**The Law Family Commission on Civil Society: Call for evidence on the potential of civil society**

**Response by the Charity Tax Group – 10 May 2021**

**Who we are**

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).

We estimate on a conservative basis that through our work over the last forty years we have secured tax savings of over £10b for charities.

Given the nature of our mission, our responses focus on the tax landscape facing civil society.

CTG has been pleased to meet representatives of *Pro Bono Economics* to discuss the Commission and would be very happy to provide additional feedback as required.

**Question responses**

1. **What would you most like the Law Family Commission on Civil Society to achieve? From your perspective, can you give us examples/recommendations of what would enable civil society to unleash its full potential?**

We very much endorse the Commission’s aim of unleashing the full power of civil society. To achieve this we believe that a fair fiscal environment for charities is absolutely critical. This will help enable the impact of the sector to be maximised.

Charities face ever-increasing financial pressures, particularly as a result of COVID-19. It is vital, that existing charitable tax and rates reliefs (including those relating to VAT and business rates) be maintained and built upon, and that the wider tax system be simplified and future-proofed. HMRC should ensure that guidance and legislation are updated to reflect technological change (for example on issues including the VAT status of medical equipment and advertising).

We foresee the tax landscape changing significantly as the cost of the pandemic is paid for and we consider it vital that charities are not subject to unintended consequences of tax changes that only think about the private sector.

CTG research commissioned from London Economics has found that charities incur nearly £2bn in irrecoverable VAT each year, money that could be better utilised to support civil society. Tax should not be an obstacle to charities delivering services that the private or public sectors are not suited to provide.

As an example of the positive steps that charities can take to improve their own position, CTG’s [Future of Gift Aid project](https://www.charitytaxgroup.org.uk/tax/donations/future-gift-aid-project/#:~:text=The%20Future%20of%20Gift%20Aid%20is%20a%20cross%2Dsector%20project,for%20UK%20charities%20each%20year.) is taking the lead to make Gift Aid fit for the digital age. We would welcome the Law Family Commission’s support for this initiative, which already has buy-in from HMRC, charities, intermediaries and banks. We believe that it is a powerful example of how change can be brought about by the charity sector through positive thinking and the commitment to work in partnership with others.

We also believe that tax reliefs must remain available to all civil society organisations that have qualified for charity status. They should not be subject to political whim.

Our hope is that the Commission will raise the profile of civil society so that its issues are properly considered by key decision makers in Government. In particular, we encourage the Commission to call for the improvement (as well as the protection) of the support that charities receive through tax reliefs and exemptions. As a bare minimum, existing charity tax reliefs should be protected and tax compliance and administration simplified.

1. **What can you tell us about the different ways in which your organisation or civil society more generally ‘adds value’? Do you think that value is properly understood by the public and by policy makers? If not, why not?**

CTG’s role is to help maximise that ‘added value’. We do not consider that its value is properly understood and for that reason we are keen to sponsor further research in our area of specialism. Part of that problem is that the value of our sector is not easily understood by simplistic or basic economic analysis.

CTG’s members number over 800 individual charities, covering social housing, education, animal welfare, medical research, environmental protection, and more. CTG also has 52 Observer Members: professional organisations spanning accounting, taxation, and law who support the work of CTG. CTG’s work helps all charities, not just its members, by protecting them from increased taxation and associated administrative costs. CTG estimates that it has helped save the charity sector billions of pounds as a result of the tax reliefs it has secured.

There is a misconception that charities do not pay tax and a misunderstanding of the importance/background to charity tax reliefs. The cost for the public or private sector to replace charity provision would, in most cases, be significant and as a result impractical. Charities do benefit from tax reliefs but do still face a cumulative burden of taxation, both in terms of tax payable (particularly irrecoverable VAT and employment taxes) and the administrative burden of tax compliance.

Unfortunately, the charity sector is too often simply reactive rather than setting the agenda with fresh inspirational thinking. Charities need to be confident in their impact and present a strong, pragmatic and well-reasoned case to Government for support. Simply requesting funding or tax reliefs because we are charities acting for the public benefit is unlikely to be sufficient. A strong business case is required. For example, recent CTG research has demonstrated that the total tax contribution made by charities amounts to £10.12bn a year, making it a significant contributor to the Exchequer. But we want to go further than this. We are exploring the possibility of research, building on what we have done so far, to evaluate the socioeconomic benefits of charity tax reliefs. It is often very difficult to find funding for this work as funders tend to be much more keen to support front line services. The Law Family Commission’s endorsement of this aim would be very valuable.

CTG’s research carried out by London Economics on the value of VAT and other tax reliefs highlighted their importance to the sector. We know that these reliefs enable charities to deliver vital public services, but we need improved data to underpin these assumptions.

1. **What is your experience of the interaction between government (at all levels – national and local) and civil society? Can you tell us of particularly good or bad examples which the Commission should reflect on? What are the conditions that most help or hinder a collaborative relationship between civil society and government?**

CTG promotes a united voice on tax issues wherever possible. There is only a finite amount of funding available from Government and therefore wide-ranging discussions will be needed to decide how best to support the sector – ie through grant funding/tax reliefs etc.

