

Written evidence submitted by the Charity Tax Group

Supplementary response to the Call for Evidence by the Charity Tax Group – VAT and charities

7 December 2020

1. The Charity Tax Group (CTG) submitted a joint response to the Inquiry with sector partners in September 2020: [House of Commons Treasury Committee Inquiry into Tax after Coronavirus – Joint response from CTG CFG NCVO and IoF](#).
2. The response noted that as a result of COVID-19, traditional income sources for the charity sector have come under increased strain, while demand for services has increased. The response outlined a number of core principles that should underpin any reform of taxation going forward. As a minimum, existing charity tax reliefs should be protected and tax compliance and administration simplified. We highlighted the importance of protecting valuable existing business rates and VAT reliefs, future-proofing tax systems and legislation and call for improved collaboration and dialogue between HMRC and the charity sector. The charity sector also made a specific call for a Gift Aid Emergency Relief package to help ensure charities have sufficient funds to play a leading role in the COVID-19 recovery.
3. The response referenced forthcoming research by CTG on VAT and charities. That research has now been published (links below) and shows that VAT continues to place a significant burden on UK charities, with irrecoverable VAT now costing charities £1.8bn a year. VAT is a problem because charities cannot always pass on the cost of VAT to customers and which means they cannot recover the VAT on their purchases in full. Charity funds have to be used to pay VAT bills, rather than being used to help beneficiaries.
 - [Charities and VAT: an evaluation](#), Charity Tax Group, December 2020
 - [The value of VAT reliefs for the charity sector](#), London Economics, November 2020
4. In response to this increasing VAT burden, CTG is calling on the Government to introduce a new special charity VAT rate on purchases, to complement existing reduced and zero rates and the social exemptions. The proposal is simple, benefits all charities, and could be adjusted depending on economic circumstances. For too long, VAT has been a burden on charitable activity. We hope that the Treasury Committee can support this proposed solution.
5. The research also highlights the importance of existing VAT reliefs and exemptions for the charity sector, against a backdrop of calls for a widening of the VAT base both in response to Brexit and to pay for the cost of the COVID-19 pandemic. The research quantifies for the first time the value of existing VAT reliefs on purchases (£0.8bn) and the impact of VAT on charity sales and service delivery. Until now, there have been no comprehensive figures for the amount of VAT relief charities claim, nor the ability to evaluate effectively the impact on charities of changes to the VAT system. The research also demonstrates, for the first time, the total tax contribution made by charities [TTC] which amounts to £10.12bn a year and quantifies the reliefs available to them.
6. CTG would be happy to provide additional briefing to the Committee if that would be helpful.

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