CHARITY TAX COMMISSION - CALL FOR EVIDENCE

About the Charity Tax Commission

In October 2017, NCVO established an independent Charity Tax Commission to undertake a full review of the impact of the tax system on charities. The commission is chaired by Sir Nicholas Montagu, a former chair of the Inland Revenue, working alongside a board of six commissioners with extensive charity, economic and fiscal policy expertise. NCVO is providing secretariat support for the commission. Read more on the Charity Tax Commission website.

Rationale for a review of charitable tax reliefs

Tax reliefs for charities are estimated to be worth £3.77bn a year, the main ones being business rates relief, Gift Aid and VAT relief, while reliefs for individuals are worth £1.47bn. The last comprehensive review of charity taxation and reliefs took place over 20 years ago. Since then, the voluntary sector and the environment in which it operates have changed significantly. The sector has grown in scale and charities now do far more, including playing a bigger role in the delivery of public services. Britain's departure from the EU also presents potential opportunities to review a number of issues related to the tax treatment of charities. Against this backdrop and ongoing pressures on local authority spending and other funding streams for the voluntary sector, we believe it is a good time to do an in-depth assessment of how the tax system functions in relation to charities and what – if any – changes could help position them better to fulfil their long term strategic role in society.

About this call for evidence

This call for evidence seeks views and evidence from anyone with relevant knowledge, expertise or experience of the system of charitable tax reliefs in the UK, including charities, donors, academics, think tanks, representative bodies, accountants, philanthropy and financial advisers, tax professionals and members of the public.

In particular, we are keen to receive thoughts about the effectiveness of current reliefs, which are summarised below, and whether the existing system could be improved in order for charities to better serve their beneficiaries. We welcome all ideas about how the tax system can help to create an operating environment in which charities can maximise the public benefit they generate. Respondents should in their comments reflect the commission's determination to make practical, evidence-based recommendations focussed on increasing the efficiency and effectiveness of the current tax system. To help get a sense of priorities, we would like you to demonstrate how ideas for reform keep within the current fiscal settlement by indicating what other areas of charity tax relief or spending might be deprioritised in order to provide expenditure in other areas. The secretariat will be arranging meetings with stakeholders during the call for evidence period and will also host open sessions for interested parties in different parts of the UK. Further details will be published on the Charity Tax Commission website in due course.

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Call for evidence

The subheadings below indicate the specific areas of taxation on which thoughts would be particularly welcome, but feel free to include other relevant comments at the end. Please use the headings provided and keep your responses concise as possible: we want to keep replies to a reasonable length, and we will follow up orally for evidence that needs amplification. Where possible, provide data and/or examples to support your answers. Information that supports analysis or validates conclusions (especially lengthy information), should be included in an appendix to your main submission.

When responding, the commission would be particularly interested in receiving views on how far the current system of charity taxation succeeds in benefiting beneficiaries and what, if anything, needs to change to create maximum public benefit. We are also keen to receive views on whether the current system directs the activities of charities and encourages certain behaviour.

The purpose of charity taxation

Please use this section to provide general thoughts on the principles that should underpin the tax treatment of charities. For example, to what extent should tax reliefs be used to support charities to provide public services, to promote certain values such as voluntarism, or to encourage donations. Or do fiscal privileges amount to a grant of public money without democratic control and represent an inappropriate forgoing of tax by the exchequer?

This submission from Cobseo, the Confederation of Service Charities, is presented to the Charity Tax Commission on behalf of the members of the Confederation. Cobseo welcomes the review by the Commission into the tax burden and related issues that have developed in the more than twenty years since the last similar review.

Cobseo and its members are not advocating radical reform to the tax regime. Instead, we wish to highlight particular anomalies and pressures noted by our members that require charities to direct resources or funds or both away from serving their beneficiaries.

Comments on individual tax reliefs

Please use the headings below to comment on the effectiveness and efficiency of individual tax reliefs and provide suggestions for reform.

Value Added Tax (VAT)

While there is no general VAT relief for charities, a number of special reliefs, exemptions, zero ratings and concessions exist which cover many supplies to and made by charities. The current regime treats charities differently depending on the types of service they provide and whether or not they charge for their services. Those that do not charge are treated as the final consumer even when they are not. As a result, they are unable to recover VAT on purchases (input VAT) made to support their activities. Most of the charities that charge for their services are unable to recover input VAT because their services are exempt (estimated to cost £1.5bn a year). VAT relief was worth approximately £400m to charities in 2016-17.

Member charities have asked if the Commission could review the policy underlying the limitations on items where VAT is not recoverable from HMRC. Traditionally and increasingly, service charities are undertaking a wide range of social, health and welfare related support to veterans and service families. The increase in the volume and breadth of work has been created partly by the reduction in provision of similar services by local and public authorities because of reductions in public funding over a number of years. Consequently, service charities are now undertaking services that in the past would typically have been undertaken by local authorities or other public services. Given this is the new reality, members of Cobseo have asked if the Commission could consider extending the full breadth of VAT exemptions enjoyed by local authorities to the charity sector. One member charity has said it would retain an additional £400 000 per year to direct to beneficiaries if it could recover VAT on the same basis as local authorities.

