

2009 Pre-Budget Report – Implications for Churches and Christian Charities

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1 Introduction

Alastair Darling delivered the last Pre-Budget Report of the current Government amidst high expectation of some key announcements affecting the charity sector. It is, therefore, disappointing in some respects that, in the event, much was left 'until later'. This paper picks out some of the key measures of relevance to Christian charities that were announced, as well as highlighting the things that were not there.

2 National Insurance

Perhaps one of the key concerns for charities will be the *further* increases in National Insurance contributions that will affect employers, employees and the self employed. Tucked away in the November 2008 Pre-Budget Report was an announcement of a 0.5% increase in employer's and employee's national insurance rates (including the employee additional rate), but deferred until 6 April 2011. The 2009 Report now announces an *additional* increase of 0.5% that will be implemented from the same date.

The announcements both in 2008 and 2009 are extremely brief, open to interpretation and are not supported by specific data. Cynics will say that this is political expediency in order to highlight the minor positives but 'bury bad news' by not drawing attention to the overall impact. The announcement did draw attention to people earning £20,000 or less who will pay no more in contributions as a result of these measures. But there is no specific reassurance that **employers** will not pay more for employing staff.

We have, therefore, attempted to illustrate the impact of these changes below. These are based on our best interpretation of the PBR published documents. The changes can be summarised as follows (figures rounded):

	Rate		
	2009/10	2010/11	2011/12
Weekly earning over:	£110	£110	£135
Employee (Class 1 Primary) rate	11.0%	11.0%	12.0%
Weekly Earnings over:	£844	£844	£869(?)
Employee additional rate	1.0%	1.0%	2.0%
Employer (Class 1 Secondary, plus Classes 1A and 1B) rate	12.8%	12.8%	13.8%
Employer starting threshold (weekly earnings)	£110	£110	£110 (?)
Self employed profits Lower Profits Limit	£5,715	£5,715	
Upper Profits Limit	£43,875	£43,875	
Self-employed (Class 4) rate between lower and upper limits	8.0%	8.0%	9.0%
Self-employed (Class 4) rate above upper limit	1.0%	1.0%	2.0%

Illustration (employed)

	Cost (£)			Increase	
	2009/10	2010/11	2011/12	£	%
Employee earning £20,000: Employees' NIC	1,571	1,571	1,558	-13	-0.8
Employers' NIC	1,828	1,828	1,971	143	7.8
Employee earning £30,000: Employees' NIC	2,671	2,671	2,758	87	3.2
Employers' NIC	3,108	3,108	3,351	244	7.8
Employee earning £50,000: Employees' NIC	4,260	4,260	4,676	417	9.8
Employers' NIC	5,668	5,668	6,111	443	7.8

Comment

An across the board increase in the tax element of employer payroll costs of nearly 8% is no small matter. The increases for employees are far more modest for those earning average salaries. Overall, it is estimated that these measures taken together will cost the charity sector around £100 million.

3 Substantial Donors Legislation

PBR announced that the Government *are* to take forward the repeal of this legislation and the introduction of new legislation, presently referred to as the Donor Value Extraction Rules, in the 2010 Finance Bill. Donations to charities that are caught by the test will not be eligible for tax relief. A donation will be caught if it is made by a donor whose main purpose, or one of whose main purposes, for entering into an arrangement is to return value from the charity to him or herself.

Stewardship has been a key part of a small group working with HMRC's Technical, Policy and Anti-Avoidance Teams on the design of the new legislation and so this is a very welcome announcement. HMRC will continue to work with us on the draft legislation over the next month or so.

Comment

It is welcome news that there is an intention to legislate in the very near future. We are confident that the replacement rules are fit for purpose and will fully address the problems that we identified with the present substantial donor rules. We are grateful to HMRC, the Treasury and Government Ministers both for listening to the sector's concerns and for working diligently with us towards an effective solution.

4 Gift Aid and Higher Rate Relief

The Government has sponsored research into the impact of tax relief for higher rate taxpayers on gift aid donations. The results of the research are to be published on 15th December and may lead to reforms of the way in which this tax relief is delivered, including the possibility of the withdrawal of relief to the donor with a (hopefully) corresponding increase in relief for the charity. As well as working with the Charity Tax Group on this, Stewardship are in direct contact with HM Treasury and will be putting forward our own views on any proposals that emerge from the conclusions of the

research. Readers' thoughts and observations will be welcome. Please contact kevin.russell@stewardship.org.uk

Comment

We look forward to this research report which has been delayed a few months from the previously expected publication date. We understand that the outcomes are somewhat surprising. Once available, the sector will need to seek a consensus, so far as is possible, on the way forward, if Government is going to act on the results of this research.

5 Salary Sacrifice and work place canteens

Salary sacrifice arrangements are a perfectly acceptable means of providing staff with tax efficient benefits. Indeed, the HMRC website provides some guidance on them. Using salary sacrifice along with pension provision is fairly common, but the provision of benefits through a work place canteen is perhaps not something that many charities will have provided for their staff! But where staff have been invited to sacrifice part of their salary in return for the provision of food and drink by their employer, the PAYE and National Insurance benefits of these arrangements is to be withdrawn.

Comment

Salary sacrifice is used in the commercial world to provide a wide range of benefits to employees. Whilst the Government may view the encouragement of pension provision as a positive thing, it is difficult to see why they have chosen to withdraw benefit in just one of the areas being used for salary sacrifice arrangements.

6 VAT

The Chancellor confirmed that the standard rate of VAT will return to 17.5% on 1 January.

Comment

This is very much as expected. But because most churches and charities are unable to recover any VAT on their costs, the reduction in rate to 15% was a real benefit to the sector, saving an estimated £60 million p.a. Budgets will, therefore, need to be readjusted upwards to take account of the return to the previous rate.

7 What was not in the PBR announcements?

7.1 Gift Aid reforms

One of the major expectations of PBR was some substantive announcements on the reform and simplification of the Gift Aid Scheme following HM Treasury's consultation, originally launched as long ago as June 2007. It was, therefore, a little disappointing that the PBR simply says, "The Government continues to explore how best to support the third sector through the Gift Aid system". That said, the Treasury are concerned to better understand who would win or lose through various policy reforms that are under consideration. They will, therefore, continue to work with sector representatives towards the design of proposals for future reform.

7.2 Gift Aid - Transitional Relief

When the basic rate of income tax was reduced in April 2008, this had an adverse impact on charities, reducing the level of the amount that can be reclaimed under gift aid from just over 28p in the £1 to 25p. The announcement of a transitional relief effectively restoring the rate back up to 28.2p was very welcome. However, this relief is scheduled to finish in April 2011. Sector representatives have been lobbying the Treasury to replace this relief with an alternative, possibly linked to any reform of relief under gift aid for higher rate taxpayers.

We all, of course, recognise the difficult economic times that we are in, but many charities will potentially suffer a double whammy – a reduced level of voluntary income **and** a reduction in the tax that can be reclaimed from the Government. We are, therefore, hopeful that the Government will be sympathetic to including a 'son of transitional relief' in their exploration of the best ways to support the third sector – enabling the valuable work that charities undertake, and in many cases, help the Government meet their community objectives, at sustainable levels.