Charity Finance Group

Charity Tax Plan: using the tax system to build a better future

Autumn Statement 2016

Introduction

Since the emergence of the ‘modern’ vehicle of charity in the Victorian period, it has been the consistent policy of government to seek to support charities through the tax system.

The principle that money which has been given for public benefit should not be taxed has been behind the introduction of many valuable reliefs and exemptions over the years from Gift Aid to Non-domestic business rate relief – to name the two most important reliefs for charities. In total tax reliefs are worth £3.7bn a year to charities and leverage billions more in charitable giving every year.

However, these policies have emerged piecemeal over 150 years and have not kept pace with the scale of the social challenges which face our country.

As a consequence we have a tax system which, though supportive of charities, is not optimal. Historical legacies and a lack of consistency mean that hundreds of millions of pounds which have been given for public good are still being diverted to pay tax and reliefs are not being fully maximised.

In the wake of referendum on Britain’s membership of the European Union, it is important that we have a tax system which enables charities to devote as much as of their resources as possible to tackling the social challenges facing our country.

Part of the process of putting Britain on the best footing to make a success of the future will be building a stronger and better society for all our citizens.

We urge the new government to use its first Autumn Statement to begin reform of our tax system so that we can make the most of the opportunities that lie ahead.

Why support charities through the tax system?

Charities are already the recipients of £3.7bn of tax reliefs a year. So the question must be begged – why should an incoming government do more to support the sector through the tax system?

Firstly, we need to put charitable support into the right content. According to the National Audit Office's 2014 report on tax reliefs, in total tax reliefs are worth £335.5bn across the economy. Moreover, tax expenditures that provide incentives for behaviour for economic and social objectives were found to cost £101bn in the same report. This is a significant outlay of which charities make up only a fraction of total spending.

Yet charities are one of the most important drivers of economic and social change in the country. Whether it is improving life chances, delivering aid in fragile parts of the world or providing vital services to vulnerable people, progress towards a better society will be underpinned by the work of the charitable sector.

As a consequence there are a number of reasons why the government should do more to support charities through the tax system and this Autumn Statement is the opportunity for this government to start the process of reform. Moreover, there are also reasons why it should use the upcoming Autumn Statement as an opportunity to start the process of reform.

In our analysis, there are four broad reasons why the government should do more to support the charitable sector through the tax system:

- **Fiscal** – the savings to the Exchequer over the long term
- **Economic** – the positive impact that charities can make as economic actors
- **Moral** – the principles that underpin charitable activities and charitable giving
- **Efficiency** – the reasons why tax reform is a good option for supporting the sector compared with other methods

Fiscal

The UK government is operating in a difficult financial context. On the one hand, long term trends indicate rising demand for services such as the NHS and social care. On the other hand, the financial crisis forced the government to spend tens of billions of pounds on supporting the economy through this volatile economic period. As a consequence, the government is currently running a deficit of £55.5bn[1]. Although the government has now indicated that it is prepared to operate under a deficit for

[1] Office of Budget Responsibility, http://budgetresponsibility.org.uk/

longer, due to the potential impact of Brexit on the economy, it is still the government's aspiration to balance the budget over the medium term.

Compounding this situation is the cost to the economy and the Exchequer of social challenges. Examples include:

- Drug addiction - £15.4bn (National Treatment Agency for Substance Misuse)[2]
- Alcohol Abuse - £21bn (Institute of Alcohol Studies)[3]
- Obesity – £27bn (Public Health England)[4]
- Mental Ill Health - £70bn (OECD)[5]

These are just a few examples of some of the challenges that are facing our society and their costs. In terms of the direct cost to the Exchequer, the Early Intervention Foundation has estimated that the government spends £17bn[6] on addressing damaging problems facing children, alone. The other challenges cited above, will add tens of billions in additional costs to this bill.

If the government wishes to both balance the books and improve services, it needs to support more preventative interventions so that long term demand can be reduced and people's lives improved.

