<u>Autumn Statement: Charities Aid Foundation Submission</u>

The Charities Aid Foundation (CAF) is the UK's largest charity by income. For nearly 100 years we have worked with partners across industry, government, and individual philanthropists to ensure vital funding reaches charities around the world. We work to stimulate giving, social investment, and to ensure the effective use of charitable funds by offering a range of specialist financial and philanthropic services to charities and donors. Last financial year, we distributed more than £1bn to good causes in the UK and over 100 countries around the world.

Context

We are grateful for the £100m of support allocated to the charitable sector in the Spring Budget 2023. This will help charities who are struggling to provide vital services at this challenging time. As the sector is likely to continue to face challenges, we hope that the Government considers directing further funding into the scheme in future.

However, as we approach the autumn, the long-term impacts of the pandemic and the cost-of-living crisis on charities are becoming increasingly evident. Charities are facing sustained higher costs, but unlike businesses, they cannot pass these costs on. The number of people donating is in decline, while inflation has eroded the value of donations. Analysis conducted by Pro Bono Economics suggests that inflation may have eroded the value of giving in 2022 by more than £500m. Meanwhile the amount given by businesses has stagnated. CAF research in 2023 found that the value of giving by the FTSE 100 has remained unchanged since 2016, contributing to a real terms fall in the value of giving of 26%. At the same time, charities are meeting significantly higher demand for their services. Many have relied on their reserves to get them through, while others have cut back on their services or been forced to turn people away.

More than 600 charity leaders were surveyed by CAF in April and May 2023, with the results showing that:

- Four-fifths of charities have seen demand increase compared to a year ago
- Just 38% of charities have high levels of confidence they can afford to meet the current demand for their services
- Only half of charities are confident they can meet their current overheads, including energy, rent and supplies.
- Six in ten charities said that they are struggling to recruit or retain suitably qualified candidates or volunteers.

In addition, in comparison to countries such as New Zealand, Canada and the US, British people donate much less. Similarly, governments in Australia and Ireland are taking concrete steps to boost philanthropy by working with stakeholders to develop national strategies, with the Australian government setting a target to double philanthropic giving by 2030.

Given this context, we urge the Chancellor use the Autumn Statement to take steps to support charity resilience and to promote philanthropy and giving.

Recommendations

1. **Develop a national strategy for philanthropy and charitable giving**

The UK Government should commit to developing a national strategy for philanthropy and charitable giving to address the challenges facing the sector today, and to ensure that the contribution made by charities and donors to society is fully unlocked.

This strategy should consider the UK's broad philanthropic and charitable landscape, exploring individual giving (particularly from high net-worth individuals) corporate giving, and place-based giving. It should also look at the role and position of philanthropy within government, data and evidence around giving, and giving infrastructure. Our research indicates that if companies in the FTSE 100 had continued to donate the same proportion of pre-tax profits to charity as they did in 2016, an additional £3.74bn would have gone to the charity sector. To support better understanding of corporate giving, and to set clear standards, we also recommend that the government make the reporting of corporate giving mandatory in companies' annual reports, reversing the 2013 amendment to the Companies Act, which removed the requirement.

In developing the strategy, the Government should work closely with stakeholders including charities, sector bodies, commissioners of charitable services, businesses, academics, trade unions and the public. A strategic plan is critical to unlocking the true value of the country's generosity and helping charities to survive and thrive in these challenging economic times.

Below, we list further policy proposals which could form part of the UK's strategic approach to boosting charitable and philanthropic giving and supporting charity resilience.

2. **Grants and contracts should cover cost of delivery and to increase with inflation**

Our data shows a clear pattern of charities struggling to maintain service delivery in the wake of increasing costs.

Some charities are turning down government contracts because they do not allow them to recover the full costs of delivering those contracts. The Autumn Statement is an opportunity for the Government to pledge to increase contract values in line with inflation. We echo calls from the wider charitable sector to increase local government funding to make this possible.

3. **Uprate thresholds in line with inflation**

Given recent high inflation, the value of a number of charity allowances and thresholds has been eroded. We would highlight the opportunity to uprate thresholds with respect to:

- The Gift Aid Small Donations Scheme, which has a threshold of £8,000, allowing charities to claim (at a rate of 25%) up to £2,000 in a tax year. This £8,000 threshold has been unchanged since 2016. We believe this should be increased in line with inflation.
- Registration and audit thresholds have also remained unchanged, bringing a number of small charities into the scope of the regime. Uprating these thresholds in line with inflation would reduce the burden of red tape on small charities.
- The Charities Small Trading Exemption currently allows charities with an annual income of over £320,000 to engage in non-primary purpose trading up to a maximum of £80,000. Further trading requires charities to set up a trading subsidiary, invoking costly administration. These exemptions have remained unchanged since 2019.

4. **Continue to support the future of Gift Aid project**

Estimates by the Charity Tax Group suggest that £560m of Gift Aid goes unclaimed each year, whilst around £180m of Gift Aid is claimed in error. At CAF we support the work that HMRC is doing with partners in the sector to streamline and improve the Gift Aid process. We believe that a broader ambition for a less paper-based and more user-friendly Gift Aid system offers the opportunity both to unlock Gift Aid claims and reduce ineligible claims. We strongly welcomed the announcements made by HMRC on Tax Administration and Maintenance Day which represent a significant opportunity to modernise Gift Aid. and The Treasury and HMRC should continue to invest in improving the Gift Aid Environment, working at pace and with clear ambition.

5. **VAT Changes**
   a. **Create a special charity rate of VAT on purchases**

There are a number of VAT reliefs and exemptions that are specifically available for charities. However, despite the value of these existing reliefs, charities still pay a substantial amount of irrecoverable VAT on purchases. In 2020, research commissioned by the Charity Tax group found that the VAT levied on charities when purchasing goods and services was around £3.1bn per year, of which £1.8bn is believed to be irrecoverable. This is a substantial sum which places a burden on the sector. We therefore echo calls made by the Charity Tax Group and Charity Finance Group for a special rate of VAT applicable for supplies made to charities. This could be reduced over time, as public finances allow.

   b. **Create a VAT exemption when goods are donated by corporations to charities for the charities' own use**

There is an inconsistency in the VAT rules that apply when retailers donate products to charities, as the British Retail Consortium has highlighted. While donations of goods to charities by corporates for onward sale attract full VAT relief, when goods are donated directly to support people in need, the donor is required to pay VAT. A company donating used IT equipment for the use of a charity, for instance, needs to pay VAT on this donation. This VAT burden is preventing companies from donating excess stock to charity at sale and contributing to unnecessary waste. There would be substantial environmental benefits if VAT rules on direct donations were brought in line with the rules for annual sales. According to the BRC, the alternative is that these donations will end up in landfill, so the cost to the Exchequer of taking this measure would be minimal.

   c. **Set out measures for VAT relief on energy saving measures for charities**

HMRC's March 2023 consultation on VAT on energy saving measures proposed reintroducing the relief for installation of energy saving measures in buildings intended solely for a relevant charitable purpose. This is still an important issue for the sector, and we suggest that the Autumn Statement offers an opportunity to announce the timeline for the implementation of this policy.

Charities Aid Foundation, September 2023
Please contact media@cafonline.org with any questions