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 focused 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

Name of respondent: Angeliki Yiangou
Organisation: Cancer Research UK
Email: Angeliki.yiangou@cancer.org.uk
Phone: 0203 469 6122

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?

Enter text here:

Cancer Research UK (CRUK) is the largest fundraising organisation in the UK. As a charity, we receive no funding from the Government for our research and our ground-breaking work is therefore only possible because of the generosity of the public. In 2016/17 we spent £432 million on research in institutes, hospitals and universities across the UK, funding over 4,000 researchers, clinicians and nurses. In 2016/17 alone, over 40,000 volunteers gave over four million hours of their time. Our ambition is to accelerate progress to see three in four patients survive cancer by 2034.

The charity sector is made up of a wide range of organisations which vary greatly in size and cause – but all work for public benefit. For the sector to thrive, government must provide a favourable fiscal environment, including appropriate tax relief for charities. We highly value the current reliefs that are
available to us and welcome this review of charity tax, with its intention to help charities better fulfil our purposes.

We believe that the current system of tax reliefs provides the foundations to enable charitable funds and donations to have the biggest impact possible. For example, Gift Aid simply allows charities to receive donations made from supporters’ gross income rather than their net income – rather than being a specific “hand out”. A consistent charitable tax relief system is especially valuable in times of economic uncertainty and volatile fundraising environments as it provides a level of stability for charitable income.

A consistent charitable tax relief system is also valued given the context of a growing financial burden placed on charities to comply with important regulation and governance requirements. Charities – unlike businesses – cannot pass increased running costs attributed to various policies onto consumers. On the contrary, regulatory requirements mean that less money is available to spend on meeting charitable objectives; this is also a matter of public interest, with significant attention placed on calculations of the proportion of income, such as “pence in the pound”, spent on charitable activities. There is therefore a strong argument that government policy should help compensate for these pressures and promote charity innovation.

We understand there has been discussion about the indiscriminate tax system for charities and that some view the current charity tax regime as problematic because it does not differentiate between different types of charities. We do not agree, and fear that a process that distinguishes between charities could lead to charitable income being tied to government priorities. Those with charitable activities that do not align with the priorities of the government of the day would therefore be at a disadvantage. This would undermine the ability of charities to campaign freely to further their charitable purposes, and could have significant operational implications – for example on future financial planning. If there is concern over the number and function of charities, it would better to re-evaluate what constitutes a charity and how public benefit is determined in the first place rather than to use the tax system to discriminate between charities.

**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.

*Enter text here:*
Despite the welcome reliefs listed above, charities continue to pay considerable sums in terms of VAT that they cannot recover from the Government. We therefore believe there is still need for strategic review of the VAT system to remove distortions faced by charities.

In the longer term we would like to see a VAT refund scheme for charities and are pleased to see that some progress has been made in this direction over recent years. This should be reconsidered following the UK’s departure from the EU, with assessment of the potential for reform dependent on the nature of the UK and the EU’s future relationship.

**VAT on shared facilities**

We are pleased with the government commitment for UK R&D spend to reach 2.4% of GDP by 2027. To help achieve this, government must incentivise medical research partnerships between charity and industry to stimulate investment. These partnerships can be encouraged by providing relief in the form of R&D tax credits (please see additional comments) and amending VAT rules for research facilities that are shared between charity and industry-funded researchers.

**Case Study: The Francis Crick Institute**

The Francis Crick Institute is a world-leading biomedical research centre in central London. The partnership forged to develop the Francis Crick Institute includes Cancer Research UK, the Wellcome Trust, the Medical Research Council, University College London, King’s College London, and Imperial College London.

The organisations in the consortium have invested a total of around £650 million to establish the Institute. It employs 1,500 staff, including 1,250 scientists, and has an operating budget of over £130 million per year.

The core of world leading researchers and cutting-edge technologies within the Francis Crick Institute are a magnet for the brightest and best scientists from around the world. In addition, through its founding partners, the Institute has built upon existing strong relationships with research centres across the globe, laying solid foundations for international collaboration.

The Francis Crick Institute did not pay VAT on the development of its building and will have to be extremely careful to ensure that income does not exceed a set percentage of turnover for the next ten years. This places restrictions on what it can do in the translation realm. Since translating discoveries into innovative treatments is one of its five strategic missions, this is a real barrier, and potentially a lost opportunity for the UK.

The extent to which charities and universities can currently collaborate with industry on medical research is limited by VAT rules on sharing of facilities, equipment and buildings. Publicly-funded research institutes can only benefit from VAT relief if their commercial activity represents 5% of their total. Co-locating researchers with industry colleagues can therefore have significant tax costs.

