Topic: What charities really cost the taxpayer - Discussion led by Merelene Davis

Summary

Merelene highlighted the extent of government contribution to qualifying UK and foreign charities. It is suggested that the taxpayer provides the funding with inadequate checks as to whether there really is a real charitable activity being supported. She referred to an article of the same name written by Merryn Somerset Webb and first published in the Financial Times 2015.

Discussion

Statistics for 2014-15 (from HMRC 40-page paper on UK Charity tax relief)

	£bn
Gift Aid-direct payments to charities	1.20
Business rate relief (at 80% to 100%)	1.60
VAT relief	0.25
Stamp duty relief on buying property	0.10
Inheritance tax relief	0.60
Payroll giving	0.40
Direct grants by government to charities	2.20
Measured total is roughly	6.50
Numbers not given as they cannot be stated accurately by HMRC are	?
Tax not collected on investment income (£3.5bn) received by charities	?
Tax not collected on trading companies giving 100% profits to charities	?
Payments to charities by government bodies for services rendered	11.10

There are over two hundred thousand charities in the UK and they are growing at the rate of a thousand (or more) a year. Charity is BIG business!

Gift Aid

A poll of attendees resulted in a clear majority approving the Gift Aid scheme. It was also pointed out that in the Gift Aid scheme each individual’s personal choice of the recipient charity supported is supplemented by a contribution to that same chosen charity funded by the tax paid by that giver. Charities can only claim the relief if the gift is made by a taxpayer.

There is concern that the system is abused by wealthy people setting up charities to support pet projects that indirectly support their (and their family members’) lifestyle. The question is thus whether the Treasury should be less generous in supporting charities and concentrate taxpayers’ money on the principal concerns of government; social care, education, health care etc.

Business rate relief

In wealthy areas of the country, it is often the case that premises on the High Street are left unoccupied due to prohibitively high business rates being unaffordable to normal trading concerns. Empty premises are then filled by charities who are exempt from paying business rates. Would the community not be better served by local authorities reducing business rates thus encouraging town centres to be patronised by local inhabitants because of the presence of a variety of businesses and not just a long row of charity and coffee shops.

VAT relief

Charities pay VAT on all standard rated services and goods bought from VAT registered businesses, pay a reduced rate of 5% on fuel and power for qualifying purposes and zero % on a variety of services like advertising and construction services and purchases of (inter alia) aids for disabled people, drugs, chemicals, medicine, medical equipment and ambulances.

Inheritance Tax

Inheritance tax can be legally avoided if gifts are made at least 7 years before death and Estates can reduce the tax rate from 40% to 36% if a testamentary gift of at least 10% of the Estate's net value is made to a qualifying charity. Business assets willed to inheritors can reduce the level of inheritance taxes payable, provided they have been owned by the deceased for at least two years prior to his death.

Payroll giving

The most tax effective way of giving donations directly to charities is called payroll giving. A donation of £5 deducted from gross salary after national insurance contributions will actually cost an employee £4 from take-home pay if he is a basic rate taxpayer (£3 if he is a higher rate taxpayer).

Direct grants by government to charities

The government makes direct grants to charities through bodies like the Arts Council, National Lottery Community Fund, local community foundations, Children in Need and Comic Relief and Survivors of modern slavery charities amongst others.

Payments to charities by government bodies for services rendered

We are not very clear what services these payments are. Investigation via search engines does not appear to elicit any more details.

Untaxed trading profits gifted to charities

The Treasury is unable to provide details of the quantum of tax lost to the Revenue. A great number of charities set up trading companies to carry out funding activities as that is the most effective way of operating. The whole of their trading profit is then gifted to the underlying charity thus escaping tax.

Some companies, who are not charities themselves, are set up to make collections on behalf of charities and then promise to pay a fixed sum per tonne collected to the charity, retaining the profit on disposal for themselves. The 'gifts' to qualifying charities are tax deductible.

Doubt over ethical value of expenditure incurred by charities

The writer of the article says he knows of some charities who spend more on keeping their final salary pension schemes going than they do on charitable activities. It is also not unusual for extremely high salaries to be paid to people controlling the charity.

Apparently, Oxfam spends some £20m a year on political campaigning, is that really a charitable expense, or just lobbying? Lobbying to protect or enhance the effectiveness of charitable purposes is perfectly justified, but if not, should the taxpayer foot the bill?

Food banks

Food banks, largely run by volunteers, supply emergency boxes of food (usually for a minimum of three days) and offer support for people in crisis. Some provide hot food and advice sessions. In-date food and personal hygiene items are usually donated by members of the public. Supermarkets may donate out-of-date foodstuffs and other items. Needy people access food banks by using food vouchers. Reasons for this need arising include the low level of state benefits or part-time wages, leading to insufficient disposable income- generally lower than £50 per week after paying rent. The government should seek to ensure benefits are at the right level to avoid people having to rely on food banks.

Charitable purposes listed under the Charities Act

The purposes listed under the Act are as follows:

- The prevention and relief of property, relief of those in need by reason of youth, age, ill-health, disability and financial hardship etc.
- The advancement of religion, education, health and the saving of lives, citizenship and community development, arts and culture, amateur sport, human rights, conflict resolution, environmental protection and animal welfare
- The efficiency of the armed forces, the police and fire and rescue services or ambulance services.

C***onclusion***

It has to be said that we are all in favour of charities, but are also aware that control over charities should be improved, particularly in regard as to which charitable functions ought to be supported by the general body of taxpayers. Nobody can take away someone’s right to support a charity (or charities) of his/her choice.