



The Charity Tax Group - Budget Bulletin

Counting the Cost?

It is only a few hours now since the Chancellor delivered her budget and whilst a period of longer reflection may provide further insight, we want, amongst the other updates you will inevitably see and read, to highlight areas which we feel are of particular interest to our charity members. The main immediate issues perhaps being the increased costs that charities with large numbers of employees will face through increased employers' National Insurance Contributions and the increase in the national living wage.

Having presented a number of very sensible cost free or low-cost options to the Government in our budget submission, there is inevitably some disappointment that the Government did not take more steps to improve the tax position for charities with some easy wins. We did though have a very useful briefing discussion with HMRC immediately after the budget and that has kept the fires of our enthusiasm for reform alight.

For those of you who are interested in numbers, we have managed to count just 13 (perhaps unluckily) mentions of the charity sector in the Budget. These are almost evenly divided between a section on preventing abuse of charity tax rules (expected to raise £35m per year) which is the long-awaited response to the April 2023 charity compliance consultation and the withdrawal of business rates relief for those charities who are private schools (expected to raise £90m per year).

However, whilst we may be disappointed by the lack of improvements for the

charity sector, we do at least draw some comfort that, with the exception of the promised VAT and rates changes for private schools, there was no wide-ranging withdrawal or restriction of the generous reliefs we enjoy as a sector.

And now for the detail....

Richard Bray, Chair, CTG



National Insurance Contributions (NIC)

There will be a number of changes to employers' NIC from April 2025. The main points are:

an increase in the contribution rate from 13.8% to 15%

This will be a substantial cost to charities with a large number of employees, such as those running networks of charity shops, with teams providing care, education providers and others.

an increase in the Employment Allowance from £5,000 to £10,500

This will be a small but welcome boost for smaller charities who may now pay no NIC at all or will have a reduced liability.

National living wage (NLW)

It is good news for workers that the government has accepted the

recommendations of the Low Pay Commission and the NLW will increase by 6.7% to £12.21 per hour from April 2025. However, like the NIC increase, this will put pressure on many charity budgets as unlike businesses, there is often little scope to pass on additional costs to customers or funders. Additionally, as we highlighted in our August newsletter, the increase in NLW will exclude more employees from participating in salary sacrifice arrangements and increase the tax risks associated with them.

As employers, members should take the time to review any salary sacrifice arrangements that they have in place and ensure that post salary sacrifice salaries for all employees will be compliant with the new NLW rates from April 2025. The penalties for non-compliance with NLW are high, and HMRC also 'name and shame' employers who default.

Improving Charity compliance

After a long delay, the budget did finally reveal the [Government's conclusions](#) on the charity compliance consultation which was launched in April 2023. Much of this is focused on preventing improper use of charity tax reliefs to obtain personal benefit. Clearly, we strongly support this (the prevention not the personal benefit). The consultation covered several strands aimed at tackling avoidance as well as poor compliance levels by charities in relation to corporation taxes and there is one very big point in here on fit and proper persons which charities will need to monitor carefully.

Fit and proper person

Tax relief for charities is in many cases dependent on the charity being run by 'fit and proper persons'. This term is not defined in tax legislation, but there is detailed guidance, which sets out the approach that HMRC will take in considering if charity trustees or managers are 'fit and proper'. As you might expect, this includes considering whether a person has ever been disqualified from being a charity trustee or director, but also takes other points into consideration such as involvement in tax fraud or tax avoidance.

HMRC now propose that the definition will be extended to include a person who persistently fails to comply with tax obligations such as 'timely filing of returns'. It does appear that HMRC expect that this is a measure of last resort for those charities who persistently fail to engage with the need to file returns, but may nonetheless be a very big hammer for some – 'file the tax return' should now move a long way up the agenda!

Tainted charitable donations

In addressing avoidance, the government has proposed two changes to come

in from April 2026. The first is to update the [Tainted Charitable Donations](#) (TCD) legislation by lowering the bar for challenging a transaction. In the current legislation, HMRC must demonstrate a 'motive' or 'main purpose' of obtaining a 'financial advantage'. This test will be replaced with an 'outcome test' which will allow HMRC to consider a series of transactions in the round rather than a single transaction.

For those who recall the discussions with HMRC at the time of the implementation of the TCD rules, there is a very difficult balance between effective anti-avoidance and excessive risk and administration for bona fide organisations. We are therefore keen to see the draft legislation and engage with HMRC on its effectiveness and any adverse impact on charities, as well as supporting their communication strategy.

Qualifying investments

The second strand of addressing avoidance is [qualifying charitable investments](#) (QCI). Because the compliance requirements around QCI are quite light touch, this area is sometimes given less attention than it deserves. This is surprising because whilst the TCD rules impact on donors, the QCI rules impact on the charities themselves, withdrawing corporation tax reliefs. The QCI rules set out 12 types of qualifying investments. The 12th category is a 'catch all' covering loans or other investments made for the benefit of the charitable company and not for the avoidance of tax. The government will introduce new legislation from April 2026 to ensure that all investments, not just 'type 12' ones must be for the benefit of the charity and not for the avoidance of tax.

VAT on school fees

One part of the budget which certainly did not surprise was confirmation that VAT would be applied to private school fees from 1 January 2025 and to prepayments for education delivered after that date. Around half of the approximately 2,500 private schools in the UK are charities. The main points are that, for private schools:

- VAT will be applied to fees for education and boarding;
- Nursery fees, some after school clubs and supplies which are closely related to providing education such as school meals and classroom essentials will continue to be exempt from VAT;
- Business rates relief for private schools which are charities will be withdrawn from April 2025.

Although the main principles here are relatively straight forward there is actually a lot of complexity in the detail which schools will need to absorb and

implement in a relatively short timescale.

Earlier this month, we had a detailed discussion with the policy team responsible for this area in which we were able to highlight a number of areas of concern. Particular issues are likely to arise around the boundaries between providing education and providing care and we anticipate that the Tribunal system may be kept busy over the next few years whilst those boundaries are tested.

Business rates

One of the government's flagship manifesto pledges was to introduce a fairer business rates system that protects the high-street, supports investment, and is fit for the 21st century. Although there is no clear road map towards the seismic shift we were perhaps expecting from the pre-election trailers, it is welcome news that the [government announced its intention](#) to introduce permanently lower business rates for retail, hospitality and leisure (RHL) properties with rateable value (RV) under £500,000 from 2026-27, and an immediate easement providing 40% relief to RHL businesses on their business rates in 2025-26, up to a cash cap of £110,000 per business. For the smallest properties, the small business multiplier will be frozen in 2025-26. They have also set out areas of interest for further reform, how the government will take this forward and how stakeholders can participate.

According to the government's published '[UK charity tax relief statistics](#)', charity relief from business rates is more valuable than Gift Aid. CTG will therefore continue to work with HMRC on this.

Carried Interest

You may be surprised to learn that CTG responded to the government's consultation on plans to reform taxation of venture capital fund managers. There was a small risk that some of the possible fixes could have resulted in the loss of corporation tax exemption for charities on gains from investments in venture capital funds. The government has published [its response to this consultation](#), and although there is a further consultation on the issue, the proposed solution which will mean that an individual is liable to Income Tax and Class 4 NICs, appears to be unproblematic for charities. We will of course continue to follow this matter.

We hope that this summary of the main tax points is useful. If you have

any comments or technical points you would like to raise, please e-mail expert@charitytaxgroup.org.uk

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