This can be detrimental to progress: collaboration between industry and publicly funded researchers is crucial to research input – and the inability to co-locate and share resources is a major barrier. Government should therefore review current rules on VAT exemption on shared buildings, equipment and facilities for the purposes of R&D, to support collaborations and attract inward investment.
Making Tax Digital

Making Tax Digital will be introduced for the submission of VAT returns from April 2019. This is not a charity only issue, but charities will be greatly affected by it. We are in favour of the concept but remain deeply concerned about the timetable especially with the development of the required software (which will have to be purchased). We would also welcome improved support for charities subject to Making Tax Digital reporting requirements; improved guidance and resources; and a commitment to ensure that VAT legislation maintains pace with technological and fundraising developments.

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 highly valued form of tax relief on giving to charities. As it is income forgone for public benefit, it is not subject to tax and provides a reliable stream of income for charities that do not receive funding directly from Government, such as CRUK. It is reassuring that Government is taking steps to encourage people to claim Gift Aid on their donations. Recent research by HMRC shows a third of eligible donations did not add Gift Aid, meaning that charities are losing out on nearly £600 million a year collectively

CRUK is a significant claimer of Gift Aid, claiming £32.8 million in the year to 31st March 2018 – almost equivalent to our annual spend on breast cancer research. Gift Aid is therefore a crucial funding stream that must be protected if we are to achieve our ambition of reaching three out of four patients surviving their cancer by 2034. As we move further into the digital age and continue to include technological advances in the way we receive donations, it is important that Gift Aid remains fit for purpose. For example, it is welcome that contactless donations are now eligible for the Gift Aid Small Donations Scheme.

CRUK considers that overall Gift Aid works well. We would be extremely concerned if it were subject to major reform without meaningful engagement with the sector and very careful consideration of the impact of any proposed change.

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 would not 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.
This measure does not impact greatly on CRUK.

**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.

*Enter text here:*

Business rates relief for charities supports fundraising shops on the high street and helps charities to reach their objectives by reducing operating costs. For CRUK, this means that more of our funds can be spent on research into the causes, diagnosis and treatment of cancer. With the current problems facing retail chains of shops on the high street, the viability of charity shops is more important than ever.

CRUK has over 570 charity shops that make a valuable contribution to British society. Alongside fundraising for our life-saving research, our shops provide volunteering and job opportunities, raise awareness of our campaigns and provide information about cancer. The donated goods sold in our shops benefit the environment and provide affordable clothes for the UK public. The services and items provided by CRUK shops stimulate visits to the high street in premises that in many cases might otherwise have remained vacant.

We estimate that the value of business rates relief to CRUK was approximately £8.1m in our accounts for the year to 31 March 2015. Of this figure, £5.6m relates to our charity shops and £2.5m for our other buildings including research laboratories.

In Scotland alone, CRUK has 84 charity shops. If we were to pay full (100%) rates, our annual bill would be £991,961. This would mean that the income raised by our shops in Scotland would fall by 21%. We estimate that we would have to close to six shops, since they would become unprofitable.

We have welcomed past Government commitments to protect the 80% mandatory rates relief that charities receive in England, Scotland and Wales and the higher rates relief received by Northern Ireland. Maintaining mandatory rates relief across the whole of the UK is essential for safeguarding the sustainability of charity shops which are an important fundraising source for many charities and which also bring many direct benefits to society.

**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.

*Enter text here:*

This measure does not impact greatly on CRUK.
**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.

*Enter text here:*

CRUK is the largest charity beneficiary of legacy income in the UK. In the year to 31 March 2018 this amounted to £178m.

Charitable exemptions from Inheritance Tax not only provide a financial incentive by reducing the tax payable by estates, but they also create a culture amongst will writers to discuss legacy giving with their clients. Gifts in wills have a huge impact on our life-saving work. We would therefore welcome any changes to the current Inheritance Tax framework which continue to or further promote charitable giving, such as those outlined below.

There is evidence that the current Inheritance Tax framework creates confusion amongst testators, their executors and professional advisers. The basic principle that the lower rate of 36% applies if 10% or more of a person’s estate is given to charity seems straightforward but the process can be confusing and burdensome.

The reduced rate of tax can apply where less than 10% of the net estate is given to charity. The legislation requires executors to calculate 10% of the baseline amount, which frequently differs from 10% of the net estate. As a result, many will writers draft complex will clauses to take advantage of the reduced rate of tax. Such clauses are, however, difficult for testators, lay executors and beneficiaries to understand and quantify.

