

Making Tax Digital for Corporation Tax

Consultation response by the Charity Tax Group – 5 March 2021

Introduction

1. The Charity Tax Group (CTG) has over 800 members of all sizes representing all types of charitable activity. It was set up in 1982 to make representations to Government on charity taxation and it has since become the leading voice for the sector on this issue. CTG is an active participant in HMRC's Charity Tax Forum and sits as the charity representative on HMRC's Joint VAT Consultative Committee (JVCC). CTG was also actively involved in consultations on Making Tax Digital for VAT providing feedback that shaped the practical implementation on these reporting requirements.
2. CTG welcomes the opportunity to respond to this consultation. CTG is not itself a charity, but its response reflects the extensive feedback received from its members. The response was formulated by a working group of charity tax professionals and advisers and CTG is particularly grateful to Paul Bater for his contributions to this response.

Key recommendations from the charity sector

3. CTG's response focuses primarily on the key principles that should underpin the design of Making Tax Digital for Corporation Tax, with charities in mind. CTG makes the following key observations:
 - A. Making all charities "within the charge to Corporation Tax (CT)" subject to Making Tax Digital (MTD) reporting requirements will not meet the policy objectives set out in the consultation.
 - B. It will be extremely costly and onerous, not only because all corporate charities (many of them very small) would have to invest in additional software purely for this exercise, but also in staff (and/or volunteer) time in understanding the system and producing the data in the new format. HMRC should therefore carry out a cost benefit analysis of the merits of including charities within the scope of the reforms.
 - C. Having conducted our own review, we believe that there is a strong rationale for introducing a general exemption for charities from MTD for CT. HMRC accepted that this was appropriate for all charities in the government response to the MTD for Business consultation in 2016-17 and, notwithstanding the subsequent introduction of MTD for VAT, we see no reason to change that assessment. As regards the relatively few charities that have a regular corporation tax liability or need to submit a CT return to claim a relief, we consider that there should be separate discussions about how they should be dealt with under MTD for corporation tax.
 - D. If a general exemption is not possible, only larger charities should be required to comply with rules introduced to ensure that most smaller charities are exempt. In particular, we fail to see any benefits of subjecting charities and their non-charitable subsidiaries to quarterly reporting to

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While all efforts are made by the Charity Tax Group to give assistance to its members, it is not qualified to give technical advice on fiscal matters and cannot therefore be liable in any way for any such advice given.

HMRC, given this information is not likely to be useful to HMRC. At the very least, there should be a *de minimis* threshold such as effectively applies with MTD for VAT. If smaller charities are required to comply HMRC should give serious consideration to the provision of a free filing software product.

- E. The consultation process is an essential opportunity to review the information charities are required to provide in supplementary form CT600E.
 - F. Proposals for amalgamating filing deadlines for tax returns and accounts could create a serious practical problem for charities and other entities subject to MTD for CT. This should be reconsidered.
- 4. This submission includes specific responses to the consultation questions. Background information on charities and Corporation Tax is also included in an annex.
 - 5. CTG welcomed the organisation of a dedicated consultation event for charities on 9 February 2021 and requests additional direct discussions between HMRC officials and charities once the consultation period has closed, to review this response.

