

## Budget 2013 – Notes for Charities

George Osborne's Budget Speech to Parliament on 20 March 2013 was, thankfully, lacking any major announcement likely to cause specific problems for charities as a whole – and even had some significant points of good news (see below). (This was a welcome contrast to last year when he announced the policy of capping large donations to charity with the implications that major donors were just tax avoiders – a policy which he eventually had to be abandon following the sector's highly successful 'Give it back, George' campaign).

However, given the state of austerity, and continuing cuts in public sector funds, many charities will continue to have a hard time, especially those dependent on public sector funding. Many charities will also have donors with static or falling incomes, or at best rising lower than inflation, which will limit their scope for charitable giving. The economic pressures and forthcoming changes to the benefits system will also see many charities trying to support beneficiaries and service users under increased pressure.

### **£2000 Employment Allowance towards Employer's National Insurance**

One announcement, although not specific to charities, will certainly be beneficial for nearly all charities with employees. The Budget announced that from the 2014/15 tax year all employers will be entitled to a £2,000 allowance towards their employer's national insurance bill to be called the 'Employment Allowance'.

This kind of fixed allowance will make very little difference to large businesses, but to employers with only a few staff – which include a huge range of smaller charities and voluntary organisations – it will be very significant. For all charities whose annual bill for employer's NI is £2,000 or more, the allowance will mean a £2,000 cut in expenditure.

The measure is designed to encourage employment, and, in particular, to encourage firms to take on their first employees. This argument may help some charities to take on their first employed staff members. The Budget announcements points out that this means an employer could take on four full time staff on adult minimum wage or one person on an annual salary up to £22,400 without paying *any* employer's NI. (The allowance purely relates to the *employer's* NI – it has no direct effect on employees.)

Although this announcement applies to *all* employers – it is *not* a charity-specific measure – all the Budget documents (including Mr Osborne's speech) repeatedly refer to 'businesses and charities' when describing this announcement. This is very rare – normally Budget documents only mention charities when issues are charity-specific. It seems he is keen to rebuild his relationship with the sector after last year!

There is no need to apply for this allowance – it will be provided automatically through the 'real-time information' (RTI) payroll administration which all employers have to introduce from April 2013 (we believe most charities we work with are now geared up for this). However the allowance does not start until the tax year beginning April 2014 so there is no impact until then.

Unfortunately, the Employment Allowance will not benefit all charities. There will be no benefit to charities which:

- are run entirely by volunteers
- where the only paid staff work on a freelance (self-employed) basis
- where all staff earn less than £7696 per year (as in this case, no employer's NI applies anyway from April 2013).

Nevertheless a few charities with defined benefit pension schemes (usually final salary schemes) will be worse off (in some cases much worse) in the longer term because of other changes to the national insurance system as a result of the end of 'contracting out'. For large employers with defined benefit pensions these costs will far-outweigh the £2,000 Employment Allowance.

Until now, where an employer provided a defined benefit (DB) pension scheme the employee was 'opted out' of the state second pension (the earnings-related supplement to the basic state pension). In return for this, the employer currently pays 3.4% less NI than the normal rate and the employee pays 1.4% less. These rebates will end from April 2016 in line with the introduction of the new higher single-tier State Pension of £144/week from 2016/17.

The Budget documents say that private sector employers will be able to amend the terms of their pension schemes to reduce their contribution rates (and benefits) in order to reflect the extra NI costs when contracting out ends. (The idea is that employees will get more state pension so the benefits can be lower in the DB scheme – though employees may not be keen on this.) But public sector employers will be expected to absorb the extra cost through other savings – and charities with salary scales linked to the public sector may effectively find themselves in the same position.

However, both the Employment Allowance (from April 2014) and the NI contribution changes (from April 2016) are only announced in principle – as always we will need to wait for the legislation to be sure of the details.

### Income Tax Changes – Impact on Gift Aid Donors

Mr Osborne announced that the policy (long advocated by the Liberal Democrats) of increasing the personal allowance for income tax to £10,000 will be implemented from April 2014. Charities working with people in work or receiving employer's pensions but on low incomes, will clearly welcome this – but it may have significant impact on many charity donors. However, there are also changes in the opposite direction regarding those in the higher rate tax band.

In a period of just a few years the personal allowance will have risen from under £6,500 to £10,000 as shown in the table below (taken from the Budget documents).

Tax year:	2010-11	2011-12	2012-3	2013-4	2014-15
Personal Allowance	6,475	7,475	8,105	9,440	10,000
Basic Rate Limit	37,400	35,000	34,370	32,010	31,865
Higher Rate Threshold	43,875	42,475	42,475	41,450	41,865

So someone earning, say £8,500 could happily have made a Gift Aid declaration in 2010 to cover all future gifts until he/she says otherwise. But if the donor's income remains at the same level in the coming tax year he/she can no longer make donations under Gift Aid after 5 April 2013<sup>1</sup>. Strictly speaking it is up to donors to tell the charity if they wish to cancel Gift Aid declarations, but it is likely that only the most knowledgeable donors will do so. If donors continue to make Gift Aid donations without paying tax, HMRC is able to reclaim from the donor the tax refunded to the charity, which will clearly make donors very annoyed. In the past, the likelihood of HMRC chasing up donors on low incomes in this way was low, but with the move to Gift Aid online from 2013/14, it will be much easier for HMRC to cross-reference charity's Gift Aid claims with the records they hold on taxpayers, so this may become much more of an issue.