Many of the services that the charity sector provides are geared towards prevention. Increasingly, charities are working with the public sector to identify the journeys that lead people towards using acute services and developing solutions that can take pressure off the public sector.[7]

In the same way that there is a proven multiplier from investing in infrastructure to support the mainstream economy, so investing in preventative action has a similar multiplier effect.

It is in the interests of the government, therefore, to reduce the tax burden on charities so that more resources can be freed up to deliver these preventative interventions which generate long term savings for the government. Although not all charities deliver preventative interventions, strengthening the charity sector will indirectly strengthen communities, increasing their ability to tackle social challenges.

The UK needs to become more competitive in order to make a success of Brexit.

Reducing the 'drag' on the economy through freeing up resources for charities to carry out their activities will not only improve economic performance, but it will also free up more taxpayer funds to be reinvested into education, infrastructure and

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[2] http://www.nta.nhs.uk/uploads/whyinvest2final.pdf
[3] http://www.ias.org.uk/uploads/pdf/Factsheets/FS%20economic%20impacts%20042016%20webres.pdf
[4] https://www.noo.org.uk/NOO_about_obesity/economics
[5] http://www.oecd.org/els/emp/MentalHealthWork-UnitedKingdom-AssessmentRecommendations.pdf
[6] http://www.eif.org.uk/why-early-intervention/
[7] https://www.ncvo.org.uk/images/documents/policy_and_research/ncvo-manifesto-2015.pdf

research that can help to boost overall economic performance, creating a virtuous cycle which will feed higher tax revenues in the long term.

Economic

Charities are important economic actors in their own right. Our sector generates around £12bn in Gross Value Added and employs 827,000 people. This is more than the agricultural sector, for example.

Moreover charities are spread throughout the country, working in some of our most deprived communities. As a consequence, the benefits of supporting charities are going to be felt across the UK not just in a few areas. For example, there are 63% of the sector's workforce is based outside of London and the South East[8]. Similarly, 63% of charities are registered outside of London and the South East.

The government has stated that it wants to do what it can to protect working people across the country with the volatility following Brexit. One of the ways that it can do this is through supporting charity sector employers by reducing the tax burden that they face, leaving more resources for skills development and job creation.

We know already that charities are more likely not to invest in skills because of a lack of resources than private sector providers. 17% charity and voluntary sector respondents cited lack of funds as a barrier compared to 7% of private organisations. Freeing up resources that otherwise would have been taxed would ease this challenge facing charities.

Unlike, the private sector, charities are not likely to 'bank' resources in cash piles to invest at a later date. According to the latest available estimate, non-financial private companies are sitting on cash piles estimated to be worth £500bn in 2013[9]. This has grown substantially over the past decade. Charities were estimated to hold £45.8bn in reserves in 2013/14 – down £11.8bn since 2007/08, their peak before the financial crisis.[10]

The legal situation for charities is also different. Resources can be only be saved (as reserves) based on clearly identified projects, risks or opportunities. This also must be at a level which is proportionate to the risks and opportunities facing the organisation. Otherwise all resources should be devoted towards achieving the charitable purpose. As a consequence, the risks to government of charities 'banking' the savings they receive through further tax support are limited.

Furthermore, our evidence indicates that many charities are struggling to cope with rising demand. In our latest *Managing in the New Normal* survey, with PwC and

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[8] https://data.ncvo.org.uk/a/almanac16/workforce-2/
[9] http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130407.pdf
[10] https://data.ncvo.org.uk/a/almanac16/assets-and-reserves/

Institute of Fundraising, 70% of respondents expected rising demand for their services and 25% said that they did not have the resources to meet that demand.[11]

Therefore, we consider it highly likely that most charities will use any resources freed up for tax reform to meet that demand, increasing their spending and pumping more money into local communities.

Moral

In 2013/14, charities in the UK generated £43.8bn in income for the purpose of delivering public benefit, defined by Parliament and regulated by the various charity regulators.

This money should not generate any private benefit for individuals, unless it is strictly necessary to achieve the charity's purpose, unlike private companies which are geared towards generating profit for their owners and shareholders.