Overview

- 6. The consultation suggests that Making Tax Digital (MTD) for Corporation Tax (CT) should apply to all entities “within the charge to corporation tax”. In practical terms this means that the proposal would apply to any charity unless it is constituted as a trust. Question 19 asks whether this is appropriate – **in our view it is not.**
- 7. How many charities would fall “within the charge to corporation tax”? It is difficult to provide an exact number, but it is certainly a significant number (see Annex I for more background information) and will not just be limited to charities registered with the UK charity regulators. Many of these charities are not currently registered with HMRC and most of those that are only do so to make small Gift Aid claims, requiring no specialist third party software or professional advice. In practice, the vast majority of UK charities are small organisations with no paid staff and ill-equipped to comply with complex regular digital tax reporting, particularly where no tax is payable.
- 8. The consultation document makes clear that an important objective for the Government is to reduce the tax gap, enhance the customer experience and keep costs down. While these are important aims, **making all charities “within the charge to Corporation Tax” subject to MTD reporting requirements will not achieve any of these objectives.** It is important to note:
 - a) There is no significant tax gap relating to charities - most charities never have to pay any CT due to exemptions available to them, making the prospect of non-compliance very low. The information required under MTD will not alert HMRC to potential non-compliance (for example the possibility of non-charitable trading, or non-charitable expenditure) as this does not depend on the nature of the income or expenditure, but its purpose.
 - b) Most charities have never been required to file a corporation tax return. Requiring a significant number of additional charities to register for MTD would therefore present a radical shift in approach which could result in large additional costs and administrative complexity for little benefit, particularly where nil returns are being submitted.

- c) The introduction of MTD for VAT for charities and purported benefits do not directly correlate with the introduction of MTD for CT. Charities are impacted by VAT as much as any other business, whereas the impact of CT on charities is materially different as very few ever have a CT liability. Additionally, in practice most charities operate outside the scope of MTD for VAT as they are not required to register for VAT due to the nature of their activities or their taxable supplies being below the registration threshold. No such threshold is proposed risking a disproportionate impact on charities.
9. **We would therefore urge HMRC to carry out a cost benefit analysis of the merits of including charities within the scope of the reforms.** Given that almost all charities currently have no CT compliance requirements this new requirement would inevitably increase costs and administrative burden – and to what purpose and benefit?
10. Having conducted our own review, **we argue that there is a strong case for exempting charities from the burden of the requirements of MTD for CT.** Given that the Government has previously decided that MTD for Income Tax will not apply to any charitable trusts, a failure to provide an equivalent relief for charities within the charge to CT would create an anomalous situation where the extent of the burden of compliance imposed on the charity sector is determined by the legal form of the charity. It is difficult to see any clear policy rationale for making this distinction. It is important to note that many charitable companies are usually subject to either an audit or an independent examination of their accounts, which already review whether proper accounting records have been kept.
11. If, despite this feedback, the Government is not minded to introduce an exemption from MTD for CT, there are **several reasons why it would be appropriate to provide a partial exemption for charities and other not-for-profit voluntary organisations:**
- a. it is only a small minority of charities that actually incur a CT liability and when they do so it will usually be an occasional rather than a regular event
 - b. under the current HMRC policy many not-for-profit organisations are treated as dormant if they expect their annual CT liability to be no more than £100
 - c. the majority of UK charities have a gross annual income below £25,000, and the amount of any income that is potentially within the charge to CT would be expected to be significantly lower than this threshold
 - d. the majority of the UK charities that are within the charge to CT are small unincorporated associations with few if any paid staff available to take on the burden of compliance with MTD for CT
 - e. the resources of most voluntary organisations have been substantially depleted by COVID-19 and the amount of related Government funding currently available to the sector is much lower than the additional funding that has been provided to commercial businesses.

If any charities are required to be within MTD, we would welcome discussions with officials on what form this should take. One option could submit a simple online “nil CT declaration” each year through the Government Gateway, to confirm to HMRC that (a) any trading income falls below the small trading exemption threshold and (b) no charge to CT arises.

12. **Charities have also expressed concerns about proposals for quarterly reporting requirements.** It would be misleading for a trading subsidiary of a charity to provide quarterly updates because of the prevailing practice of subsidiaries making annual donations to their parent charity reducing taxable profits, therefore CT liability, to nil in most cases. It is only after its financial year end that the

subsidiary is able to calculate with the necessary precision its ability to make the donation that will reduce its taxable profits to nil.

