

# 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.

## Personal details

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*I am writing on behalf of Society of London Theatre (“SOLT”) and UK Theatre Association (“UK Theatre”) in response to this consultation.*

*SOLT and UK Theatre are the trade associations and members’ organisations representing the interests of those engaged in the production and presentation of medium to large-scale dramatic and lyric theatre in the UK. Both memberships are drawn from subsidised and commercial theatre. A significant proportion of organisations represented in membership are charities.*

*The combined box office income of SOLT and UK Theatre’s memberships was more than £1 billion across London and the rest of the UK, with 34 million tickets sold, in 2016.*

*SOLT represents approximately 220 London-based producers, theatre owners and managers including all the major subsidised theatrical organisations in London. UK Theatre represents approximately 230 theatres, concert halls, dance companies, producers and arts centres throughout the UK.*

*I asked our members to let us know their responses to this consultation and, unless otherwise specified, the responses set out below represent the view of the majority of those members who informed us of their comments.*

*Thank you for giving us the opportunity to comment. If you require any further information please do not hesitate to contact me. I should be grateful if you would keep us informed of any developments.*

## Call for evidence

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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?

*The majority of our members who responded felt that the key purposes of charitable tax relief were (i) to support charities to provide public services and (ii) to encourage donations.*

*With regard to (ii), tax incentives, although not the primary driver of philanthropic donations, can influence the extent and manner of donations – an increasingly important source of income for arts and cultural organisations, required to diversify their income in order to become more resilient.*

## 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.

*The majority of our members felt that VAT relief for charities was very important to their charity. One member felt that they benefit overall from cultural exemption in terms of VAT to about £80,000 a year and another said that it had had a sizeable positive impact.*

*Some members felt that although the VAT relief, exemptions, zero ratings and concessions were complicated to understand at first, once they had been understood, they became easier and therefore more efficient to use.*

*In terms of suggestions for reform, the following comments were made by our members:*

- *regarding the VAT cultural exemption, venues should be able to recover a greater proportion of VAT charged to them by producers by allowing wider revenue streams linked to the venue's activities to be included in the partial exemption calculation. There should be no need to apply the Standard Method Override;*
- *the current system is not a full exemption, in that those using the cultural exemption cannot recover any VAT on exempt supplies, and so this should be reviewed; and*
- *a change to enable recoverable VAT would be more of a benefit to charities.*

## **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.

*Gift Aid is a valuable benefit to charities, providing a tax-based incentive for donors and encouraging increased philanthropy.*

*The majority of our members felt that Gift Aid was another significant relief for their charity. One member felt that there is a direct financial impact on the organisation from Gift Aid donations of over £50,000 a year.*

*Some members felt it was efficient – with one member responding that the online submissions were easy and efficient and another saying that when direct submission from EPOS systems works it is very efficient.*

*In terms of suggestions for reform our views and those of our members are as follows:*

- *as we have previously responded to recent Government consultations on Gift Aid, we would strongly support an extension to the admissions disregard to enable the performing arts sector to claim Gift Aid on ticket sales as for museums on admissions. This would generate significant extra income and help enormously in an environment of reduced local authority and lottery funding. This would encourage philanthropy and provide much needed support to the performing arts sector;*
- *simplifying the system for higher rate tax payers and giving them the option of donating their remaining tax relief to the charity, further boosting the value of their donations. Higher rate tax reclaim is underused by donors, due to a combination of lack of awareness and perceived complexity. Arts and cultural organisations appeal to a very broad range of individuals, including higher rate tax payers, and simplification would lead to increased tax relief reaching the sector;*

- *reviewing corporate Gift Aid, particularly giving consideration to allowing charities to claim Gift Aid on corporate donations;*
- *launching a wide public promotional campaign illustrating the additional value to charities of donating with Gift Aid and improving public awareness of arts and cultural organisations as charities;*
- *providing clear guidance on the interaction of Gift Aid with VAT; and*
- *Gift Aid via donated goods to Charity Shops must be made much simpler to administer. They felt that the Gift Aid regime is far too complex and the administrative burden is too much for small charities with limited volunteers. They felt it was also worth noting that volunteers are often elderly and not computer literate.*

### **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 majority of our members who responded felt that GASDS was important and that it was an efficient and effective scheme.*

*We would, however, suggest the following reforms:*

- *enabling any charity registered for Gift Aid to claim through the scheme as well as removing the matching requirement for donations; and*
- *allowing charities to claim on non-cash donations.*

### **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.

*The majority of our members felt that business rates relief was very important to them and that having an 80% to 100% exemption is of huge benefit to a charity.*

*Many of our members are granted the 20% discretionary relief by local councils. However, there is considerable concern that, as local councils move towards retaining a greater proportion of business rates to fund local services, they may withdraw this discretionary relief. This would augment the burden*

*on already squeezed local theatres, and increase the possibility of undermining the clear benefits that they bring to local economies and communities, and in turn to business rates income.*

*In terms of efficiency it was felt that business rates relief was not always efficient to access, in that negotiations with local authorities for discretionary business rates relief stall because the process to get rateable values reviewed is onerous and local authorities request that this is done as a condition of awarding relief.*

*The majority of our members felt that this was an effective relief.*

## **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.

*The majority of our members felt that Capital Gains Tax exemption was not applicable to them.*

## **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.

*Few of our members felt that Inheritance Tax relief was important for their charity, although those who had relied on it felt that it was efficient.*

## **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).

*This was not applicable to our members.*

## 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.

*The majority of our members felt that this relief was quite important to them and those who had used this relief found it to be efficient and effective.*

## 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.

*This was not applicable to the majority of our members although the one member for whom it was applicable found it to be a very important relief.*

## 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.

*SDLT was not applicable to the majority of our members.*

## 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.

*This was not applicable to the majority of our members. However, those to whom it was applicable found it to be efficient and effective.*

## 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.

*For those members to whom this was applicable, it was felt that CIL is far too restrictive and complicated. They felt that the old S106 system was far better.*

## 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.

*This was not applicable to our members.*

## 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.**

### PAYE/NIC

*One member commented that taxes related to employment are overly complicated, and that PAYE and NIC should be amalgamated.*

### THEATRE PRODUCTION TAX RELIEF

*Our members support the Theatre Production Tax Relief scheme and they feel that it has had a direct impact on improving the ability to develop productions and that it has enabled the industry to be more creative and offer more opportunities.*

## 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?

*Our members feel that it is not visible but they would question the value to the public of knowing this information.*

*One member felt that the public will be aware that charities receive some tax relief but not the complexities of relief available. However, charities do a great deal of reporting and it would be onerous to add to this burden for the charity.*

*Another member felt that simplified terminology and use of examples in documentation would be helpful generally when trying to access charity tax relief.*

## 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.

*One member felt that charity tax relief generally is complex and that it is difficult to get advice/guidance from HMRC.*

## Submitting evidence to the Charity Tax Commission

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Please submit your completed forms to [info@charitytaxcommission.org.uk](mailto: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](mailto:paul.winyard@ncvo.org.uk)