Charity Tax Commission call for evidence: Review of Charitable Tax Reliefs

General Features

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The CIOT has responded to the Charity Tax Commission's call for evidence for a review of charity taxation and tax reliefs. In our response we focused on our objectives for the tax system, highlighting the complexity of many reliefs, their inconsistent application, and how they have not kept up with changes in how public services are delivered.

The Charity Tax Commission was established in October 2017 to undertake a full review of the impact of the tax system on charities. It recently launched its call for evidence and we submitted our response on 4 July. Thank you to those who contributed to our submission. Whilst the call for evidence was wide ranging, we concentrated our comments on VAT and Gift Aid, whilst also making brief remarks on selected other areas.

As an educational charity, our primary purpose is to promote education in taxation. One of the key aims of the CIOT is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our stated objectives for the tax system, include (amongst other things):

- A legislative process which translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan ahead with confidence.

Whilst the CIOT benefits from some charity tax reliefs, our submission reflected our charitable aims and objectives for the tax system, rather than seeking in isolation to encourage, extend, or otherwise promote charity tax reliefs.

We support the Charity Tax Commission's effort in collecting information on existing charity tax reliefs. Thorough evidence gathering is vital before informed recommendations can be made regarding the future of charity tax reliefs.

Whilst the core elements of many tax reliefs work relatively well, most still contain areas of significant complexity or require detailed steps to make a valid claim. These cause complications both for charities and their donors. Whilst larger charities may have the resources to implement systems to deal with these complexities, and the funds to seek professional advice, this is not the case for many smaller charities. The severe complexities may render only a select group of charities actually capable of properly navigating these rules, potentially frustrating the policy intent behind the relief. We believe this issue requires substantial investigation and resolution.

There are many instances where the tax system and charity tax reliefs have not 'moved with the times', and therefore warrant further review, such as:

- developments in how public services are delivered, being increasingly outsourced to charities and similar bodies; and
- developments in modern technology, for instance the VAT relief for advertising through the use of the internet and social media;
- numerous values and thresholds within legislation which have remained constant for many years, hence eroding their 'real' value, such as the £50,000 limit on charity trading.

The actual cost of many charity tax reliefs is not known and indeed some cannot be estimated with sufficient accuracy to be published by the government. This makes it difficult to determine whether those reliefs represent 'value for money', and whether they are being used in the way intended. This is symptomatic of many tax reliefs. We recognise there is tension around replacing tax reliefs with public spending, though the latter would ensure that financial support for charities could be accurately targeted and the cost reliably calculated. We encouraged further research in this area, both around whether this tension is justified, and how the cost and use of charity tax reliefs can be more accurately determined.

In addition to some of the complexities and anomalies caused by the tax reliefs themselves, there is a lack of clarity over what a charity is (both generally and for tax purposes). This can cause confusion both for donors and the organisations themselves. There needs to be greater education and guidance so that donors can make informed decisions regarding their charitable giving, and organisations are clear on their status and its consequences.

Most of these complexities and anomalies are ‘home grown’ and can benefit from immediate attention. However there are certain matters that are tied to EU Law. Therefore, when the UK leaves the EU, and depending upon the terms of its exit, scope may exist to address these other areas of charity taxation (particularly in the field of VAT and its zero rates and exemptions), which might currently be constrained by our membership of the EU. Regardless, we would still recommend a more thorough review once the UK’s responsibilities are clearer post EU exit. Specifically in relation to VAT, we endorsed the comments made by the Office of Tax Simplification (OTS) in its recent VAT simplification review.

Our full submission can be viewed on the CIOT website.