13. Charities are required to complete supplementary pages to their CT returns. None of the information required to be included here relates to calculating the charge to tax that a charity might face. It is supplementary information which does not automatically flow from charity accounting systems, so needs to be generated for this purpose alone. **This consultation process is also an important opportunity to review the information charities are required to provide in the supplementary form CT600E** and whether the need for this information is still necessary. If there is still a need to collect this data, we suggest that information that does not flow from the accounting records is provided to HMRC in some other way.
14. **Charities are also concerned about proposals in the consultation to align the filing dates for accounts and tax return filings.** For cash flow reasons, a trading subsidiary wholly owned by charities will make the maximum possible use of the nine-month window to make its Gift Aid payment to its parent(s) to eliminate any prior year CT liability. You cannot claim the relief until the payment is made. This proposal has the potential to put a strain on this arrangement and be exacerbated further if BEIS proposals shortening current company accounts filing deadlines are accepted.
15. While we do not favour MTD for CT applying to charities we appreciate that there will be corporation tax implications for a small number of charities, either if they have a corporation tax liability or if they need to make a claim. This will be particularly relevant, for example, for the charities and their trading subsidiaries that submit CT returns in order to claim Theatre Tax Relief, Orchestra Tax Relief and Museum Galleries and Exhibition Tax Relief. As a result, we consider that thought needs to be given to the best mechanism for dealing with these charities. We would be pleased to discuss the options that there might be for doing this with you, particularly as in practice quarterly reporting would be very impractical.
16. CTG wants the tax system to be modernised and made more efficient through changes to tax legislation and administration. But these should not be introduced in a wholesale way that makes little sense in determining the tax position of charities. We are not against change *per se*. An example of our commitment to a forward-looking tax system is the Future of Gift Aid project. Gift Aid is based on an increasingly outdated paper-based system that is not suited to new payment mechanisms and digital technology. Greater automation of the Gift Aid process will reduce the tax gap and maximise the value of Gift Aid claimed. There is positive engagement between CTG and HMRC's innovation team in taking this forward.
17. Many charities prepare their accounts on a receipts and payment basis and not on an accruals basis. This can include CIOs (charitably incorporated organisations). Below an income level of £250,000 a charity which is a CIO can prepare its accounts on either basis. We are concerned that this is a factor that has yet to be taken into account in the considerations of how MTD for CT would operate.

Responses to consultation questions

Question 1: Do you think there are any reasons why an entity within the charge to CT (or a sum assessable as though it were CT), should not fall within the overarching scope of MTD?

It is clear that the vast majority of charities have no CT reporting requirements under the current practice. It would be an additional burden to include them within the scope of MTD for CT.

We propose that HMRC carry out a cost benefit analysis of including charities within these changes. As almost all charities currently have no CT compliance reporting requirements the proposed changes would inevitably increase costs and administration for little purpose.

We consider that there is a strong case for exempting charities from the burden of the requirements of MTD for CT. The consultation document makes clear that an important objective for the Government is to reduce the tax gap, enhance the customer experience and keep costs down. While these are important aims, making all charities “within the charge to CT” subject to MTD reporting requirements will not achieve any of these objectives.

Question 2: Do you agree that all entities should be required to record the date, amount, and category for all transactions within MTD compatible software? Where this approach differs to your current approach to record keeping, please provide details of any additional one-off and ongoing costs or savings.

While this may be appropriate for larger entities most of the charity sector is comprised of small organisations with limited resources. If charities are included in MTD for CT their main additional costs are likely to be labour, training, tagging costs and software licences. In addition, many smaller charities are still using manual records. The typical profile of a charity treasurer in the UK is that of a retired person with limited IT skills, so additional support would be required.

Question 3: Would group companies value the ability to keep digital records at group level? Are there any additional benefits to utilising a mixed approach?

If charities are required to join MTD for CT we think that they would welcome an option to keep digital records at a group level. This will not necessarily be the case because a charity and its subsidiaries may use different accounting systems.

Question 4: Do you agree with the suggested minimum categorisation for MTD compatible software?