It can be quite difficult to calculate the baseline amount and we know of instances where executors, including professional advisers, are not aware of when the lower rate of tax applies. Furthermore, the complexity means that some executors fail to identify opportunities to maximise the estate for all of the beneficiaries in a will by increasing the value of the charitable gifts in a will through a Deed of Variation.

Whilst we are in favour of the reduced rate of tax, we do not feel that this current charitable exemption creates the right environment to promote charitable giving and, based on our records, it does not appear to be widely utilised by testators. The process creates unnecessary difficulties for executors and is complicated for testators to understand. It could be simplified if the reduced rate of tax applied to exactly 10% of the gross estate. Testators would be able to easily quantify the amount that is required to be left to charity for this exemption to apply and executors would also be able to calculate this with ease.

CRUK responded to the Office for Tax Simplification’s call for evidence for Inheritance Tax review earlier this year and would be happy to discuss points relating to this in more detail.

**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).

Enter text here:

This measure does not impact greatly on CRUK.

**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.

Enter text here:

This measure does not impact greatly on CRUK.

**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.

Enter text here:

CRUK considers SITR to be a useful funding tool for some charities. It does not fit in to our existing funding model and is a relatively niche product.

**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.

Enter text here:

This measure does not impact greatly on CRUK.

**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 measure does not impact greatly on CRUK.

**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.

This measure does not impact greatly on CRUK.

**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.

Although not currently applicable to CRUK, cross-border giving will become more relevant to our organisation in coming years as we increase our international operations.

**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.

**R&D Tax Credits**

There are specific ways that government could improve the impact that charities can make, through fiscal measures that would incentivise partnerships between charities and industry. The specific solutions may be very different for different charities; we would strongly support fiscal measures that would encourage collaboration in medical research.

R&D tax credits enable companies that incur costs in developing new products, processes or services to receive a cash payment or tax deduction. Universities and large charities were originally able to claim relief through the Research and Development Expenditure Credit (RDEC), but in 2015 the legislation was changed to close this scheme to charities ‘in line with the original intention of the policy’\textsuperscript{viii}.
Government should consider opening the RDEC scheme to independent charities not based at a Higher Education Institute. This would meet the scheme’s original policy intention and, since any funds received by medical research charities must be reinvested in research activity, would stimulate further R&D growth in the UK.

**Payroll Giving**

CRUK receives a significant amount of financial support through payroll giving. This amounted to £3.6 million in the year to 31 March 2018. Payroll giving provides vital regular funding to charities, allowing us to plan ahead with confidence. It is an effective and robust method of tax-efficient giving for individuals.

We would welcome any efforts by Government to increase the uptake of payroll giving, which is currently underused: within companies of over 250 staff, less than a quarter have a payroll giving scheme. We would welcome DCMS promoting payroll giving to its own employees, as well as to MPs and to the wider civil service.

**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?

*Enter text here:*

**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.

*Enter text here:*

**The role of philanthropy and professional advisors**

The UK has a proud history of philanthropy. However, there is room for growth. More could be done to encourage professional advisors to share with their clients the opportunities for tax-efficient giving and the Government could play a key role in driving this engagement.

**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

---

1 Reforming Charitable Tax Reliefs [https://www.thinknpc.org/blog/the-launch-of-the-charity-tax-commission/?clid=YY9u5ZWxpa2kueWlhbmvdvUBJlYW5jZXJub3JnLmVr&recipientid=contact-775c5cfd92ffee7118135e0071b65dea1-6ea129b7c9ff4b6aadddd25977c88c1&utm_source=ClickDimensions&utm_medium=email&utm_campaign=Charity%20Tax%20Commission%20CTC&email=05ec8185-ac73-e811-8149-0071b65dea1&urlid=2](https://www.thinknpc.org/blog/the-launch-of-the-charity-tax-commission/?clid=YY9u5ZWxpa2kueWlhbmvdvUBJlYW5jZXJub3JnLmVr&recipientid=contact-775c5cfd92ffee7118135e0071b65dea1-6ea129b7c9ff4b6aadddd25977c88c1&utm_source=ClickDimensions&utm_medium=email&utm_campaign=Charity%20Tax%20Commission%20CTC&email=05ec8185-ac73-e811-8149-0071b65dea1&urlid=2)


3 Available at: [https://bit.ly/2GDM4n](https://bit.ly/2GDM4n)

4 From 2017/18 CRUK annual report (unpublished)


8 Available at: [https://bit.ly/2IE1kDP](https://bit.ly/2IE1kDP)