

Valuing VAT reliefs and charities

Underestimating the value of charities

Stating the value of tax reliefs given to charities acknowledges the support received from Government, but does nothing to establish the return on that investment. Saying “this will fund 10 home carers” or “100 days of medical research” only goes part way to establish the contribution charities make to society, the economy and Government’s social obligations and strategy. In the process of achieving their mission objectives charities create employment, skills and training opportunities, and purchase goods and services from other businesses in the supply chain, thereby contributing to the national economy. These activities also generate taxes for Government in the form of PAYE, corporation taxes and VAT. These benefits are not always considered which means that the full contribution that charities make has not yet been quantified.

What are we doing?

The Charity Tax Group (CTG) is commissioning a research project to quantify the value of existing VAT reliefs for charities and to consider the socio-economic value of charitable reliefs to wider society.

The project has two stages. Already underway is the first stage to prepare a quantitative analysis to calculate the value to charities of existing VAT reliefs by subsector and model the impact of changes to VAT rates and reliefs.

The next step will be to develop an analysis of charities’ socio-economic contribution, and an analysis of the potential net fiscal impact of a change to the tax regime.

Why now?

VAT reliefs and rates are likely to come under greater scrutiny in the coming

Can your charity afford a larger VAT bill?

- VAT rates and reliefs are facing review
- Charities currently benefit from a wide range of valuable reliefs, but how much are they actually worth to charities and the wider economy?
- If there were no reduced or zero rates or no VAT exemptions, could your charity afford to pay VAT on all its purchases?
- What could your charity do if there were more generous VAT reliefs and no irrecoverable VAT?
- Can charities afford to wait and see what happens? Other sectors are already preparing...
- We need data to make the case to Government to protect existing reliefs and to create an improved VAT system for charities

This research needs to be funded and we need your support

Support CTG’s VAT research project visit www.charitytaxgroup.org.uk for more information

years, regardless of the outcome of the ongoing Brexit negotiations. The current review of VAT rates by the European Commission means that if the UK VAT system is tied to European rules, or seeks to align itself closely, there will be greater flexibility on VAT rates, something that we are already seeing in the context of e-publications. If the UK has no ties to the European VAT regime, post-Brexit, the Government will inevitably take stock of how it can best use the UK VAT system to achieve its policy goals.

Why is this important for charities?

It is important that charities are part of these discussions. Ministers have been clear that stakeholders from a wide range of sectors will be making their case for improved VAT treatment. This research will enable us to defend existing VAT reliefs if they are challenged and to have a rigorous economic argument for why extending VAT reliefs could benefit not only charities, but wider society and save money for the Exchequer in the long term. HMRC officials are also keen to work with CTG to make sure that they understand fully the scope of VAT reliefs available for charities, so it is incredibly important that we capitalise on this

opportunity as part of our wider work in addressing the historic distortions that charities face in the VAT system.

What’s next

CTG has commissioned respected economics consultancy London Economics to undertake the first stage of this project. They will be co-ordinating a survey of charities with a view to sharing their findings with CTG later this summer.

Ideally, the second stage of this project will follow shortly afterwards, to ensure we maintain momentum and maximise the value of the finding and VAT tool that will be available. However, this is contingent on CTG securing sufficient funding. We are in discussions with a number of grant-giving charities and other sponsors, but we also need additional donations from charities towards this special one-off project.

“Recommendation 4: HM Treasury and HMRC should undertake a comprehensive review of the reduced rate, zero-rate and exemption schedules.”

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