While the suggested categories might be appropriate for the completion of a CT600 form by a non-charitable trading subsidiary of a charity, they are not comprehensive for the computation of the taxable profits of a charity. For example, there is no category for grants payable or Gift Aid receivable.

Question 5: Are there further categories or alternative approaches to the categorisation of records within MTD compatible software that you consider would be appropriate?

Thought should be given to the completion of information required in the CT600E supplementary form.

Much of the information required to be included in this supplementary form is not related to calculating the charge to tax that a charity might face. It is supplementary information which does not automatically

flow from charity accounting systems. This consultation gives an important opportunity to review the information charities are required to provide. If there is still a need to collect this data, we suggest that information that does not flow from the accounting records is provided to HMRC in some other way than by MTD for CT.

Question 6: Would group companies value the ability to provide regular updates through a nominated company? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

We are unconvinced that there will be any benefits from charities and their non-charitable subsidiaries reporting quarterly to HMRC. In many cases reporting at a group level would involve combining the reporting of a 'for profit' entity and a 'not for profit' entity. As these are very different entities it is difficult to imagine what the benefit of this reporting would be. Furthermore, a charity's trading subsidiary will invariably gift aid its profits to its parent charity at the end of the year leading to the danger that quarterly reporting will be misleading in any event.

Quarterly numbers would provide limited information on a charity or charitable subsidiary's ultimate tax position.

We would welcome greater clarity of the benefit that HMRC would see from reporting in these circumstances.

Question 7: Do you foresee any constraints to providing updates at group level and how do you think these could be addressed?

It would be misleading for a non-charitable trading subsidiary of a charity to provide quarterly updates because of the prevailing practice of subsidiaries making annual donations to their parent charity. It is only after its financial year end that the subsidiary is able to calculate with the necessary precision its ability to make a donation that will reduce its taxable profits to nil.

Question 8: Which forms and processes around incentives, allowances and reliefs would you most like to see digitised? Please provide details of the guidance and/or tailored assistance that would help this process.

If charities remained within the scope of MTD for CT we would wish to discuss this with you.

Question 9: What practical benefits do you think could result from standardising how entities submit claims and elections through software? Please provide details of any increased or reduced administrative burdens or costs that could result from this.

Although a charity's entitlement to benefit from the various corporation tax reliefs available to charities can only be determined by looking at the information available for the financial year as a whole, charities are currently able to submit periodic Gift Aid repayment claims during each financial year primarily through HMRC's online portal. Most of these claims are currently processed by HMRC on a "pay now, check later" basis using a repayment claim reference number allocated by HMRC that differs from the UTR number that is used when a notice to submit a CT return is issued. This system is important to the delivery of the policy of encouraging increased use by charities and donors of the Gift Aid scheme and we would be concerned if HMRC were to introduce any changes that pose a deterrent to the continuing use of Gift Aid.

Question 10: Do you agree that an entity's update cycle should be based upon its expected accounting period with updates due one month after each quarter end?

This requirement would be particularly onerous for smaller charities that have no full-time members of staff.

Question 11: Do you agree with the principles for very large companies within the QIPs regime?

Given that few charities incur a CT liability from one year to the next it is unlikely that a charity would fall within the QIPs regime.

Question 12: Do you consider that any of these other scenarios require a different approach to the process of updating HMRC? If so, please provide details of any barriers and how these could be addressed within the overall approach outlined in this chapter.

The consultation paper states that the government accepts that a regular updating requirement may not be suitable for dormant companies (para. 4.15). It seems logical that this should apply also to companies that are treated as dormant by HMRC even if they have a small CT liability. It would make little sense to require a company to incur even a small amount of tax compliance expenditure in order to demonstrate that it has little or no CT liability. As noted above, this is likely to be the case for most charities.

Question 13: Do you agree it is appropriate to align the filing dates for tax and company law purposes? If not, what difficulties do you foresee?

