

Public Accounts Committee Inquiry into the Management of Tax Reliefs

Response by the Charity Tax Group

5 June 2020

1. The Charity Tax Group (CTG) has over 700 members of all sizes representing all types of charitable activity. The organisation 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.
2. Charities benefit from important and valuable tax reliefs (estimated at £3.79bn in 2018/19) and it is important that any reforms to them do not have any inadvertent adverse financial impacts on charities. However, charities do still face a cumulative burden of taxation, both in terms of tax payable (particularly irrecoverable VAT and employment taxes) and the administrative burden associated with compliance – both of which are higher than generally perceived by the public. Traditional income sources for the charity sector have come under increased strain. New and improved tax reliefs could help to support charities at a time when their services are more required than ever.
3. The Charity Tax Commission report, like the NAO report, rightly noted the general lack of data available on tax reliefs and the report highlights that CTG's forthcoming research on the socio-economic value of VAT reliefs and the cost of irrecoverable VAT, will be an important contribution to the debate. Its publication has been delayed due to COVID-19 but the results are expected to be shared later this year.
4. It is sometimes assumed that tax reliefs received by charities are simply Government expenditure that could simply be redistributed. There is a strong and long-standing rationale for many tax reliefs and it is important that in reform of the tax system key principles are not undermined e.g. the principle underpinning donor reliefs (including Gift Aid, gifts of assets and payroll giving) is that individuals should not pay tax on income given to support charities. As such, this is not strictly Government expenditure. Charity reliefs from VAT, rates, corporation tax and other taxes create an even playing field with companies (which are able to offset costs against fees and recover their VAT costs) by reducing costs and recognising charities' not-for-profit status. CTG cautions against any attempt to limit reliefs to particular types of charities: not treating charities equally jeopardises the independence of the sector – something to be avoided at all costs.
5. Additionally, a large proportion of activity undertaken by charities either replaces statutory provision or would require Government intervention if it was not available. It would usually cost Government more to provide these services (and there is often neither capacity nor desire to do so). Many charities have taken over, or are willing to take over, the delivery of public services outsourced by governmental bodies, but irrecoverable VAT creates a disincentive to do this. Structural distortions in the VAT system result in a total bill for the sector of at least £1.5bn a year in irrecoverable VAT, so VAT reliefs are very important.
6. By contrast, charities do not benefit directly from corporation tax reductions, which are often used to stimulate the economy and improve competitiveness. This imbalance should be addressed through other tax reliefs, particularly due to the increasing contribution made by the sector to the economy, not least through the delivery of services and R&D.
7. While the focus of the NAO report and this inquiry is on how effective, evaluated and targeted tax reliefs are, which is important, it would be helpful to review the scope and value of taxes actually paid by charities and whether this is appropriate. The truth is that if many of the existing tax reliefs were not in place the cost to the sector and the wider community and economy would be higher as charities would have fewer resources to deliver their vital work, much of which would revert to being the Government's responsibility to provide. A holistic view is therefore needed.
8. For further information or to discuss this response please contact info@charitytaxgroup.org.uk or 02072221265.