

CHARITY BULLETIN

THE GOVERNMENT'S LATEST DONATIONS TO CHARITY

At a time when the not-for-profit sector faces some complex challenges and organisations need to make difficult decisions about their future, this bulletin considers the measures introduced in the latest Budget that will affect charities. We also consider potential new ways for such organisations to minimise their VAT liabilities.

BUDGET 2011

BOOSTING DONATIONS THROUGH GIFT AID

The latest Budget offered charities a multi-million pound lift through proposals to reform Gift Aid, designed to bring the tax relief scheme "into the 21st century" by cutting bureaucracy.

With more than four in 10 charities failing to maximise their income from Gift Aid claims, this reduction in red tape will prove highly beneficial, especially to smaller charities who often struggle to make the most of this relief.

The proposals will enable charities to claim Gift Aid on up to £5,000 of small donations without the need for declarations from April 2013, including donations given in collection tins or buckets. The Gift Aid limit has already been increased from £500 to £2,500 to enable charities to give "thank you" gifts to significant donors.

There are also plans to introduce an online filing system for Gift Aid from 2013, which will be designed to make the process simpler and reduce red tape. To help fund this, the SA Donate scheme will be withdrawn from this tax year.



LEGACY DONATIONS

Individuals are also being encouraged to remember charities in their Wills in exchange for a tax incentive. Consequently, anyone leaving 10 per cent of their estate to charity will have their Inheritance Tax bill cut by 10 per cent.

The Chancellor hopes that this long-term strategy will make it normal for people to donate to charities through bequests. This measure will be of particular benefit to organisations which are active in legacy fundraising.

TAX SIMPLIFICATION

The Budget also saw the scrapping of 43 tax reliefs, including those affecting charities. The Chancellor followed most of the recommendations made by the Office of Tax Simplification (OTS), which presented its final report to him ahead of the Budget. As these reliefs are now outdated, there will be no impact on charities from their elimination.

Further tax reliefs are set to be removed in 2012, following consultation.

VEHICLE COSTS

Charities which use vehicles in their work and volunteers unable to claim their expenses from the organisation should benefit from a 1p reduction in fuel duty – assuming this is passed on as reduced fuel prices.

In addition, anyone using their vehicle for work purposes will receive an increased allowance of 45p per mile for the first 10,000 miles (25p afterwards).

Volunteers can now also claim the 5p per mile passenger allowance that was previously only available to employees.

POLICIES THAT HAVE NOT CHANGED

As the higher rate of tax relief for donors has not been scrapped, there is still a significant incentive for high earners to donate to charity.

FURTHER MEASURES

The Government has also announced a consultation, which will be launched this summer, on tax deductions for people who donate works of art or historical artefacts of national importance to the nation.

The substantial donor rules have been replaced with regulations designed to catch “tainted” donations. They apply if the donor is not a wholly-owned trading subsidiary of the charity and the main purpose of the donation is to gain a financial advantage from the organisation.

VAT ISSUES

COMMERCIAL WASTE COLLECTION

Charities which are currently not using their local authority for commercial waste collection could profit from doing so, following a recent ruling that the authority does not have to charge VAT for these services.

Organisations which are not VAT registered could also benefit by not having to pay VAT for their waste collection services.

We are awaiting clarification on whether this can be applied retrospectively, enabling charities which have used their local authority’s services to claim a VAT refund from them. We will, of course, keep you up to date with future developments.

SHARED BACK-OFFICE SERVICES

The Government is considering publishing a consultation paper in the next couple of months to examine the tax paid by charities which share back-office services.

This paper would look at the possibility of using an EU directive to remove the “artificial VAT charge” that occurs when charities charge one another for a service or create subsidiaries in order to share services such as HR or IT. These charges do not apply to private or public sector firms.

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