We therefore feel that charities should, at the very least, say something on the following lines in newsletters:

- *If you are one of our many supporters making regular donations under Gift Aid, thank you again for your support – this means all your gifts are increased by 25%, as we can reclaim the tax you have paid on your donation. **However, if you are no longer paying tax, do let us know.** This year, 2013/14, no one with less than £9440 annual income (£181 a week) will be paying income tax, and from 2014/15 the limit goes up to £10,000 (slightly more for pensioners). If you will no longer be paying tax as a result of these changes, do let us know so we can cancel your declaration and take you out of the Gift Aid scheme. But do please keep giving – your support is vital! In fact if you are paying less tax than before, perhaps you could consider increasing your gift a little?*

HIGHER RATE DONORS: The *increases* in personal allowances have, in most years, been balanced by a *reduction* in the basic rate limit – i.e. the maximum band of income tax taxable at the 20% basic rate. So the effect is that higher rate (40%) tax starts at *lower* levels of income. This means many donors on modest levels of income are now paying higher rate tax. Any donor on higher rate tax making gift aid donations gets a further tax saving, in addition to the benefit to the charity. Example:

- Jane Brown makes a charity donation of £50/month (£600/year) under Gift Aid. The charity reclaims a further 25% on this, so the charity gets £750 in total. But if Jane is a 40% taxpayer she also gets a similar reduction in her tax bill – either under self-assessment or through her PAYE tax code. So she saves £150 so her donation has only cost her £450. Of course she could just decide to pocket this saving, but if she understands the issue, she may be willing to give more. If she is willing to increase

<sup>1</sup> Assuming the donor isn't paying gift-aidable tax in other ways e.g. capital gains tax or income tax on investments.

her gift to £800/year (£67/month) the charity will get a £200 Gift Aid tax refund, so the charity will receive £1000 in total. Jane will also get a £200 saving on her own tax bill (e.g. through her tax code) so the £800 donation will only cost her £600 which is what she was willing to give in the first place.

As shown in the tables above, anyone with taxable income of £42K or over in 2013/14 or 2014/15 will be in this position – although other allowances, such as pension contributions affect where the band starts.

The Government has been talking for some years about the possibility of changing the Gift Aid system to make it easier for donors to pass the higher rate relief back to the charity, but to date there is no real consensus on this – the only simple way a donor can give the extra tax relief to the charity is to increase the initial donation. So, we suggest charities say more to donors about this. For appeals dealing mainly with donors in professional jobs (or even retired donors with good employer's pensions) we suggest a new norm is needed so that anyone likely to be earning over £42K is invited to consider contributing a third more than their intended gift, to allow for the higher rate relief. (So, for every £30 the donor is planning to give, the actual payment should be £40, as it will only cost the donor £30 after higher rate relief. The £40 gift is then worth £50 to the charity including the gift aid tax claim.)

*OTHER GIFT AID CHANGES from April 2013:* This article simply highlights the issues for donors as a result of Budget 2013. But many other changes to Gift Aid will take effect from 6 April 2013, including the start of the 'Gift Aid Small Donations Scheme' – allowing a gift-aid-type refund on cash donations in certain cases – and the move to online claims, which alters various Gift Aid rules and procedures. We are planning a further Kubernews Bulletin on these issues which will be issued shortly.

Alternatively it will often be the case that donors whose income not that much over £42K can avoid paying any tax at 40% by making some gift aid donations – though if their gift aid donations serve to take them outside higher rate entirely they won't make any higher rate tax rebate on donations within the basis rate band). For donors with income over £150K, paying the 50% rate of tax (45% from April) the benefits are even greater.

### Tax Relief for Social Investment

The Budget also announced that the Government is planning to consult on the introduction of a new tax relief to encourage investment into social enterprises.

The Budget documents do not give any details, but the timetable is confirmed: the consultation will start in summer 2013, the outcome will be confirmed in the Chancellor's Autumn Statement 2013 with a view to introducing legislation in Finance Bill 2014. This seems like an ambitious timetable, given that the Budget gives no clue as to how this would work, but it suggests that after many years of lobbying, the Government has accepted the case for incentives to encourage investors.

It is not clear whether this will offer any direct benefits to charities – a great deal will depend on the definition of 'social enterprise' and the types of investment allowed. If, for example, the tax relief was restricted to people buying shares in community interest companies (CICs) there would be no direct benefit to charities because a CIC cannot be a charity (and in any case, charities cannot have shareholders taking a private benefit). But other forms of investment could well be included, such as conditional loans (for example, a loan to a charity where interest is only when payable if a project succeeds in delivering specific outcomes).

However, it should never be forgotten that the best form of investment in a charity is an outright gift where nothing has to be repaid – this *already* qualifies for tax relief as the investment can be made as a Gift Aid donation.

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