

Mr G Osborne
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
London
SW1A 2HQ

4th March 2015

Dear Chancellor,

REMOVING TAX BARRIERS FOR CHARITIES

We are writing to you to raise some of the most pressing issues that affect the sector and how you can address these in the upcoming Budget. Charities play an important role in our society and our economy; delivering vital services for communities and connecting people up and down the country as well as providing a way for often marginalised voices to be heard by policy makers.

Charities are also a major contributor to the UK economy with an income of around £38bn a year and employing over 800,000 people. It is estimated over 20 million adults formally volunteer at least once a year and this contribution adds enormous value to public services, often saving tax payers money by delivering positive impact.

While we welcome the return to economic growth, demand for the services that charities provide has been increasing. Alongside this increasing demand, charities are having to operate in a tough financial environment with income, particularly from government, being squeezed.

This makes having an effective system of tax reliefs for charities even more important. By removing tax barriers for charities, the government could free up hundreds of millions of pounds that could be directed towards charitable objectives – helping people at home and around the world.

Our recommendations for this Budget include bringing forward a review of the Gift Aid Small Donations Scheme; investing in a campaign to improve public understanding of Gift Aid; building up the fundraising capacity of small charities; considering reform of Corporate Gift Aid; beginning discussions on a sector-wide rebate to reduce irrecoverable VAT and reforming the VAT exemption for shared services.

We believe that the government was right to implement the Gift Aid Small Donations Scheme to support small charities. They play a crucial role in delivering support to many communities. Yet the Gift Aid scheme did not reward small charities that sought to diversify their funding through fundraising in their local communities. We supported the aim of the Gift Aid Small Donations Scheme to level the playing field for these charities.

Unfortunately, the scheme is too complicated for small charities and puts unnecessary barriers in the way of charities that may not have a history of fundraising – the same charities that this initiative should be supporting and encouraging. The government had promised to carry out a review into the scheme in 2016, but given the scheme's significant undershooting of previous cost estimates, we believe that this review must be brought forward. By announcing this review in the upcoming Budget, the government can work with charities to improve the scheme and ensure that it reaches as many charities as possible.

Charities have been constructively engaging with the government to improve the Gift Aid scheme over the past few years. We welcome steps to make Gift Aid fit for the digital age and we have supported moves to make the Gift Aid Declaration shorter and simpler for donors to understand – something that we believe will increase uptake and reduce error. However, there are still hundreds of millions of pounds worth of donations that are not being claimed by donors. Research by HMRC indicates that improving public education and understanding is critical to improving the situation and this cannot be achieved by changes to the Gift Aid Declaration alone.

We believe that the government should consider supporting sector-led public awareness campaign on Gift Aid, to revitalise its image and provide in training for 'trusted messengers' such as charity volunteers. We believe that this could significantly increase the amount of Gift Aid claimed by the public ensuring that the value of donations is maximised.

The government should also consider what more can be done to support building the fundraising capacity of smaller charities so that they can engage with charity tax reliefs and increase the amount of income they generate through fundraising. Through improving public understanding and awareness as well as building capacity within smaller organisations we will ensure that the government meets its objective of maximising the amount of donations on which Gift Aid is claimed.

An effective system of tax relief is also vital to attracting large scale donations from individuals and corporations. This often comes through the form of charitable foundations and we hope that the government will use this Budget to express its support for this important part of the sector.

As part making tax reliefs more effective, we think that the government should this use this Budget to announce a review into Corporate Gift Aid, specifically whether charities should be allowed to claim the tax relief rather than companies. We believe that this could increase the value of the donations from companies to good causes and should be considered as a way to improve the effectiveness of the relief.

In the last Autumn Statement, the government announced VAT rebates for hospices, search and rescue charities and air ambulances. These are important causes and we welcomed these measures. But this only scratches the surface of irrecoverable VAT which is a massive burden on charities. Estimates vary, but the cost of irrecoverable VAT could be up to £1.5bn a year – money which is being spent by charities to deliver public benefit.

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 – something that your action to

create VAT rebates for hospices, search and rescue charities and air ambulances recognises. We know that this is a problem that cannot be resolved overnight; however, we urge this government to begin discussions with charities now on how a suitable refund mechanism could be established in the next Parliament, so that we can reduce the loss of sector income through irrecoverable VAT.


Charities are often an important deliverer of public services and data from the NCVO Civil Society Almanac 2014 indicates that charities are winning a declining share of government income from contracts. However one of the challenges facing charities is how to collaborate in order to be in a position to deliver more contracts. The government introduced the VAT exemption on shared services in Finance Act 2012. However, this has not been widely taken up due to the complexity of the exemption and is a barrier for charities wishing to come together to reduce the cost of services.

The government should announce a review into the implementation of this exemption and work with charities to see how it could be improved so that more charities can benefit and the costs of delivering services reduced.

Removing tax barriers for charities is one way that the government can help charities which are crucial to the development of a fair society which is able to achieve strong economic growth.

We hope that you will consider our recommendations on how the Government can best support our sector in the upcoming Budget.

Yours sincerely,



Caron Bradshaw
CEO, Charity Finance Group



Peter Lewis
CEO, Institute of Fundraising



Sir Stuart Etherington
CEO, NCVO



Neil Cleeveley
CEO, NAVCA



David Emerson CBE
CEO, Association of Charitable Foundations



John Barrett
Acting CEO, Small Charities Coalition