

Rt Hon George Osborne MP  
Chancellor of the Exchequer  
Her Majesty's Treasury  
1 Horseguards Road  
London  
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3<sup>rd</sup> July 2015

Dear Chancellor,

## **HELPING CHARITIES REALISE THEIR FULL POTENTIAL**

Ahead of the upcoming budget we are writing to you to highlight some of the most pressing issues that affect the voluntary sector. As the first budget of a new government, we urge you to use this opportunity to address these issues and enable the sector to realise its full potential.

Charities play an important role in our society through providing flexible and responsive support to people and communities, as well as acting as a voice for groups often marginalised in the policy process.

Charities make a major contribution to the UK economy with a Gross Added Value of £12.1 billion. The sector has a combined income of over £40 billion per year, employs 821,000 people and catalyses the wider contribution of 13.8 million regular volunteers through social action, estimated to be worth £23.9 billion.

The welcome return to economic growth has not been reflected in the sector's income which has stagnated since its peak in 2008/09. At the same time key goods and services commonly used by voluntary organisations have significantly risen in price (often above inflation) and local authorities have reduced support due to their own budgetary pressures.

In light of this charities are seeking ways to generate more of their own resources. However, it takes them time to build capacity whilst maintaining the level and quality of their charitable activities. A recent review into the sustainability of the sector identifies an effective system of tax reliefs for charities as increasingly important in offsetting such challenges.

Reflecting the government's commitment to supporting charities and building further on the culture of giving in the UK we outline the following 6 recommendations:

- support the sector in identifying how best to raise public awareness of Gift Aid;
- begin the review of the Gift Aid Small Donations Scheme as soon as possible;
- investigate ways to maximise the benefit to charities of Corporate Gift Aid;
- introduce a 100% mandatory rate relief for all registered charities;
- initiate discussions on a sector-wide rebate to reduce irrecoverable VAT;
- improve the VAT exemption for shared services.

Gift Aid is worth over £1bn every year to charities. However, there are still hundreds of millions of pounds worth of donations that are not being claimed by donors. Over the course of the last Parliament we worked constructively with government to adapt Gift Aid for the digital age and to simplify the Gift Aid Declaration.

These are positive steps towards increasing uptake of this vital tax relief. We welcome the continued conversations with officials to ensure that Gift Aid's full potential is realised.

Evidence from HMRC indicates that improved public understanding of the scheme will encourage eligible donors to claim Gift Aid and we therefore urge the government to **support the sector in identifying how best to raise public awareness of the scheme.**

The Gift Aid Small Donations Scheme (GASDS) has significant potential for small charities to maximise income from charitable donations and we welcome the subsequent increase of the limit to £8,000. However, only a minority of registered charities in England and Wales are registered for Gift Aid and GASDS has significantly undershot original estimations.

The complexity of the scheme has deterred small charities and places unnecessary barriers in the way of charities that may not have a history of fundraising. Unless these issues are addressed, it is not clear that the charities will benefit from this increase.

Prior to the previous budget we called for the planned review of GASDS to be moved forward from spring 2016. We are encouraged that officials have been receptive to discussing this and **call for the government to begin the review as soon as possible.** In so doing the government can begin to work in collaboration with charities to improve the scheme and ensure that it reaches as many charities as possible.

We also believe that it is time for the government to **review Corporate Gift Aid.** There is mixed evidence around the efficacy of changes to Corporate Gift Aid, such as enabling companies to receive the tax relief rather than charities. A review would investigate such issues in more detail and ensure that the value of the donations from companies to good causes is maximised.

Business rate relief is the oldest and single biggest tax relief for the sector, worth over £1.5 billion per year. It is based on the long-standing principle that buildings used for charitable purposes should either be exempt from, or receive reduced, taxation. **We urge the government to use the Budget as an opportunity to restate its commitment to this long-standing principle.**

Business rate relief provides significant support for charities to deliver services that would otherwise be unaffordable. Around half of charities have an income of less than £10,000 and 83% have an income of under £100,000 and it is these organisations that stand to benefit the most from the relief.

However, the discretionary nature of business rate relief means that not all charities are treated equally. Charities in disadvantaged areas for example, are less likely to receive discretionary rate relief as their local authorities struggle with reduced budgetary constraints alongside increasing demand on local public services.

To ensure the fairness and consistency of this essential tax relief, we call on the government to **raise the mandatory business rate relief for charities to 100% and abolish discretionary rate relief.** We recommend that the cost of business rate relief should be met by central government and this change is phased in over the course of the Parliament.

Irrecoverable VAT is estimated to cost charities £1.5 billion, money that could be better spent on delivering public benefit. We therefore welcome VAT rebates to air ambulances, military charities and

blood bikes announced in March 2015. But we are concerned that these measures only scratch the surface of irrecoverable VAT.

The European Commission has made clear that it is within the power of the UK government to create a refund mechanism to tackle this problem for charities. **We urge this government to begin discussions with charities now on how a suitable refund mechanism could be established in this Parliament** in this way we can reduce the loss of sector income through irrecoverable tax.

The NCVO Almanac also reports that income from government contracts have continued to decline. Through collaboration charities can share the burden of the cost of services, thereby enabling them to deliver more contracts. The government's introduction of the VAT exemption on the shared services in the Finance Act 2012 was a positive step in supporting charities to collaborate in this way. However, the complexity of the exemption is proving to be a barrier for charities and is therefore not widely taken up.

**We encourage the government to announce a review into the implementation of the VAT exemption and to work with charities to see how it could be improved** so that more charities, and ultimately beneficiaries, can benefit from reduced costs of delivering services.

Removing tax barriers for charities is one way that the government can help charities and ensure that as much of the money raised as possible goes towards delivering their objectives. Charities are critical to the development of a fair society and achieving strong economic growth. The measures outlined above will empower charities to channel any additional resource to delivering public benefit.

We hope that you will take our recommendations on how the Government can best support our sector into consideration in this budget.

Yours sincerely,



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