We are concerned about the practical implications of aligning the tax and company law filing dates . In particular, this would be an additional burden on the many smaller charities that do not currently file their accounts with Companies House. We estimate on the basis of a keyword search that the number of unincorporated associations that are currently on the CCW register of charities is at least 60,000 or 35% of the total (CCEW register, last accessed 22 January 2021).

Furthermore, for cash flow reasons, a trading subsidiary wholly owned by charities will make the maximum possible use of the nine-month window to make its Gift Aid payment to its parent(s) to eliminate any prior year Corporation Tax liability. You cannot claim the relief until the payment is made. This proposal has the potential to put a strain on this arrangement.

BEIS has proposed shortening current company accounts filing deadlines even further which would compound the problem set out above. We would appreciate confirmation that HMRC has taken into account the potential impact of the BEIS proposals.

Question 14: Do you agree that amendments to an entity's Company Tax Return should be made through MTD compatible software?

We accept that if the original CT return is filed using MTD compatible software it is logical that any amendments to that return should be made using the same process.

Question 15: How can MTD for CT ensure that accounts and tax computations submitted as part of a Company Tax Return, are fully and accurately tagged in iXBRL format?

There are particular issues for charities.

Most suppliers of tax compliance software also offer an accounts tagging service that facilitates the submission to HMRC of iXBRL files at the same time as the tax return is filed. However, the tagging service is normally priced separately from the software licence fees so any taxpayer requiring a set of financial statements to be tagged would expect to pay at least £100 to £200 for the simplest set of accounts to be tagged. In practice the tagging fees for charity accounts can be higher because they are obliged by their regulator to file accounts that comply with the Charity Statement of Recommended Practice (SORP). These accounts differ substantially from the format and presentation of those for commercial enterprises. The introduction of a compulsory tagging requirement would add another unwelcome expense to the reporting burden of charities.

Question 16: Do you think HMRC should reject returns or charge penalties where the XBRL tagging is incomplete or inaccurate?

We would hope that should charities come within scope of MTD for CT that a proportionate penalty system would apply, recognising the costs facing charities in complying with this process.

Question 17: What hurdles do you think would need to be overcome should HMRC want businesses to tag data at a transactional level?

We are particularly concerned about the potential impact of this proposal on small charities which currently do not use commercial accounting software.

Furthermore, we expect that the cost of tagging individual transactions will significantly exceed the cost of tagging an annual set of financial statements. We do not consider it sensible or realistic to expect charities to absorb costs that ultimately provide little benefit to HMRC.

Question 18: What do you think are the potential impacts of HMRC withdrawing the free filing product, known as CATO? Please provide any examples or evidence held including evidence relating to the potential impact on filing accounts with Companies House.

We do not expect commercial suppliers to provide a free product to customers currently using CATO. In any event the price of the product is not necessarily the best indicator of the most suitable product for the customer. Charities will want assurance that the product can be relied on to meet HMRC's requirements consistently.

We consider that it does not make sense for charities to incur additional software costs if no tax is payable. If HMRC does decide to include charities within MTD for CT it would be appropriate for HMRC to consider how a free filing product could be made available – at least for smaller charities.

Question 19: Should charities, CASCs and other not for profit organisations, be within the scope of MTD for CT where they have income within the charge to CT and are required to complete a Company Tax Return? If not, please explain why you consider an alternative approach is necessary for charities and what criteria should be applied to assess eligibility for this?

We do not agree that these bodies should be required to implement MTD for CT merely because they are technically within the charge to CT when they rarely have a CT liability.

We suggest HMRC carries out a cost benefit analysis of the merits of including charities within the scope of the reforms. Given that almost all charities currently have no practical CT compliance obligations this new requirements would increase costs and administration.

As outlined in paragraph 10 of our response there is a strong case for exempting charities from the requirements of MTD for CT. The consultation document makes clear that an important objective for the Government is to reduce the tax gap, enhance the customer experience and keep costs down. While these are important aims, making all charities “within the charge to CT” subject to MTD reporting requirements will not achieve any of these objectives.

