changes to the UK tax system, including to the rating structure, and for reducing the administrative challenges faced by small charities.

We were encouraged to see in the Spring Statement 2019 that the Government intends to launch a call for evidence on potential simplification and improvement of the VAT Partial Exemption regime and the Capital Goods Scheme. We hope that this will result in a system that is easier for charities to navigate, including updating the *de minimis* limit in line with inflation to so that fewer small charities are required to carry out complicated calculations. Notwithstanding efforts to improve the present system, it is our view that there is a strong case for a comprehensive review of the VAT system for charities.

Depending on the terms on which the UK exits the European Union, we recommend that government conduct a full review of the way that VAT operates for charities. It is clear that the current regime contains systemic anomalies that disincentivise efficiency and effectiveness and impede charitable activity – such as the sharing of services - thereby running counter to our 'third pillar' of charitable reliefs. It also contravenes our 'first pillar' of charitable tax reliefs which posits that tax reliefs should incentivise functional activity by reducing operating costs, streamlining processes and supporting charities less able to cope with administrative burdens.

Any review should also bring together charities and tax authorities to explore the challenge that irrecoverable VAT presents to the sector, drawing on the Charity Tax Group's forthcoming research into VAT relief for charities, which will look to quantify the VAT relief that charities

[67] www.charitytaxgroup.org.uk/wp-content/uploads/CTG_charity_tax_map_03-02-11.pdf

claim and evaluate the social benefit VAT reliefs generate. It is the our hope that this – alongside the open data reforms and further research recommended above - will shed light on where the balance lies in terms of time and money spent by charities on administering VAT versus the estimated annual £400m of relief, and which charities this supports. If a review and further research reveal that the cost of administering VAT represents a net cost for the charitable sector, it is our view that removing charities from the system of VAT reliefs altogether should be considered.

If, on the other hand, it emerges that VAT reliefs do provide a net benefit to the sector, we recommend an examination of the existing rules to reduce the administrative burden and the uncertainty for both charities and tax authorities. The impact of a potential decrease in the VAT registration threshold on charities - which is currently subject to consultation – should also be considered, by exploring ways to reduce charges that count towards the VAT threshold, for example by permitting organisations to share resources, such as staff and IT with their trading subsidiaries without this counting towards the VAT registration threshold (we are aware of the option to use a VAT group registration, but note that it may not be the best option for some charities).

Another look at Gift Aid when better data become available

By incentivising people to donate to, participate in and support charitable activity as they freely choose, Gift Aid is the only relief that supports our 'second pillar' of charitable tax reliefs. However, throughout our review process we were conscious that Gift Aid does engender certain distributional biases, in that it favours those working in particular areas and sectors, and the majority is claimed by the largest charities.

When thinking about solutions for addressing the distributional consequences of Gift Aid, we considered an expenditure-based matching scheme where government tops up donations with a grant. For example, when a charity raises £1,000 towards its charitable purposes, the Government could automatically top this up with a payment of £200. Such a system could theoretically bypass some of the administrative burden associated with claiming Gift Aid and would be open to all charities, not just those that are adept at navigating the Gift Aid system.

We also considered a more radical option to address distributional biases through extra support to certain types of charities, including organisations operating in geographical areas with a weak civil society; those with an annual income below a certain amount; charities engaged in activities considered to be of particular public value such as social care or medical research; or organisations that attract volunteers. Such an approach could potentially result in more equitable distribution amongst charities, regardless of their ability to navigate the claims process, and might be more cost-effective, by reducing bureaucracy and administration processes, both for charities and HMRC.

Despite the perceived advantages of decoupling Gift Aid from income tax and replacing it with an expenditure-based model, or the benefits of directing support to certain types of charity geographically or otherwise, we could see a number of problems with such approaches. First, we are mindful of concerns that by decoupling Gift Aid from income tax, an expenditure-based model would be more susceptible to fluctuations in the level of support provided, possibly driven by the health of the public finances or political priorities. Second, a targeted or expenditure approach would rely on government deciding which causes are worthier than others. Regardless of whether this would be a more efficient model than letting people decide with their donations, it would alter the balance between priorities being decided through democratic (political) processes and those decided upon through the choices that donors make. Crucially, given that political priorities can change regularly, it could also affect the ability of charities to plan with certainty. We believe that such a model could therefore unduly skew the balance of our ‘three pillars’ of charitable tax reliefs away from our ‘second pillar’, whereby individuals are incentivised to donate to, participate in and support charitable activity as they freely choose.

