

CHARITY BRIEFING: EMERGENCY BUDGET 2010

The new Conservative-Liberal Democrat coalition government delivered its first Budget on 22nd June – less than three months after the final Budget of the last parliament.

While no measures were introduced specifically for the not-for-profit sector, many charitable organisations are likely to be concerned about the impact of the announced plans on their finances.

To help not-for-profit organisations make the most of their funding, the team at Milsted Langdon highlights the good, the bad and the potentially ugly changes, and advises on how to limit the impact.

VAT rises to 20 percent

This rise in VAT from 4th January 2011 will increase the costs of running a charity. The additional annual costs are estimated to be between £140 million and £150 million, with smaller charities disproportionately affected.

Although no exemptions were announced, the Charity Tax Group has pledged to fight for voluntary sector exemption before the implementation date. A consultation to look at the possibility of VAT exemptions for charities which share central costs has also been announced. This will start in the autumn.

What steps can charities take ahead of the VAT increase?

- Bring forward any planned expenditure on which VAT is charged to take advantage of the current 17.5 percent rate. Be aware that there are anti-forestalling rules to catch the invoicing of services before 4th January 2011 if they are to be supplied on or after that date.
- Check that all VAT exemptions and reliefs are being claimed. There are a number of specific exemptions which apply to charities, even if they are not registered for VAT. An example is the zero rating for advertising, which covers all advertising by the charity, including adverts for staff recruitment.
- Carry out a review of the partial exemption method being used – where the charity is registered for VAT – to ensure that VAT recovery is maximised.



Capital Gains Tax increases to 28 percent

Since 23rd June 2010, higher rate taxpayers have been required to pay Capital Gains Tax at a rate of 28 percent. This may provide a greater incentive for affected taxpayers to donate assets to a charity of their choice.

Income Tax relief of 50 percent or more is also available on gifts to charities of certain qualifying assets. There is also no Capital Gains Tax to pay on these gifts.

These reliefs are not widely known about by taxpayers, so charities have opportunities to spread the word.

Changes to personal allowances and National Insurance thresholds

The tax-free personal allowance for Income Tax will increase from £6,475 to £7,475 for the 2011/12 tax year, benefiting lower paid workers.

The threshold at which employers start making National Insurance contributions will rise by £21 per week above inflation from 6th April 2011. However, the increases in National Insurance contribution rates to 13.8 percent for both employers and employees will still go ahead from the same date. Many smaller charities stand to benefit from these changes.

A National Insurance holiday for new business start-ups outside London and the South-East was announced. This will benefit charities which are considering setting up a new trading activity. As charities need to structure their trading activities carefully, we will cover this in more detail in a future newsletter.

Landfill Tax rises by £8 per tonne

The news that the standard rate of Landfill Tax will rise by £8 per tonne each year from 2011 to at least 2014 is good news for environmental organisations. As a result of this increase, an extra £5 million of grants will be available to voluntary sector organisations each year.

Policies that have not changed

There were no changes to the Gift Aid scheme.

Also, the Inheritance Tax nil rate band has remained at £325,000. The Conservatives had pledged to increase the nil rate band to £1 million, which could have had an adverse impact on legacies to charities.

Government spending cuts and benefit changes

Over the next four years, there will be significant government spending cuts, which are likely to affect funding for many not-for-profit organisations.

In addition, the substantial changes to the benefits system in terms of allowances, thresholds and criteria will affect the beneficiaries of many charities' services. This could also indirectly affect the funding received should current beneficiaries fall out of the scope for support.

The earlier details of the changes are available, the more time charitable organisations will have to plan their response. Consequently, staying in regular contact with funders and users of services is more important than ever.

Further consultations

Further consultation will take place regarding tightening the substantial donor rules. Currently these are complex and focus on the charity receiving the donation. Under the new rules, the focus will move from the charity to the donor.

The new drafts rules are expected to be published in the summer, but will not come into effect until the consultation process is concluded and the final legislation passed.

As usual, there are further changes to bear in mind when planning for future spending. If you are not sure of the likely impact of any of these measures on your organisation or would like advice on any specific issue, we would be happy to hear from you.

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