SUMMER BUDGET 2015: Charity Finance Group Briefing

8th July 2015

In the first post-election summer budget, the Chancellor today sought to lay out his stall for the next five years of a majority Conservative Government. There were a number of announcements that will impact the charity sector, and this briefing outlines what the impact will be.

Headlines for the charity sector:

- £17bn in spending cuts and savings have been announced, with cuts being spread out over a longer period of time.
- A new National Living Wage (NLW) will be introduced for workers aged 25 and above from April 2016.
- Employment Allowance increased from £2,000 to £3,000.
- The government has announced that new rules to combat avoidance of business rates will be unveiled.
- Working age benefits bear the brunt of £12bn welfare cuts announced in the Budget.

This briefing provides a summary of the highlights of Summer Budget 2015, including those of particular interest to the charity sector. We have also asked some of our corporate subscribers to put forward their initial responses to measures announced in the budget which are in the relevant sections.

Useful links

- Budget 2015 – The Red Book
- Office for Budget Responsibility Economic and Fiscal Outlook – July 2015
- CFG's Budget Day Live Blog
- Welfare and employment dominate the Budget: What does this mean for charities?

If you would like to discuss any of the issues arising from Summer Budget 2015, please contact our Senior Policy & Public Affairs Officer via email anjelica.finnegan@cfg.org.uk or on 020 7871 5480.

Charities

The budget was not particularly focused on charities and there were no major announcement of key charity reliefs such as Gift Aid or VAT. However, HM Treasury has confirmed that work in these areas is likely to continue as planned. Here are some of the key issues that will affect charities:

> "Whilst this budget hasn't targeted charities and charitable work directly, there are elements that will require consideration and planning on the part of charity managers. The living wage is something that many have campaigned for; the Government's move to bring in a national living wage of £9/hour for over 25s by 2020 might increase the cost base for some charities and they should start considering how they would fund this."
>
> - James Pike, Head of Charities at Waverton Investment Management

- **Spending cuts have been smoothed out.** The Budget saw £17bn of cuts and savings announced but spread out over a longer than previously stated. They will be much lower in early years of the Parliament when compared with March Budget. While this will not reduce the overall level of cuts that charities face, it will make it easier for charities to adapt rather than being 'frontloaded'.
- The government will therefore introduce a new **National Living Wage (NLW)** for workers aged 25 and above, by introducing a new premium on top of the NMW. From April 2016, the new NLW will be set at **£7.20**.
    - o We believe that this will have a significant impact on charity employers, particularly those that receive government funding. The government has not made any specific commitment to increase grants and contract income for charities to pay for the new National Living Wage although these issues will be decided in the Spending Review held this Autumn.
- **The government will introduce a levy on large UK employers to increase the number of apprenticeship starts.**
    - o The details will be included in the Spending Review and CFG will be responding to ensure that the views of charities are taken into account.
- The government will increase the annual **Employment Allowance** from **£2,000** to **£3,000**. This will come into effect from April 2016
- The government intends to expand its support for **social impact bonds** in the Spending Review.
    - o CFG will be engaging in consultations on this when they take place.
- **The government will announce new rules to combat avoidance of business rate relief** in due course, following a DCLG & HM Treasury consultation earlier in the year.
    - o CFG responded to that consultation earlier in the year and will be making representations when the new rules are made public.
- The government is investing more in tackling non-compliance in taxation, with the hope of raising £2bn by 2020-21.

- Although charities are not directly referenced, given our unique tax position, CFG will be looking closely at the measures to ensure that charities are not inadvertently targeted.

"There are some really interesting elements which we need to watch out for and some hidden significant costs. Devolution risks making the landscape really complicated and uncertain when considering how variations in reliefs across the country might be applied. There were worrying undertones in terms of closing the tax gap. We whole heartedly support a fair system and the minimising of loss to the public purse but this mustn't mean that charities become the soft target of HMRC.

The national living wage is to be welcomed but it begs the question will government increase its payments to those providing public services? If not then this could seriously squeeze the budgets of those providing services to the most vulnerable in our society. It's a shame that there was nothing in the budget to address irrecoverable VAT or gift aid reform. We're disappointed that government didn't take the opportunity to start some of these incredibly important and necessary conversations."

- **Caron Bradshaw, Chief Executive, Charity Finance Group**

"There is little directly for charities in the first wholly Conservative budget since 1997. However, there is plenty that will affect beneficiaries of charities. Cuts to welfare have been announced for some time but now also there is a promise to increase the national minimum wage from the current £6.50 per hour to £7.20 for over 25s from April 2016 rising to £9 by 2020. A step in the right direction. The current £2,000 rebate on your massive Employer's National Insurance bill will be increased to £3,000 a year from April 2016."

- **Helen Elliot, Audit Partner, Sayer Vincent**

The economy

To accompany the Budget, the Office for Budget Responsibility (OBR) also publishes forecasts for the economy and public finances, updated to reflect the budget policy measures. The OBR uses the forecasts to judge whether the Government remains on course to meet its medium-term fiscal objectives.

- **Growth** has been revised down by 0.1% in 2015 to 2.4%. Growth remains 2.3% in 2016 and then holds at 2.4% for the rest of the Parliament.

- **The deficit (public sector net borrowing)** has fallen from 4.9% in 2014-15 to 3.7% in 2015-16 and is due to fall to 2.2% in 2016-17. There has been a slight fall in the debt in the early years of the Parliament and a slight increase in later years, this is due to the government 'smoothing' out the cuts. **Public sector net debt** peaked in 2014-15 at 80.8%. This is projected to fall to 80.3% in 2015-16, 79.1% in 2016/17, 77.2% in 2017/18, 74.7% in 2018/19 and 71.5% in 2019-20.