We believe that the theoretical argument for Gift Aid is relatively sound, particularly if the short-term reforms outlined above are implemented. Nevertheless, we do recognise that the distribution of Gift Aid favours certain types of charities in certain areas, working on certain topics. If this distribution is not ideal, there are ways to change it – for instance geographically differentiated rates of Gift Aid, or the addition of *Giving Zones*[68] to the tax relief system. Yet there are many practical problems with these ideas that would also have to be overcome, as well as questions about how it would in fact work to change incentives. In addition, we are wary of allowing politicians to have too much influence over deciding which charities (or types of charity) should and should not get tax breaks. Nevertheless, when money, including ‘tax expenditure’ reliefs, continue to be tight, we believe there is a case for more research into this area, particularly if government decides to open up its data to allow us to see more precisely where Gift Aid is directed and the consequences of any changes.

[68] See, for example, www.scotsman.com/news/opinion/building-up-hope-from-here-to-posterity-1-3604654

Appendix A: Other recommendations

The focus of our work has principally been the three reliefs that constitute the vast majority of the support that charities receive. However, we recognise that changes to other areas of charitable tax reliefs are both necessary and desirable, many of which were highlighted through our call for evidence. This Appendix contains a list of low-cost, common-sense recommendations which we believe will help charities increase the public benefit they deliver.

VAT

Modernise legislation on the zero-rating of digital advertising and e-publications

It is important that the VAT system is future-proofed and that reliefs remain relevant in the context of digital innovations and technological evolutions.

The way charities advertise is changing, with many choosing to promote their work online, including through social media. Many charities believe HMRC's strict interpretation of the rules on digital advertising is not in line with the original intention of the policy, as digital adverts are only targeted in the way that adverts in specific magazines are targeted at their readers.

The EU adopted a directive which allows 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. The UK has yet to follow the lead of other Member States, with the result that many charities trying to embrace e-publications are facing additional costs.

Recommendation: Government should review the approach to the VAT treatment of online advertising to reflect the reality of modern-day fundraising practices.

Recommendation: HMRC should apply the same VAT rate to e-publications such as for their printed equivalents.

Social Investment Tax Relief (SITR)

Review the cap on investment and the excluded activities rule

As the way in which people support good causes changes, we may see further growth of social enterprises and social investment. The current fiscal landscape needs to keep pace with these changes.

Social Investment Tax Relief offers individuals 30 per cent of the value of unsecured investments into charities (among others) off their next income tax bill. The relief was intended to level the playing field with businesses, who receive tax breaks through the EIS and SEIS schemes. However, in practice, take-up of the relief has been low. Big Society Capital research shows that only around 60 deals have so far been completed using the relief, despite the Charities Aid Foundation estimating that around 30,000 organisations could be eligible for the relief. Low take-up has partly been because the maximum size of investment is too small (due to State Aid rules) and there is a list of 'trades' that do not qualify for the relief, such as property, energy and leasing.

Recommendation: The list of excluded activities need to be reviewed by government, to potentially allow investment in areas such as care homes or other areas of value to society which currently are unable to benefit from the relief. The cap on investment should also be reviewed. The UK's possible departure from the EU presents potential opportunities in this respect, as State Aid rules may no longer apply.

Stamp Duty Land Tax (SDLT)

Responsibility for SDLT is devolved to Scotland (Land and Building Transacts Tax) and Wales (Land Transaction Tax) so the detail of our recommendation only applies to England. However, we think the same principles should also be explored in Scotland and Wales.

Review simplicity and clarity of relief for charities

Charities can benefit from Stamp Duty Land Tax relief when they buy land and property for charitable purposes. The requirements can be unduly restrictive, as relief is only given if the charity intends to hold the greater part of the land and buildings (by value). However, some conservation charities, for example, face situations where they buy land and buildings in order to protect the land from development, but do not wish to retain the buildings, which they subsequently sell. The buildings are often worth more than the land, so while they may be retaining the greater part by area, they are not retaining the greater part by value. As a result, they can often end up paying Stamp Duty Land Tax on land which is to be held for charitable purposes.