CTG is fortunate to have a positive, constructive and robust working relationship at all levels within HMRC. However, many civil servants are often restricted to a narrow interpretation of the law and have limited incentive to help promote long-term legislative change. More interest in charities is needed from Treasury Ministers. There has been a lack of recent engagement with the sector, as the 2021 Budget demonstrated a low point for charities in terms of sector-specific focus. Additionally, DCMS and the Minister for Civil Society appear to lack influence with the Treasury, as demonstrated throughout our work with them during the pandemic. A bolstered Government representative/liaison point for charities is much needed. We hope that the work of the Commission will help raise the profile of what many feel is the “forgotten” sector.

Recent Government opposition to “lobbying” by charities in receipt of public funding also risks stifling debate and engagement in a pluralistic society.

Despite this, we continue to play our part as best we can in constructive engagement with Government as is illustrated by the Future of Gift Aid project referred to earlier in this response. This has involved working very closely with HMRC’s innovation team. This has also led to very constructive dialogue with the Office of Tax Simplification.

1. **What role can, or should, civil society play in delivering the government’s ambition to ‘level up’ the country? What investment or support does civil society need to do this effectively?**

Charities are able to play a huge role in the levelling up agenda. Much of the work already being done to support social equality and improvement is conducted by charities. Where charities are best placed to provide support services, the tax system should not be an obstacle to this. For example, at present contracted out services can incur irrecoverable VAT for charities whereas private and public sector equivalents are able to recover VAT.

To achieve its levelling up ambitions, the Government could consider using tax incentives to maximise and leverage charitable donations.

1. **What is your experience of the interaction between businesses and civil society? Can you tell us of particularly good or bad examples which the Commission should reflect on? What are the conditions that most help or hinder a collaborative relationship between civil society and the private sector?**

Our involvement with the Future of Gift Aid project has led to widespread discussions with major financial institutions including many of the major clearing banks. These have shown a great willingness to engage with us where there is shared common interest.

The tax system can make it difficult to work with some sectors when, for example, there are adverse tax consequences when a corporate partner receives recognition from a charity for its support.

In the medical research field, for example, there can be strong disincentives for industry and charity to work together. This is seen by the tax rules surrounding the use of new buildings used by a charity. This can be especially frustrating in view of the long-term value to the UK economy of research carried out by the sector.

1. **How can civil society make most effective use of volunteers’ time and what support is needed to do so? If you currently work with volunteers, will how you work with volunteers change over the 2020s?**

We are a volunteer-led organisation.

Volunteers are vital to many charities and the charitable sector could not survive without them. We encourage a thorough review of the way in which the tax system recognises volunteering. For example, allowing the Apprenticeship Levy to cover the training of volunteers would be a progressive step as volunteers are often returning to the workplace. Investing in their future is not just of benefit to their charity.

Charities are generally run by volunteer trustees. This can be a demanding role and consideration needs to be given as to how effective this model is in ensuring the best minds are attracted to the sector. Neither does this model create the best opportunity for diversity in the profile of trustees. Any new model in this area should take regard of any potential tax consequences.

1. **If you are a civil society organisation, what are the main constraints on your ‘productivity’ currently? If funding wasn’t an issue, what would you invest in to help you maximise your impact?**

CTG is a not-for-profit organisation which provides significant value to the sector despite its very limited resources. It can be difficult to get contributions from charities when all charities benefit from our work, whether they are members or not.

Additional resources would allow us to better educate our members through more online information content and the providing of training. We are sure that this would reduce the tax burden that many charities face and which could be avoided and which would provide a very high return on the investment made. It would also enable us to increase our reach in the charity sector.

We would also use funds to increase the evidence base for our work, for example, by funding the work that we wish to carry out on the socio-economic value of charity tax reliefs. Other sources of funding could enable us to much more easily challenge HMRC rulings that are not helpful to charities.

1. **Can you point us towards data, research or insights from past work or other countries that will help us better understand the scale of the challenges facing civil society or develop potential solutions?**

Recent [CTG research](https://www.charitytaxgroup.org.uk/press-release/new-research-shows-charities-lose-nearly-2bn-year/) commissioned from London Economics demonstrated the cost of irrecoverable VAT to charities as well as the value of VAT reliefs. It also quantified the overall impact of tax on charities. CTG has also proposed a reduced input VAT rate for charity purchases, and a temporary increase in the value of Gift Aid to help charities recover from the COVID-19 pandemic.

1. **Do you have any other comments or insights you would like to share?**

CTG would direct the Commission to the submission it made to the Treasury Committee inquiry on the future of taxation after COVID-19. The [response](https://www.charitytaxgroup.org.uk/news-post/2020/treasury-committee-launches-tax-coronavirus-inquiry/) outlines a number of core principles that should underpin any reform of taxation going forward.

As highlighted above, business rates relief for charities is very valuable to the charity sector. The Government is currently undertaking a fundamental review of business rates in England and protection of mandatory rates relief for the sector will be a vital outcome for a sustainable and effective civil society. CTG’s response to the consultation can be found [here](https://www.charitytaxgroup.org.uk/consultation/fundamental-review-business-rates-call-evidence-england/).

CTG’s response to the 2018 Charity Tax Commission can be read [here](https://www.charitytaxgroup.org.uk/consultation/charity-tax-commission-call-evidence/). The Commissions role was to undertake a full review of the tax system on charities.

**Charity Tax Group**

**May 2021**