As a consequence, it would appear unjust for charities to pay tax on carrying out their activities, when these activities are in furtherance of the public good. Although one of the necessities of the tax system is to raise revenue, ideally this should be raised through taxing the private benefit of individuals rather than through institutions which are working for public benefit. It is difficult to claim that are lack of potential private revenue streams that mean that it is necessary to generate revenue through the activities of public benefit organisations.

The principle that money that has been given for the benefit of the public, and does not confer any benefit for the private individual, has long been at the heart of our tax system.

Yet despite the consensus amongst the public and politicians behind this principle, there are still anomalies in the system. For example, some charities are paying business rates or are unable to claim VAT. There are no clear ethical or moral reasons why these anomalies exist, and why certain activities or charities in certain locations should pay more tax than other activities.

One of the foundations of a strong tax system is the concept that taxation should be justifiable and command public consent. Research on public views around the taxation of charities is limited, one poll in 1999 found that 79% of the public did not believe that charities should pay VAT.[12] Although times have changed, it is unlikely that public views on the ethics of taxation have shifted considerably.

Moreover, by undertaking further reform to the tax system to support charities government would be sending a clear moral signal to the public that it should

[11] http://www.institute-of-fundraising.org.uk/library/managing-in-the-new-normal-2016/
[12] https://www.ipsos-mori.com/researchpublications/researcharchive/1774/79-Of-People-Think-That-Charities-Should-Not-Pay-VAT.aspx

continue to support the work of the sector. The income that would be freed up by tax reform would be important and help beneficiaries, the moral signal sent by government would be equally important.

Efficiency

Government can support the charity sector through a number of methods, for example, giving grants.

However, one of the most efficient methods for supporting the charity sector is through reforming the tax system.

Charities are already registered with HMRC for VAT purposes and business rate relief with their local authorities, reforming these tax burdens will not involve the creation of any additional bureaucracy. Tens of thousands of charities are registered for tax reliefs, ensuring that reforms to the tax system would benefit a wide variety of charities.

Moreover, the government would not be required to ‘pick winners’ in this process, making it the fairer to all types of charities. It would also avoid the need for smaller organisations to apply for funding, which can be difficult due to a lack of capacity.

As a consequence, improving the tax system for charities is the most efficient way for the government to support the charity sector.

How can the tax system be improved for charities?

There is a strong case for improving the tax system further to support charities. But how should the government do this?

We have five proposals for how the government can improve the tax system for charities:

1) Reduce levels of irrecoverable VAT
2) Increase mandatory business rate relief to 100%
3) Give Higher-Rate taxpayers the option to give their individual tax relief to charities
4) Substantially reform the Gift Aid Small Donations Scheme
5) Exempt charities from the Insurance Premium Tax

We ask the government to use the Autumn Statement to announce consultations on each of these proposals, so that they can designed and implemented in time for Budget 2017.

1) Reduce levels of irrecoverable VAT

Policy option: Reduce irrecoverable VAT for charities				
Estimated Costs per year (£m) between 2017-18 and 2021-2022				
2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
-270	-540	-810	-1080	-1350

What is the problem under consideration?
The latest available estimate for the cost of irrecoverable VAT for charities is £1.5bn per annum according to the Charity Tax Group.

Irrecoverable VAT is the gap between what the sector pays out in VAT and the amount it receives in VAT. The direct impact of irrecoverable VAT is significant and is equivalent to £9,204 for every charity in the UK.

This gap is the unforeseen circumstance of the exemptions and exceptions that charities received when VAT was created in order to ensure that they were not forced to charge beneficiaries for their services. However, this redirects charities' resources away from their beneficiaries and creates an uneven playing field for charities that wish to engage in public service delivery as public bodies already have a rebate mechanism for their irrecoverable VAT.

