**Lords Economic Affairs Finance Bill Sub-Committee – Making Tax Digital proposals**

**Response from the Charity Tax Group**

**15 February 2017**

The Charity Tax Group (CTG) has over 500 members of all sizes representing all types of charitable activity. It was established in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue.

CTG welcomes the opportunity to submit evidence to the Lords Economic Affairs Finance Bill Sub-Committee, and our comments relate specifically to the Making Tax Digital proposals. In terms of background, CTG’s response Making Tax Digital consultations can be read [here](https://www.charitytaxgroup.org.uk/wp-content/uploads/CTG-response-to-the-MTD-consultation-7-November-2016.docx).

The Government recently published a summary of responses to its consultations on the Making Tax Digital agenda. Crucially, the Government has confirmed that it will introduce legislation to exempt charities from the Making Tax Digital requirements. This is a welcome and pragmatic decision that will protect smaller charities and those with limited digital capability. However, it is important to note that charities are simply exempt from these new reporting requirements and we are seeking clarification from officials on the process for charities managing their existing ongoing tax reporting requirements, including the submission of nil-returns. Other online reporting mechanisms, for example for the Apprenticeship Levy (where relevant), PAYE and Charities Online, will continue to be in a digital form, and we await further guidance on the interplay between this and Making Tax Digital.

While CTG welcomed the commitment to exempting charities from Making Tax Digital requirements, we noted that the Government has decided that **charity trading subsidiaries should be within the scope of the obligations**. In our response to the consultation, wecalled for trading subsidiaries to be included within the exemption as a charity will often use a subsidiary to make its activities tax effective or to accommodate any trading activities. This is often a requirement dictated by administrative, legal and financial practicalities. While we appreciate the need for there to be a level playing field where charity trading subsidiaries are competing with other non-charity affiliated businesses, in practice this is not competition in the traditional sense, with any profits being donated back to the charity and used for charitable purposes.

The charity is also responsible for the administration of the subsidiary and processes and staff resources will often be shared across the organisation. Therefore, if a charity subsidiary was required to comply with these rules, it would mean that the charity would have to operate two systems (which adds complexity) or consider maintaining digital records for the whole charity group, undermining the proposed exemption. CTG also questions how this will work with a charity registered with its subsidiary in a VAT group, with potential for extra complexity.

If a decision is taken to require charity trading subsidiaries to maintain digital records and update HMRC at least quarterly, we believe that at the very least it would be sensible to introduce some form of transitional period and consider a size threshold to protect smaller organisations. We would also stress the importance of providing free reporting mechanisms.

For further information or to discuss these observations further please contact us at info@charitytaxgroup.org.uk or on 02072221265.