- **Unemployment** is expected to fall to 5.4% in 2015/16 before remaining constant at around that level for the rest of the Parliament.

- **Employment** is due to rise from 30.7m to 31.9m in 2019. No change from the March Budget.

- **Inflation (CPI)** forecasts have been kept the same, with inflation returning to the 2% target only by the end of the Parliament.

- **Wages** are expected to increase by 2.2% in 2015, 3.6% in 2016, 3.9% in 2017, 3.9% in 2018, 4.1% in 2019 and 4.4% in 2020.

"There is little of note in the budget to change our central investment view that underlying current financial market conditions are benefiting from a mid-cycle recovery. As such, we remain positive on equity markets in the medium term and monitor bond market valuations closely given current low yields."

- Nicola Barber, Head of Charities at James Hambro & Partners

CFG will be producing an Economic Outlook Briefing shortly, which will include official economic trends and forecasts, details of sector research and expert insights into the state of the economy and charity sector. This edition will be focused on managing risk in the charity sector.

Tax

- The Chancellor will increase the tax-free personal allowance from **£10,600** in 2015-16 to **£11,000** in 2016-17 with the aim of increasing the personal allowance to £12,500 by the end of this Parliament.
    - This could reduce the pool of people able to claim Gift Aid as they are lifted out of the tax system charities will need to be aware when receiving donations.
- The threshold for the 40p income tax rate will increase by above inflation from **£42,385** in 2014-15 to **£43,300** in 2016-17.
- **Fuel duty** remains frozen for this financial year.
- New bands of Inheritance Tax for individuals to pass on their main residence to their descendants will be introduced, creating an effective inheritance tax threshold of £1m in 2020-21.
- The government will increase the level of Rent-a-Room relief from **£4,250** to **£7,500** from April 2016.

We believe that the government will continue reviews of Gift Aid Donor Benefits rules and Gift Aid Declaration as planned, although these were not mentioned in the Budget.

"It is disappointing that the Government did not take the opportunity to announce a review to relieve the irrecoverable VAT burden borne by the sector. As welcome as the individual rebate schemes for hospices and search and rescue charities are, it is a potentially worrying situation when some sectors are treated more favourably than others."

- Simon Buchan, Head of VAT Services at Barber Harrison & Platt

"So what about the good news? On fund raising it is intended to expand government support for social impact bonds. Announcements will be made in the Autumn Statement; there is to be a consultation on whether to allow crowd funding based investments in ISAs which could give this a further boost; the new tax relief for orchestras is to go ahead from 1 April 2016; and there was the usual batch of charity funding commitments from banking fines."

- Frank Shepherd, PR Manager at Baker Tilly

Welfare

The Chancellor announced **£12 billion of cuts** to the welfare budget to be implemented by 2019/20. The cuts will predominately be made to working-age benefits which will be frozen for 4 years from 2016-17 to 2019-20. This will include Local Housing Allowance and Tax Credits but will exclude maternity pay and disability benefits. This is projected to save £4 billion/year by 2019/20.

- **Pension benefits continue to be protected by the 'triple lock'.**
- Cost of social housing rents will be passed onto social landlords as government will **reduce rents in social housing in England by 1% per year for 4 years.**
- Social housing tenants earning £40,000+ in London or £30,000+ in the rest of the UK will pay (near) market rent for their accommodation. The government will also review the use of lifetime tenancies in social housing.
- **Changes to Tax Credits and Universal Credit will see expenditure on tax credits return to 2007-08 levels in real terms.** The Budget introduced significant reform to Universal Credit (and the remaining sections of the tax credits system that the new single benefit is replacing).
- **The income threshold for tax credits** (the point at which the award is withdrawn for every extra pound earned) will be reduced to **£3,850** from **£6,420**. For universal credit this figure will be £2,304 reduced from £4,764.

- The rate at which a person's or household's tax credit award is reduced as they earn more, by increasing the taper rate in tax credits from 41% to 48%.
- **Child tax credits will be restricted to two children for those born from April 2017** – this will also apply in Universal Credit to families who make a new claim from April 2017. Further to these changes, those who start a family after April 2017 will not be eligible for Family Element in tax credits, or the Universal Credit equivalent, the first child premium.
- **The Employment and Support Allowance work-related activity group rate will be brought into line with the Job Seekers Allowance rate.**
- **Through the new 'Youth Obligation', 18-21 year olds on universal credit will be required to engage with an 'intensive regime of support' from the first day of their claim**. Young people out of work will also no longer be automatically entitled to housing support for new claims in Universal Credit.

"We also expect some welfare charities, particularly those supporting young homeless adults, will be concerned by the announcement that unemployed 18 to 21 year olds will lose the automatic entitlement to housing benefits together with capping on certain other welfare benefits."

- **Luke Savvas, Charity Tax Partner Buzzacott**

"Rents in social housing [are] to be reduced by 1% for the next four years. As described above, charities are expected to provide 'more bang for their buck' by local authorities when contracts are out for tender. This has put pressure on finances already (without taking into the impact of the new living wage) and so reducing what may be a key income stream, which will only increase the financial pressure further at a time when there are likely to be more beneficiaries to support."

- **Nick Simkins, Head of Charities & Education at Moore Stephens**

Business and regulation

- The government will actively monitor the growth of salary sacrifice schemes that reduce employment taxes and their effect on tax receipts.
- The government will increase the permanent level of the AIA from £25,000 to £200,000 for all qualifying investment in plant and machinery made on or after 1 January 2016. This may apply to some charities trading subsidiaries.
- The government will commission the Office for Tax Simplification to review the closer alignment of income tax and National Insurance contributions.
- The government will commission the Office of Tax Simplification to review the taxation of small companies.