The tax system should be fair to charities, and resources should not be wasted due to complexities within the VAT system that was not designed with the unique position of charities in mind. In Autumn Statement 2014 and Budget 2015, the

government set up a rebate scheme for hospices, blood bikes and search and rescue charities, proving reform is possible without the need for European action. This should be the start of a process to develop a sector wide rebate scheme.
Overview of policy options: - *Phase in rebate scheme to enable all voluntary organisations to reclaim VAT incurred on non-business income over five years.* - *Convert existing 'exemptions' into 'zero-ratings' or 'options to tax' so that VAT can be recovered.* A rebate mechanism would not lead to all the irrecoverable VAT, but it would significantly reduce the burden facing providers of services in social welfare, education and health care services. These are often areas where voluntary organisations are complimenting the services that are provided by the state. A rebate mechanism would need to be complemented by converting current VAT exemptions into zero-ratings (or options to tax) for business activities so that the levels of irrecoverable VAT are substantially reduced for the charity sector. Not all irrecoverable VAT would be recovered under these schemes, but if we assume that 90% can be reduced via these methods, then this would cost £1.35bn – if the latest estimate is accurate. We appreciate that this could not be implemented overnight and there would need to be time for the rebate mechanism to be developed as well as negotiation about the exact process of covering VAT exemptions into zero-ratings/options to tax. It would be prudent, therefore, to spread this out over a five year period to ensure that it is properly implemented and spread the cost for the Exchequer.
What are the policy objectives and intended effects? The aim of the policy is to reduce the costs for charities so that more can be reinvested into delivering charitable activities. This will have a number of positive benefits including increasing the amount of services that charities can deliver at a time of rising demand and level the playing field between public sector providers and voluntary organisations that wish to deliver public services.

2) Increase mandatory business rate relief to 100%

Policy option: Increase mandatory charitable non-domestic business rate relief to 100%				
Estimated Costs per year (£m) between 2017-18 and 2021-2022 (with centralisation of funding)				
2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
-236	-472	-708	-944	-1180
Estimated Costs per year (£m) between 2017-18 and 2021-22 (without centralisation of funding)				
2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
-100	-200	-300	-400	-400

What is the problem under consideration?

No other charitable relief is awarded on the basis of location, apart from mandatory business rate relief.

Consultation by Charity Finance Group and other bodies in 2015 found a number of challenges in the current system.

- The lack of clarity surrounding discretionary rate relief
- The difficulties for charities working in disadvantaged communities
- The disadvantages for charities working in multiple areas, on a national or international level
- The uncertainty around discretionary rate relief and implications for business planning

Many charities are concerned about the clarity of discretionary rate relief policies by local authorities. The detail, application and publication of discretionary rate relief policies vary hugely between local authority areas. This lack of consistency causes problems for charities trying to claim discretionary relief. A number of local authorities have requirements that organisations receiving business rate relief 'serve the residents' of the local authority area.

As part of the Local Government Finance Act 2012, the government introduced the Business Rates Retention Scheme (BRRS), which came into force in April 2013 in England. The aim of the scheme was to encourage local authorities to champion economic development and enable local authorities to keep half of all business rates revenue raised locally and flexibility to pool revenue with other local authorities, as well as borrow money against future growth. In order for 'risks and rewards to be shared', the scheme mandated that local authorities would have to fund 50% of any new reliefs granted, including charitable reliefs. This increased the cost of funding new discretionary rate relief granted to charities by over 300%.

Whilst some local authorities, particularly in London, have seen significant increases in business rates income between 2009/10 and 2014/15, many authorities have seen falls in business rate income. For example, Southampton saw a fall in real terms per capita income from business rates of £134 over this period. Manchester saw a fall of £143 and Tower Hamlets saw a fall of £2484 according to research by the Joseph Rowntree Foundation.

This is placing significant pressures on local authority budgets. As a consequence, discretionary rate reliefs for charities has come under additional pressure and local authorities have consulted on reducing discretionary rate relief as a direct consequence of the Business Rates Retention Scheme and pressure on local authority budgets5 . This is concerning as it means that charities working in deprived communities are less likely to receive discretionary rate relief than those working in affluent areas, increasing their costs and potentially making their services uneconomical. Charities are important, not only for the economic benefits that they create but also for the social capital that they generate. This social capital is crucial for generating long term economic growth. Strong local communities underpin strong local economies and by making it more costly for charities in deprived areas to operate, the current discretionary rate relief arrangement is not supporting the interests of local communities.