Recommendation: Stamp Duty Land Tax should be reviewed with the aim of both simplification and clarity for charities. This should include considering extending the relief to unincorporated charities who, unlike incorporated charities, are currently unable to claim group relief from SDLT in respect of intra-group transfers.

Mergers and property transfers

Assets can be transferred between members of a Capital Gains Tax (CGT) group on a no-gains no-loss basis. Two companies can be members of a group for CGT purposes if one is a 75 per cent subsidiary of the other, or both are 75 per cent subsidiaries of a third company. Tax rules mean that such grouping is not possible when there is no share capital. So entities that may be part of an accounting group are not always part of a tax group. This can be particularly problematic for charity groups which involve companies limited by guarantee, for example.

Recommendation: The rules that allow grouping for accounting purposes should be used for tax purposes, in effect using membership as a proxy for share ownership.

Climate Change Levy relief

Explore energy efficiency grants scheme for village and community halls

Village and community halls, many of which are older buildings that need to be warm enough to be used by vulnerable, older people (some of whom are often unable to heat their homes adequately in winter) can be disproportionately affected by the Climate Change Levy.

Recommendation: Government should explore the possibility of using income from the Climate Change Levy to contribute to energy efficiency grants for village and community halls.

Improve guidance to energy suppliers

It is often necessary for charities to obtain the agreement of their energy suppliers that they are entitled to Climate Change Levy relief. Small charities that are not registered with Charity Commission often struggle with this requirement.

Recommendation: Government guidance to energy suppliers should clarify that relief from the Climate Change Levy is available to unregistered charities.

Appendix B: Members of the Commission

Chair, Sir Nicholas Montagu KCB
Chairman of the Financial Ombudsman Service, and former chairman of Inland Revenue (1997-2004).

Sarah Atkinson
Director of Policy, Planning and Communications, Charity Commission

Dan Corry
CEO, New Philanthropy Capital

Pesh Framjee
Global Head of Non-profits, Crowe

Lynne Oats
Professor of Taxation and Accounting, University of Exeter

Clare Pelham
CEO, Epilepsy Society

Eleanor Shawcross Wolfson OBE[69]
Adviser to the Bill and Melinda Gates Foundation

69 Subsequently resigned because of a work conflict.

Appendix C: List of charitable tax reliefs

Business rates relief

Business rates are a tax on occupancy, which any charity that owns or rents a property is liable to pay. Charities receive a mandatory relief of 80 per cent of their business rates bill. Local authorities are able to grant discretionary relief on the remaining 20 per cent that charities have to pay, although on average they only receive a further 2.5 per cent relief.

Capital Gains Tax (CGT) relief

Charities sometimes hold assets such as land, property or investments which when sold may be subject to Capital Gains Tax (CGT) on any profit made. Charities are exempt from CGT if the gain accrued is both applicable and applied for charitable purposes, including the use of funds for the general administration of the charity.

Climate Change Levy (CCL) relief

The Climate Change Levy (CCL) is a tax on energy delivered to non-domestic users in the UK which aims to incentivise energy efficiency and reduce carbon emissions. Charities are exempt from the Climate Change Levy for premises where at least 60 per cent of activities carried out are classified as non-business.

Community Infrastructure Levy (CIL) relief

The Community Infrastructure Levy (CIL) is a tax levied by a local authority on the carrying out of a qualifying development in England and Wales, charged per square metre on the increase in gross internal area. Charitable relief is mandatory where a charity owns a material interest if the development is to be used wholly or mainly for charitable purposes.

Corporation Tax and Income Tax relief on charitable income

Charities do not pay tax on profits from 'primary purpose trading', or if the level of trade that is not primary purpose falls below the small trading tax exemption limit (£80,000 for charities whose turnover exceeds £320,000), or if they trade through a subsidiary trading company.

Corporation Tax relief on company donations to charities

When a company makes a qualifying donation to a charity, the amount paid can be set against profits for Corporation Tax purposes. Donations made to charities and CASCs by companies are paid gross, so, unlike the individual Gift Aid scheme, no tax is repayable to charities. For a charity, the donation is treated as potentially taxable income, but is exempt from tax, provided the donation is applied for charitable purposes.