Question 20: Do you agree that MTD obligations should cease where a company is exempted from mandatory online filing of CT returns due to insolvency?

Yes.

Question 21: What timescales and costs do you consider would be involved in acquiring, updating, replacing or adapting existing software in order to be MTD compliant? Please provide details of one-off and ongoing costs and benefits you think may arise.

The extent of these costs will depend on whether the charity has an existing software supplier that has a product capable of meeting the requirements of MTD for CT. Whether this is the case is not always clear from the outset.

A longer timescale will be required by charities that are currently using manual systems as is likely to be the case for smaller unincorporated associations unless they are carved out of MTD for CT (as we propose). This will apply to the many charities that are not subject to MTD for VAT. It is important to note that significant time and financial costs often follow IT changes to systems so advance notice is very important. The issues charities have faced in implementing digital links for MTD for VAT highlight the need for a pragmatic transition to meeting new requirements.

In respect of proposals for quarterly submissions, which we oppose, charities face potential for extra costs where the information requested is not ordinarily generated elsewhere.

Question 22: Apart from software costs, what timescales and costs do you consider would be involved in making the transition to MTD for CT? Please provide details of one-off and ongoing costs and benefits you think may arise.

The one-off costs will mainly comprise the purchase of any necessary equipment, staff training, and professional advice during the transition period. The main ongoing costs are likely to be the cost of additional labour and software licences. It is unlikely that a charity would be able to claim tax relief for these costs unless they relate to a specific source of taxable income. In some cases, the transition would

also involve the change from very basic computer and manual records to a commercial accounting package.

Charities are likely to require a longer timescale to complete the transition to the extent that they are unincorporated bodies or are not currently registered for VAT or obliged to file CT returns. The different tagging requirements for charities would also be an issue here.

Annex I: Background information on charities and Corporation Tax

Charities within the scope of corporation tax

1. The consultation suggests that Making Tax Digital (MTD) for Corporation Tax (CT) should apply to all entities “within the charge to corporation tax”.
2. It is difficult to provide a reliable estimate of the number of charities and other not for profit organisations that are potentially affected by the introduction of MTD for CT because the number of voluntary sector organisations in the UK can only be estimated from a variety of sources.
3. So far as charities are concerned, there are approximately 200,000 charities registered with principal charity regulators in the UK¹. CCEW’s register currently comprises 169,790 charities, out of which it is estimated on the basis of a keyword search of the register that around 65,000 (38%) will have no MTD for CT obligations because they are constituted as trusts. In addition to the charities registered with CCEW, a report by the National Audit Office [estimates](#) there to be at least 190,000 other charities in England and Wales that are not required to be registered with CCEW, either because their annual gross income is less than £5,000 or because of specific legislation excepting or exempting them from registration².
4. The data available for non-charitable not for profit organisations is less detailed but the vast majority of these organisations (which may number up to 600,000) are likely to be small unincorporated associations operating in a local area with a low level of income. This total does not include amateur sports clubs in the UK, including those registered as CASCs and we would urge officials to consider the representations that the Sport and Recreation Alliance will be making about their members.
5. Unlike most other taxpayers, many charities receive funds in the form of donations, legacies and grants that are not treated as taxable income under general principles or because no Gift Aid tax relief has been claimed on the donation. It is estimated that approximately 90,000 charities are registered with HMRC, with approximately 70,000 active claimants each year.
6. The vast majority of UK charities are small organisations with no paid staff and an annual gross income below £25,000. In England and Wales these organisations currently number at least 103,091, i.e. 60.7% of the total organisations on the CCEW register. Of these there are at least 74,823 bodies (44.1% of the total) with an annual gross income below £10,000. A similar pattern can be seen with charities in Scotland and Northern Ireland.