A number of local authorities, in response to the cost pressures outlined above, have also outlined changes to discretionary rate relief that would restrict relief to charities that work at a local level. A number of local authorities also restrict rate relief for offices or buildings used mainly for offices or administration. Many other local authorities have similar restrictions which disadvantage charities which operate in multiple areas or work at a national or international level. This has a negative impact for a number of reasons:

1. it undermines the principle that charities should be equally treated regardless of their charitable objectives or activities. We do not believe that charities should be denied access to reliefs because they carry out certain activities. Moreover, these policies politicises charities and undermines the ability of charities to work on unpopular causes.

2. These criteria act as a barrier for charities that wish to work across local authority boundaries. Need does not stop at local authority boundaries, but the discretionary rates system encourages narrow thinking, as local authorities which benefit from services that are delivered by charities outside of their area do not have to bear the cost of business rate relief. The government said during the election that it wanted to use the ‘talent and energy of charities to help people turn their lives around’, and the current business rate relief rules are a direct barrier to this talent and energy being used.

3. Discretionary rate relief policies focused on exclusive local area provision also inhibit efforts by charities to diversify their services and income. The policy encourages fragility by hampering the ability of charities to expand into

new areas and develop new income streams.

4. Excluding claims for discretionary rate relief from charities that use buildings for offices or administration ignores the impact that this has on the effectiveness of charities. All charitable funding must be used to deliver public benefit. Administration is not optional, it is essential to the achievement of charitable objectives. Excluding claims for discretionary rate relief from charities that use buildings for offices reduces the amount of resources that can be used towards achieving charitable objectives.

5. This system also increases the cost of delivery of services for central government in certain areas, if charities there do not have access to business rate relief. Whilst some local authorities provide rate relief to charities that deliver local services in order to reduce the costs of provision for local residents, many local authorities do not have similar rules for central government services. This artificially increases the costs of central government services, without a clear rationale.

Charities are operating in a volatile funding environment, and proposals for deficit reductions mean that this volatility is likely to remain over the next five years. Like any organisation, in planning for the future, charities want certainty on their income and the cost of delivering services. We have heard from a number of charities that have indicated that the current regime does not provide them certainty around the continued receipt of relief. Funding pressures for local authorities have meant that some organisations do not feel confident one year to the next on whether they will still receive discretionary rate relief. This makes it hard to plan for future delivery and may lead to charities reducing or ending services in order to reduce risk. This is not in the interests of beneficiaries. No other charitable tax relief has the same level of instability as discretionary rate relief. Some local authorities issue warnings that they may have to reduce or remove discretionary rate relief a year before they do so, however, this is often not confirmed until shortly before the end of the financial year. This does not enable effective forward planning and can create financial difficulties for charities.

Overview of policy options:

- *Increase mandatory charitable non-domestic business rate relief to 100% over four years in increments of 5% from 80%.*
- *Centralise the funding of mandatory charitable non-domestic business rate relief so that it does not disadvantage local authorities with high levels of charities. This would be carried out over several years.*

The change could be achieved by modifying section 43(6) and 47(2) of the Local Government Finance Act 1988.

Based on DCLG forecast of that charitable occupation business rate relief will be £1.57bn in 2016-17, we assume that increase rate relief will cost £400m, with more charities applying for rate relief due to reduced bureaucracy and some charities not receiving any benefit due to the fact that they currently receive discretionary rate

relief from their local authority.
The cost of business rate relief being refunded to local authorities would be £785m, based on 50% of the forecast total in 2016/17. In total, this measure would cost £1.18bn.

What are the policy objectives and intended effects?