Corporation Tax relief on companies' gifts of trading stock, medical supplies and equipment, plant and machinery

When a company makes a qualifying gift to a charity, no tax is due on the value of the gift.

Gift Aid

Gift Aid allows charities to claim tax relief – 25p in the pound – on gifts and donations made by UK taxpayers. If the donor pays more than the basic rate of tax, further tax relief of the difference between their actual rate of income tax and the basic rate of tax can be claimed by the donor themselves (not by the charity).

Gift Aid Small Donations Scheme (GASDS)

This is not a relief but public expenditure. GASDS allows charities to claim a Gift Aid-style top-up on small donations, in situations where it would not be feasible to collect Gift Aid declarations, for example where a collection tin or bucket is used. Charities can claim up to £2,000 a year under the scheme (on cash donations of up to £8,000).

Inheritance Tax (IHT) relief

Leaving a part or an entire estate to a charity can reduce or eliminate an Inheritance Tax liability, as it will not count towards the total taxable value of an estate. An Inheritance Tax liability can also be reduced from 40 per cent to 36 per cent, if 10 per cent of a 'net estate' is left to a charity in a will.

Insurance Premium Tax (IPT) relief

Insurance Premium Tax (IPT) is a tax on general insurance premiums. There are two rates: a standard rate of 12 per cent and a higher rate of 20 per cent for travel insurance and some insurance for vehicles and domestic/electrical appliances. Charities are liable for IPT, although lifeboats and lifeboat equipment, and block insurance policies held by Motability which covers disabled drivers who lease their cars through the scheme are exempt (the exemption does not cover disabled drivers generally).

Lottery Duty relief

Lottery Duty is a 12 per cent duty on tickets in a lottery promoted in the UK. Exemptions from Lottery Duty include non-commercial lotteries, commonly held at charity fund raising events, and small society lotteries promoted wholly on behalf of a society established for charitable purposes.

Social Investment Tax Relief (SITR)

Individuals who invest in charities can receive a reduction in their tax bill to provide an extra incentive to socially invest. Social Investment Tax Relief works by reducing the income tax bill of an investor by 30 per cent on shares they buy in Community Interest Companies (CICs) or loans that they provide to charities, CICs or community benefit societies.

Stamp Duty Land Tax (SDLT) relief

Charities can get relief from Stamp Duty Land Tax (SDLT) when they buy land and property for charitable purposes. A charity can claim some relief when they buy land and property jointly with a non-charity buyer with the charity claiming relief on its share of the property.

Value Added Tax (VAT) relief

While there is no general VAT relief for charities, a number of special reliefs, exemptions, zero ratings and concessions exist which cover many supplies to and made by charities. The current regime treats charities differently depending on the types of service they provide and whether or not they charge for their services.

Appendix D: The Commission's call for evidence

In 2018, we consulted widely with charities, donors, academics, think tanks, representative bodies, accountants, philanthropy and financial advisers, tax professionals and members of the public on the effectiveness of current tax reliefs and whether the existing system could be improved to create a better climate for charities to serve their beneficiaries. This consultation included a call for evidence, to which we received 121 written responses, and 13 themed roundtable discussions with charities working across various sub-sectors. We also met with local charities in Birmingham and Newcastle and with a selection of leading think tanks, to explore more radical ideas for reform.

Respondents to Commission's call for written evidence

Accordant Philanthropy
ACF
ACRE
Action Hampshire
Action in Rural Sussex
Adec
Alfred Cohen Art Foundation
Allied Westminster
Anne Andrews
Anonymous tax professional
Association of British Orchestras
Association of Independent Museums
Association of Medical Research Charities
Back of the Sofa
Berkeley Books
Beth Breeze
Bircham Dyson Bell LLP
Bristol Disability Equality Forum
Cancer Research
Caps Independent Advocacy
Cats Protection
Charities Aid Foundation
Charity Finance Group
Charity Law Association
Charity Retail Association
Charity Tax Group
Chartered Institute of Taxation
CIPFA
Cobseo
Cornerstone
David Massey (Academic)
David Reinstein (Academic)
Dorrie
Edward S. Poyser
Elizabeth Simpson FCCA
Eric Mulholland
Evangelical Alliance
Ex-Services Home Mess
Free Church of Scotland
Friends of Burgess Hill Green Circle Network
Garfield Weston
Gordon Stalkers
Grant Thornton UK LLP
Great Brickhill Parish Hall
Halle Concerts Society
Harkstead Church Heritage