¹ The Charity Commission for England and Wales (CCEW), the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for Northern Ireland (CCNI)

² The exempted charities are limited to those that are required to register with a different regulator (mainly higher education institutions and housing associations) and are likely to be larger charities established as corporate bodies. The excepted charities comprise specified categories of charity that have been relieved from the obligation to register with CCEW since its register was initially established in 1960; the main categories are certain religious bodies, armed forces charities, and scout and guide groups. In recent years the exception has been limited to charities with an annual gross income not exceeding £100,000 (Charities Act 2011, s30(2) and s31).

Scope of the current CT reporting rules

7. The consultation paper suggests that MTD for CT should apply to all entities “within the charge to corporation tax”. As corporation tax is charged on the taxable profits of a “company”, which is defined to include any body corporate or unincorporated association and to exclude a partnership or co-ownership scheme, the proposal would apply to any charity or other not for profit organization (NPO) unless it is constituted as a trust.
8. As the profits of trusts are liable to income tax or Capital Gains Tax (CGT) rather than corporation tax, they would potentially have been within the scope of the MTD for ITSA regime, which is scheduled to commence in April 2023. However, the Government has decided that the trustees of charitable trusts will not be required to join this regime (Taxes Management Act 1970, Schedule A1, para 2(1)(a), inserted by Finance (No. 2) Act 2017, section 60(3)).
9. While this policy decision will be welcomed by the charity sector, it also means that unless charities are also carved out of MTD for CT the sector will be split between those that have to bear the costs of implementing MTD and those that do not, depending in each case entirely on the legal form of each charity.
10. The profits of a corporate trustee, whether charitable or not, that accrue to it in a fiduciary capacity are not chargeable to corporation tax and should therefore be out of scope of MTD for CT if the trustee company has no income of its own (Corporation Tax Act 2009, section 6(1)).
11. In practice, most charities do not pay any corporation tax from one year to the next, but they are nevertheless “within the charge to corporation tax” because the exemptions that they benefit from are restricted in scope to specified sources of income and gains, are conditional on the application of their funds to charitable purposes, and can be lost to the extent that they incur non-charitable expenditure.
12. Consequently, the vast majority of charities have never been required to file a corporation tax return and would not expect to have to do so unless they acquired a source of taxable income or received a notice from HMRC. Over the years HMRC’s practice has generally been to require only the largest charities to file CT returns on an annual basis; occasionally, other charities may be requested to file a one-off return on a specific basis for investigation purposes or on a random basis for audit purposes. Exceptionally, HMRC may issue notices requiring a return to be filed as part of a statistical exercise; this occurred in 2019 when some 3,000 notices were issued to selected charities claiming Gift Aid repayments or other reliefs with a view to evaluating the reliefs claimed and the expenditure incurred across the charitable sector.

Current accounting and filing requirements

13. This consultation is being undertaken in parallel with the Companies House review of the financial information available on the UK companies register. The proposal to consolidate the current filing requirements of Companies House and HMRC by introducing a mandatory requirement to submit accounts in a standard XBRL format within a common statutory filing deadline seeks to deliver benefits for company filers, users of that information, and for Government. However, while the aim of delivering an option for filing only once with Government may appeal to the wider business community, it does not take into account the different filing requirements of the UK’s charity

regulators; unless these were also to be reformed charities that are registered companies would still have dual filing obligations.