Over the years, the VAT reliefs have developed into a complex system, one which is not always easy for charities to navigate. We note that the Treasury Committee has recently published evidence in relation to its VAT inquiry from, amongst others, the CTG (Charities Tax Group) and LITRG (Low Incomes Taxes Reform Group). The comments made by those bodies, which we would substantially endorse, point out that the VAT reliefs do not always work in a logical and coherent manner.

As with all VAT reliefs, there are boundaries between what qualifies and what does not. It is considered essential that these boundaries are set out extremely clearly, in a way that enables charities to apply them without the need for frequent professional advice. An example of a relief that is currently causing difficulties is the supply of advertising to charities.

Not all VAT reliefs have kept pace with developments in society and technology. For example, a zero rate continues to apply to talking books for the blind provided on magnetic tape but not other media. It would be welcome if such reliefs could be brought up-to-date.

More generally, charities have to cope with significant complexity in relation to their VAT affairs compared to most businesses of an equivalent size. For example, it can be difficult to ensure that charities are recovering the correct proportion of VAT on their costs through a partial exemption method. The report from the Office of Tax

Simplification (OTS) in November 2017 mentions some of the difficulties experienced by businesses in agreeing appropriate methods with HMRC. This is true too for charities. Furthermore, even comparatively routine measures such as VAT grouping, which can alleviate VAT costs for associated businesses, are not always available to charities. The Confederation would therefore support the OTS' efforts to simplify the way in which charities can manage their VAT affairs.

Gift Aid

Gift Aid allows charities to claim tax relief – 25p in the pound – on gifts and donations made by UK taxpayers. If the donor is a 40 per cent taxpayer, further tax relief of 20 per cent (the difference between the current higher rate of income tax of 40 per cent and the current basic rate of tax of 20 per cent) can be claimed by the donor themselves (not by the charity). Gift Aid was worth approximately £1.28bn to charities in 2016-17. Higher Rate Relief was worth approximately £520m to individuals.

Our smaller member charities tend to be more reliant on local fundraising and grants to maintain their work. Gift aid relief is an important means to increase their modest income. We believe there is a widespread but mistaken belief that when a higher rate tax payer signs a gift aid declaration they have assumed the full tax relief is passed to the charity, not just the basic rate of 20%. We believe there would be little disagreement from individual donors or the public in general to change the arrangements to permit charities to receive the full higher rate tax relief.

Gift Aid Small Donations Scheme

The Gift Aid Small Donations Scheme (GASDS) allows charities to claim a gift aid-style top-up on small donations, in situations where it wouldn't be feasible to collect Gift Aid declarations, for example where a collection tin or bucket is used. Charities can claim up to £2,000 a year under the scheme (on cash donations of up to £8,000). GASDS was worth approximately £29m to charities in 2016-17.

The gift aid small donation scheme is helpful to charities when undertaking bucket or drop box collections. Cash donations over a year in some member charities often exceed the £8000 limit for this 'small' donations' relief. It would be helpful if this limit could be raised immediately to a more generous £15000 and revised annually in line with inflation.

Business rates relief

Business rates are a tax on occupancy, which any charity that owns or rents a property is liable to pay. Charities receive a mandatory relief of 80% of their business rates bill. Local authorities are able to grant discretionary relief on the remaining 20% that charities have to pay, although on average they only receive a further 2.5% relief. Business rates relief was worth approximately £1.87bn to charities in 2016-17.

Most member charities have established offices, often located within buildings owned by another entity, and in some cases, have trading arms to operate shops, facilities and supporting professional services. To limit the liability incumbent upon Trustees, a rising number of service charities are becoming incorporated as non-for-profit

companies. The treatment of business rate relief by local authorities has been reported by members as being inconsistent and a preferred position would be to provide full relief to all charitable activities, however delivered, since ultimately the work of a charity is for the benefit of its beneficiaries.

Capital Gains Tax

Charities sometimes hold assets such as land, property or investments which when sold may be subject to Capital Gains Tax on any profit made. Charities are exempt from Capital Gains Tax if the gain accrued is both applicable and applied for charitable purposes, including the use of funds for the general administration of the charity.

Some members of Cobseo are grant-giving charities. They have access to funds accumulated over time through payroll giving, donations and bequests. These funds are invested and the returns achieved are put towards the grants they dispense to others each year. Members have asked if the levying of capital gains on these investments, where the investment income is used for additional grant-making, could be exempted. The current position on this matter is unclear.

Inheritance Tax

Leaving a part or an entire estate to a charity can reduce or eliminate an Inheritance Tax liability as it will not count towards the total taxable value of an estate. An Inheritance Tax liability can also be reduced from 40% to 36%, if 10% of a 'net estate' is left to a charity in a will. Inheritance Tax relief totalled approximately £840m for individuals in 2016-17.