- **Fairness** – we believe that it should treat all charities equally, regardless of location and activity. This in keeping with the principle that providing charities meeting the legal criteria to be a charity that they should have equal access to charitable reliefs, regardless of where they operate in the country
- **Simplicity** – we believe that the system should be as simple as possible both for charities and for the government to implement. Applying 100% rate relief to all charities will avoid the need for local authorities to develop and operate discretionary rate relief policies. This would free up their time and reduce the cost of administration.
- **Consistency** - we believe that the rules should be consistently applied across all charities to give certainty and enable effective business planning.
- **Cutting red tape** – reducing bureaucracy for local authorities and charities

This proposal would generate a number of additional benefits:

- It would reduce the costs of delivering services or public benefit for charities and enable more resources to be focused on delivering charitable objectives. This will particularly help small and medium sized charities, and support charities working in disadvantaged communities.

- Charities are important builders of social capital, so reductions in the costs of operating will have significant benefits for charities and for small and medium sized charities it is likely that this additional resource will be recycled through local communities having a positive multiplier effect.

- By shifting the cost from local to central government, we believe that this proposal will ensure that local councils are not penalised for having high numbers of charities operating within their area. The Centre for Social Justice in *Something's Got to Give – The state of Britain's voluntary and community sector* highlighted concerns around 'charity cold spots'. We believe that this proposal could address this concern and ensure that no area lacks the positive impact that charities can bring.

It would also **reduce the costs of the delivery** of central government services through charitable organisations and ensure that central government costs are not higher than local government costs when working with charities. The removal of discretionary rate relief would also remove uncertainty and avoid the need for additional guidance to be given to local authorities on the operation of business rate relief

3) Give higher rate taxpayers the option to give their individual tax relief to charities

<table>
<tr><td colspan="5">Policy option: Give higher-rate taxpayers the option to give their individual tax relief to charities</td></tr>
<tr><td colspan="5">Estimated Costs per year (£m) between 2017-18 and 2021-2022</td></tr>
<tr><td>2017/18</td><td>2018/19</td><td>2019/20</td><td>2020/21</td><td>2021/22</td></tr>
<tr><td>-50</td><td>-50</td><td>-50</td><td>-50</td><td>-50</td></tr>
<tr><td colspan="5">What is the problem under consideration?
In the last year, individual tax relief for higher rate taxpayers for Gift-Aid claimed donations was estimated to cost £480m.

However HMRC is aware that many higher rate taxpayers not making use of the Gift Aid relief that they are entitled to receive and has carried out research to identify what are the barriers to claiming.

However, for many higher rate donors, they are unlikely to make significant donations of a large enough scale in order to make claiming the higher rate relief worthwhile – for example, donations or memberships of charities. Moreover, in many cases, donors may forget that they have made donations, because of the gap between the donation and filling in their tax returns.

HMRC does not publish information on the ‘tax gap’ between what higher rate tax payers are estimated to be entitled to collect and what tax relief they do collect, however, it is likely that there is tens of millions of Gift Aid being unclaimed.</td></tr>
<tr><td colspan="5">Overview of policy options:

- Give higher rate taxpayers the option to give all their tax relief to the charity directly

A simple solution to the above problem would be to give higher rate taxpayers the option to tick an extra box on their Gift Aid Declaration to give all their tax to the charity.

In this case, if a higher rate donor Gift-Aided a donation, of £10 instead of the charity receiving £12.50 as currently, it would be worth £15.</td></tr>
<tr><td colspan="5">What are the policy objectives and intended effects?

The aim of this policy would be to ensure that higher rate taxpayers maximised the value of their donations, increase the value of donations for charities and ensure that more good causes could be supported.

It would also simplify the system for many higher rate taxpayers, who would not</td></tr>
</table>

need to worry about making an additional claim to make the most of the tax relief, unless they were making significant donations or wanted to keep the tax relief for themselves.

4) Substantially reform the Gift Aid Small Donations Scheme

Policy option: Substantial reform to the Gift Aid Small Donations Scheme

Estimated Costs per year (£m) between 2017-18 and 2021-2022

2017/18	2018/19	2019/20	2020/21	2021/22
-26	-53	-79	-106	-132

What is the problem under consideration?