14. For example, key features of the CCEW's current filing requirements include:
 - charities with an income of £25,000 or less need only submit an annual return within 10 months of the end of the financial year;
 - charitable companies and unincorporated charities with an income exceeding £25,000 must also submit their annual accounts, an independent examiner's report and a trustees' annual report, all in PDF format;
 - all charitable incorporated organisations (CIOs) must also submit their annual accounts and a trustees' annual report in PDF format and, if their income exceeds £25,000, a copy of an independent examiner's report;
 - non-company charities with gross income of £250,000 or less are not obliged to use accrual accounting and can prepare their accounts on a receipts and payments basis;
 - other charities are required to prepare accrual accounts that comply with the specific guidance on the content and format of charity accounts set out in the Charity Statement of Recommended Practice (SORP), which differ substantially from the accounts of a conventional commercial company.
15. Unincorporated associations, regardless of their income, do not prepare their accounts in accordance with Companies Act 2006 requirements and do not therefore have to submit their accounts in iXBRL format. At present the CCEW online filing system only accepts documents in PDF format, but we understand that the CCEW is exploring the scope for charities to file iXBRL accounts.
16. CIOs were introduced, first in Scotland and subsequently in England and Wales, with the specific goal of providing charities which sought to limit their exposure to personal liability with an alternative corporate vehicle to the company limited by guarantee which would relieve those charities from the dual burden of having to file annual documents with both Companies House and the charity regulator.
17. The introduction in 2011 of HMRC's requirements for online filing of corporate tax returns and accounts using iXBRL software posed considerable compliance costs for the charitable sector, particularly at a time when there was no product available that was designed to meet the specific accounting and reporting obligations of charities. At the time HMRC recognised that many smaller charities would be unable to afford the new software and therefore agreed to accept accounts in either iXBRL or PDF format where the combined income (including gifts and donations) of the charity and its wholly-owned subsidiaries for the accounting period does not exceed £6.5 million. This was originally intended to be a transitional arrangement that would be effective until alternative free reporting software was available from HMRC. Although the existing HMRC free software is only intended for smaller companies with simple tax affairs, a corporate charity might still have been able to use it provided it can report everything that it needs to report using the free software. However, there are certain features that the free software does not cater for, such as group relief claims, which would preclude its use in these circumstances. It is also only viable if items that are virtually unique to charities, such as Gift Aid donations, can be reported. The same issue will arise with software from commercial suppliers.

The content of CT returns

18. In order to file their annual CT return most taxpayers are only required to complete the 11 pages of the CT600 form. Charities also have to complete the 3 page supplementary form CT600E, but in practice they are unlikely to be required to complete any of the other supplementary pages.
19. Where, as will usually be the case, a charity has no CT liability to report the CT600 form will provide little if any useful information, as in most cases the charity will only need to enter '0' in a few boxes (e.g. boxes 235, 300, 315, 475, 510, 525 and 528). A charity that is a member of a group may also need to provide additional information in boxes 625 to 645 and may need to complete boxes 60 and 75 depending on whether the group is large medium or small for transfer pricing purposes
20. It is the information required for the CT600E form that provides HMRC with the data that it needs to review the activities of a charity. The form requires the entry of figures included in the charity's financial accounts, but the data fields do not necessarily correspond to the headings used in the financial statements so the taxpayer has to carry out additional work to generate the appropriate figures to include in the return.
21. The legislation providing for charity reliefs from income or corporation tax requires a charity to submit a claim for the various exemptions from tax and for approval of so-called Type 12 investments by a charity. Type 12 investments most commonly involve an investment in a non-charitable subsidiary, but can apply to any investment in an unquoted company (s511 CTA 2010). Although these can be filed as free-standing claims if the charity is not required to submit a return, these claims are only valid if filed within the statutory time limits. However, in practice HMRC does not insist that charities that have not been requested to file a return must submit these claims. If MTD for CT were to lead to a change in this practice this would involve a substantial increase in the workload of both charities and HMRC.
22. If a charity owns a non-charitable trading subsidiary company the subsidiary company will complete the CT600 form but is unlikely to need to complete any supplementary pages. In this case the information that the subsidiary is required to provide will be substantially the same as that provided by other companies that are engaged in similar activity but are not owned by a charity, except that the subsidiary will not normally report any taxable profits because the prevailing practice in the sector is for the subsidiary to make an annual donation within 9 months of a financial year end to its parent charity that is equal to its taxable profits for the relevant period.