Heritage Alliance
Historic Houses
Hove Civic Society
Ian Clark
Institute of Chartered Accountants of Scotland
Institute of Fundraising
Institute of Legacy Mangement
John Stanton
Joint museum sector response
Jonathan Ruffer
Kids In Kathmandu Nepal
Kieron McMahon
Locality
The Lotteries Council
Macmillan
Marie Curie
MHA (Accountancy)
Michael Brophy
Michael Hyde
Moore Stephens
MS Society
National Housing Federation
New Quadrant Partners Ltd
Nick Kavanagh
NPC
Open University
Penkridge & District Community First Responders
Pennies from Heaven
Peter Felix
Philanthropy Impact
Policy Institute StudiesPrice Bailey LLP
Prior's Court Foundation
PWC
RNLI
Robert Kingston
Robert Leach
RSPCA
Salvation Army
Sandwell Homeless And Resettlement Project
Sayer Vincent
Sightsavers
Small Charities Coalition
SOLT UK Theatre
Sophie Flemic (Academic)
Southampton Film Theatre – The Phoenix
Splitz Support Service
Sporta
Sport and Recreation Alliance
STEP
Steve Dealler
Tairona Heritage Trust
Trevor Cooper
Trevor Jones
Warner Wilde
Wellcome Trust
Wheeled Sports 4 Hereford
Wilbarston Village Hall
William Perrin
The Wonderful Organisation
WWF
Yeading Community Association
Zurich

Appendix E: Advisory and Reference Group

In developing our recommendations, the technical merits of our proposals were commented on by both an Advisory Group of taxation experts and a Reference Group of key stakeholders from across the voluntary sector. While there was an opportunity to sense check the proposals, the groups were not invited to comment on the substance of this report.

Advisory Group

- Caron Bradshaw, chief executive of Charity Finance Group
- Dr Beth Breeze, director of the Centre for Philanthropy at the University of Kent
- Adam Corlett, senior economic analyst at the Resolution Foundation
- Carl Emmerson, deputy director of the Institute for Fiscal Studies
- Peter Fanning, chief executive at the Chartered Institute of Taxation
- John Hemming, chair of the Charity Tax Group and head of tax at Wellcome Trust
- Warwick Lightfoot, director of research and head of economics and social policy at Policy Exchange
- William Perrin, trustee of 360 Giving
- Alana Petraske, secretary of the Charity Law Association
- Kimberley Scharf, professor of economics at University of Birmingham
- Mrunal Sisodia, co-chair of National Network of Parent Carer Forums
- Sarah Smith, professor of economics at the University of Bristol
- John Whiting CBE, non-executive director at HMRC and board member of Revenue Scotland

Reference Group

- Simon Bowkett, chief executive of Exeter CVS
- Vicky Browning, chief executive of Acevo
- Jane Ide, chief executive of NAVCA
- Peter Lewis, chief executive of the Institute for Fundraising
- Sir John Low CBE, chief executive of the Charities Aid Foundation
- Carol Mack, chief executive of the Association of Charitable Foundations
- Ruth Marks, chief executive of WCVA
- Seamus McAleavey, chief executive of NICVA
- Judith Miller, partner at Sayer Vincent and trustee of the Small Charities Coalition
- Robin Osterley, chief executive of the Charity Retail Association
- Cliff Prior CBE, chief executive of Big Society Capital
- Paul Streets OBE, chief executive of the Lloyds Bank Foundation

- Lisa Wainwright (previously Emma Boggis), chief executive of the Sport and Recreation Alliance
- Rob Williamson, chief executive of Community Foundation Tyne & Wear and Northumberland
- Mark Wood, chair of NSPCC
- Sabira Kanji, director of corporate services and finance at SEUK

charity tax commission