The Gift Aid Small Donations Scheme (GASDS) is failing to meet its core objectives.

The scheme was supposed to support small local charities, encourage them to fundraise and encourage them to use the 'Gift Aid' system for donations (which enables donors to give their income tax to 'top-up' their donations).

Despite being predicted to provide over £100m in support for small charities in 2015/16 when it was introduced, the scheme was predicted to only provide £26m in support according to HMRC's Charity Tax Statistics.

Only 29% of the number of charities projected to claim in 2014/15 have done so, according to HMRC's own consultation.

The number of charities claiming Gift Aid has not significantly increased since the introduction of this scheme. According to HMRC around 70,000 charities have claimed Gift Aid each year, which is similar to levels reported before the scheme was introduced.

Overview of policy options:

- *Use the current Small Charitable Donations Bill to substantially reform the scheme by:*
    - **Scrapping the 'matching requirement'** which adds more red tape to them scheme and means that small local charities cannot maximise their income under the scheme.
    - **Expanding the scheme** to cover one-off online donations, cheques and text donations given to charities without Gift Aid declarations.
    - **Reforming the connected charities rule** so that Scout groups, Girl guides and cadet groups can make the most of the scheme.

What are the policy objectives and intended effects? The aim of this policy would be to encourage more small charities to fundraise and make use of the Gift Aid system. It would increase the number of charities claiming Gift Aid, by making the scheme simpler to use and more attractive for charities. It would also ensure that more small charities were supported, at a time when many are coping with significant cuts in funding. Lloyds Bank Foundation & NCVO's *Navigating Change* found that government grants to small charities with income under £1m had fallen significantly (by over 60% for those with income under £100k) and that donation income had also fallen across the board (by 10% for those with an income under £100k). Improving this scheme would give much needed support to these organisations.

5) Exempt charities from the Insurance Premium Tax

Policy option: Exempt charities from the Insurance Premium Tax				
Estimated Costs per year (£m) between 2017-18 and 2021-2022				
2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
-87	-87	-87	-87	-87
What is the problem under consideration? Like other organisations, charities regularly have to take out insurance in order to carry out their activities, reducing the risks of their organisation and safeguarding the charity's assets. In 2011, a study by the Charity Tax Group found that Insurance Premium Tax accounted for around 4% of the tax paid by a group of 31 charities they analysed. This is not a representative sample, but is a useful indicator of the cost to the sector. Accounting for increases in the rate of Insurance Premium Tax and increases in inflation, if the charities analysed were surveyed today and were paying the same levels of tax, Insurance Premium Tax would cost them £649,971 between them. This is a significant outlay of expenditure. If we were to assume that the cost of IPT in comparison with other taxes charities pay has remained constant and we extrapolate this across the sector as a whole, we can estimate that the cost of IPT to the sector is around £87m a year. It is understandable that private companies which are undertaking activities in order to generate profit should be asked to pay tax on their activities. However it is not				

clear why charities, undertaking activities for public benefit and seeking to safeguard their assets through taking insurance, should have to pay Insurance Premium Tax.
Overview of policy options: - *Exempt registered charities from paying Insurance Premium Tax*
What are the policy objectives and intended effects? The aim of this policy would be to save charities millions every year that could be directed towards further charitable objectives and reducing the cost for charities for undertaking fundraising activities, for example, concerts or events. It would also ensure that charities were not penalised for being prudent in seeking to safeguard their assets which are being used to deliver public benefit.

Overall financial scorecard

Estimated Costs of all proposals per year					
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Reducing irrecoverable VAT	-270	-540	-810	-1080	-1350
Increasing business rate relief to 100% (without centralised funding)	-100	-200	-300	-400	-400
Giving higher rate tax payers the option to give all their tax relief to the charity	-50	-50	-50	-50	-50
Substantial reform of the Gift Aid Small Donations Scheme	-26	-53	-79	-106	-132
Exempting charities from the Insurance Premium Tax	-87	-87	-87	-87	-87
Total per year	**-533**	**-930**	**-1326**	**-1723**	**-2019**