Donations to member charities through a will after someone's death is a source of funding members would wish to encourage. Veterans, in particular, often have a life-long bond with a former regiment, squadron or ship's company. It is commonplace for a bequest to be included in their will to a service charity. The current arrangements where inheritance tax liability is reduced from 40 to 36% if 10% of a net estate is left to a charity, whilst welcome, it is not a large enough discount to have an enhanced effect to encourage more people to make a bequest to a service charity.

Insurance Premium Tax

Insurance Premium Tax (IPT) is a tax on general insurance premiums. There are two rates: a standard rate of 10 per cent and a higher rate of 20 per cent for travel insurance and some insurance for vehicles and domestic/ electrical appliances. Charities are liable for Insurance Premium Tax, although lifeboats and lifeboat equipment, and block insurance policies held by Motability which covers disabled drivers who lease their cars through the scheme are exempt (the exemption does not cover disabled drivers generally).

Nil response

Climate Change Levy

The Climate Change Levy (CCL) is a tax on energy delivered to non-domestic users in the UK which aims to incentivise energy efficiency and reduce carbon emissions. Charities are exempt from the Climate Change Levy for premises where at least 60% of activities carried out are classified as non-business.

Nil response

Social Investment Tax Relief

Individuals that invest in charities can receive a reduction in their tax bill to provide an extra incentive to socially invest. Social Investment Tax Relief works by reducing the income tax bill of an investor by 30% on shares they buy in Community Interest Companies (CICs) or loans that they provide to charities, CICs or community benefit societies.

Nil response

Stamp Duty Land Tax

Charities can get relief from Stamp Duty Land Tax (SDLT) when they buy land and property for charitable purposes. A charity can claim some relief when they buy land and property jointly with a non-charity buyer with the charity claiming relief on its share of the property. Based on the latest provisional data, SDLT Charities Relief was worth approximately £220m to charities in 2016-17.

Nil response

Lottery Duty

Lottery Duty is a 12 per cent duty on tickets in a lottery promoted in the UK. Exemptions from Lottery Duty include non-commercial lotteries, commonly held at charity fund raising events, and small society lotteries promoted wholly on behalf of a society established for charitable purposes.

Nil response

Community Infrastructure Levy

Community Infrastructure Levy (CIL) is a tax levied by a local authority on the carrying out of a qualifying development in England and Wales, charged at £X per square metre on the increase in gross internal area. Charitable relief is mandatory where a charity owns a material interest if the development is to be used wholly or mainly for charitable purposes.

Nil response

Cross-border giving

UK charitable tax reliefs are extended to certain organisations in the EU, Norway, Iceland and Liechtenstein that are equivalent to UK charities. To qualify, an organisation must meet the definition of a charity in England and Wales and must be established for charitable purposes as set out in the Charities Act 2011. They must also be registered with any charity regulator in their home country.

Nil response

Other areas of taxation for comment

In addition to the areas of relief outlined above, respondents are invited to provide their views on other areas of taxation, including, but not limited to, corporation tax, income tax, payroll giving, employment tax, anti-avoidance legislation, import duties, the Apprenticeship Levy and Annual Tax on Enveloped Dwellings. Please provide a subheading for each issue being addressed.

Nil response

Transparency

The UK regime of tax reliefs can seem out of step with the general trend towards greater transparency in other countries. For example, in the USA and Canada, the government publishes data about the extent and nature of charity tax reliefs. To what extent is the public benefit from UK tax reliefs plainly visible? How can the UK system be made more transparent without increasing burdens on charities?

Nil response

Other comments

Please use this section to provide any further comments which you would like to raise which might be of interest to the commission, including, but not limited to, potential future pressures on tax relief and issues relating to digital and technological change.

<u>Recovering additional costs levied by regulators</u>

Member charities are very concerned about the increasing trend amongst regulators to levy charges for regulation upon charities. The Fundraising Regulator is one example and there is currently a proposal from the Charity Commission to begin charging too. In addition, the increasing demands from regulators for information and record-keeping has had the effect of increasing administrative costs. This has a disproportionate impact upon the smaller charities. Members regard the charging of charities by regulators to be regulated as a stealth tax that reduces the funding available for their beneficiaries. It also appears to be a punitive measure relative to the cost of regulation for businesses outside of the charity sector.

With regard to the additional, unavoidable costs of their administration to service the requirements of regulators, member charities have asked if this could offset in some way be introducing a relief on, for example, their employment tax liability, insurance premium tax liability or requirement to pay the Apprenticeship Levy.

Submitting evidence to the Charity Tax Commission

Please submit your completed forms to info@charitytaxcommission.org.uk. Please include your name, or where applicable, your organisation name in the subject line.

Please submit your evidence by 17.00, Friday 6 July 2018. Unless respondents indicate to the contrary, it will be assumed that they have no objection to their response being made public. If you have any questions about the Charity Tax Commission or this document, please contact paul.winyard@ncvo.org.uk