

Budget 2007

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1 Budget 2007

1.1 Introduction

The Chancellor delivered what is likely to be his final Budget Statement on 21 March. There are no major surprises for the charity sector although, as has been the trend in recent years, the Government announce good news several years ahead of implementation – in this case up to 4 years, making it difficult to paint a clear landscape of the shorter term implications.

2 Gift Aid

2.1 Benefits received by a donor

One of the main principles of the Gift Aid scheme is that the donor (or any person 'connected' with them) should not receive a benefit from the charity as a result of their donation. However, the law provides that if minor benefits are received by the donor, they can be ignored without prejudicing the right to gift aid relief.

The limits for these minor benefits are to be increased with effect from 6 April 2007 for donations from individuals. For companies, the new limits will apply to benefits received on donations made in an accounting period ending on or after 6 April 2007.

Presently, donations by individuals qualify for Gift Aid tax relief where the value of any benefit that may be received by the donor as a consequence of making the donation does not exceed the following limits:

- 25% of the value of the donation, where the donation is less than £100
- £25, where the value of the donation is between £100 and £1,000
- 2.5% of the value of the donation, where the donation exceeds £1,000

subject to an overriding limit of £250.

From April 2007, for donations of more than £1,000, the limit on the value of benefits received will be increased from 2.5% to 5% of the donation and the overriding limit is increased to £500.

Action Point:

- Charities should consider whether this provides any increased opportunities to better develop relationships with higher value donors by giving them new and appropriate forms of acknowledgement of their donations.

2.2 Reduction in basic rate of income tax

Whilst this measure, which applies from 6th April 2008, will be popular amongst the generality of taxpayers, it will have an adverse impact on charities that reclaim tax under the gift aid scheme.

The amount of tax that a charity will be able to reclaim on donations made from April 2008 will reduce as per the following example:

Charity receives **£7,800** per year in donations under the gift aid scheme. For tax years up to and including 2007/08, the charity will reclaim **£2,200** (or 28% of net donations) from HM Revenue & Customs.

From 2008/09 onwards, the reclaim on the same level of donations is **reduced to £1,950** (or 25% of net donations).

This represents an 11.4 % fall in tax revenues to the charity.

For a higher rate taxpaying donor, just over half of the loss to the charity is gained by the donor.

Example:

A donor has given £780 per annum to the charity for many years. In 2007/08, the charity will reclaim £220 on this under gift aid, making the gross donation £1,000. The taxpayer is then able to reclaim the difference between his higher rate tax at 40% on £1,000 and the amount already reclaimed by the charity: £400 - £220 = **£180**.

In 2008/09, the charity will reclaim £195 under gift aid, making the gross donation £975. The taxpayer is now able to reclaim the difference between his higher rate tax at 40% on £975 (= £390) and the reduced amount reclaimed by the charity: £390 - £195 = **£195**.

Action Points:

- Consider ways of communicating with donors who may be higher rate taxpayers in order to invite them to increase their giving from 6th April 2008 given the tax benefit that will accrue to them.
- Look at ways to increase giving to replace the lost income. This is better communicated as a matter of Godly stewardship principles and vision for the charity rather than on the basis of financial need;
- As a last resort, review budgets to see if expenditure cuts are needed.

2.3 Promotion of Gift Aid (and Payroll Giving)

The Government are to consult with the charity sector to look at ways of increasing the take up of Gift Aid etc in charitable giving.

Action Point:

- Some charities may wish to engage with the Government on this initiative and therefore should keep themselves informed of progress.

2.4 Increase in Tax Credit withdrawal rate

Entitlement to tax credits is means tested. Above certain thresholds of income, the amount of tax credits awarded are progressively withdrawn as income of the claimant increases. This reduction in award is calculated according to a tax credit withdrawal rate. A measure tucked away in the Budget technical documents is the announcement that the withdrawal rate will increase from 37% to 39% from April 2008.

This means that claimants with a reasonable income such that they are subject to withdrawal of credits will see a reduction in their entitlement. However, the income that is assessed for these purposes is taken into account **after deduction of the gross amount of gift aid payments to charity**. As a result the cost to the donor in these circumstances of £1 given to charity will reduce as their donation will 'buy back' some of the credits that would otherwise have been withdrawn.

Action Point:

- Donors may wish to review their level of giving under gift aid. This is particularly so for donors whose income for tax credit purposes is near the tax credit thresholds.

3 National Minimum Wage

The adult rate of National Minimum Wage will be raised to £5.52 per hour from October 2007. At the same time, the youth rate, for workers aged between 18 to 21, goes up to £4.60 and the development rate, for 16 and 17-year olds to £3.40.

Action Point:

- These increases need to be factored into church and charity budgets where they have staff paid at or around the National Minimum Wage rate. Charities should also consider whether volunteers actually fall within the definition of worker for National Minimum Wage purposes. We have prepared further information on this at: <http://tinyurl.com/24yzye> and <http://tinyurl.com/2l27fp>

4 VAT Thresholds

The VAT registration threshold is increased from £61,000 to £64,000 with effect from 1 April 2007.

The new registration threshold will apply if:

- at the end of any month, the value of *"taxable supplies"* made in the past 12 months or less has exceeded £64,000; or
- at any time there are reasonable grounds for believing that the value of *"taxable supplies"* to be made in the next 30 days alone will exceed £64,000.

If at the end of any month, a person's *taxable turnover* in the past 12 months or less exceeds £64,000 but the authorities are satisfied that it will not exceed £62,000 in the next 12 months, registration will not be required.

Action Point:

- Most charities do not have taxable turnover because they do not make taxable supplies. For example, donation income is generally outside of the scope of VAT and service provision can be 'non-business'. If in doubt, professional advice should be taken as failure to register for VAT at the right time can give rise to significant penalties.

5 Small Grants Package

The Chancellor promised a package of £80 million in small grants to provide core funding to promote 'community action and voice' for grass roots community organisations. The funding will be run by the Office of the Third Sector, and channelled through third sector partners at a local level.

Action Point:

- Churches with a vision for community action may wish to find out more about this funding to see if they can benefit from it.

6 New unified penalty regime for incorrect tax returns

Where a taxpayer understates their tax liability because they have not taken reasonable care in completing returns for Income Tax, Corporation Tax, Pay As You Earn (PAYE), National Insurance Contributions (NIC) or Value Added Tax (VAT) or they deliberately understate their liability to any of these taxes, they are potentially open to sometimes severe penalties in addition to paying the tax due plus interest. There are presently a number of different penalty structures depending on the type of tax involved.

The Finance Bill 2007 will provide a single new penalty regime for incorrect returns for the above taxes. The amount of the penalty will be determined by the amount of tax understated, the nature of the behaviour giving rise to the understatement and the extent of disclosure by the taxpayer. It introduces a new concept of suspended penalties.

The new provisions are expected to apply for return periods commencing after 31 March 2008 where the return is filed after 31 March 2009.

There will be:

- no penalty where a taxpayer makes a mistake;
- moderate penalties for failures to take reasonable care;
- higher penalties for deliberate action; and
- still higher penalties for deliberate action with concealment.

Voluntary disclosures may substantially reduced or eliminate a penalty.

Action Point:

- On the face of it, this proposed simplification appears welcome. The key of course is to take all reasonable steps to make sure that penalties do not become chargeable in the first place. But for those that find themselves in this unfortunate position, it is better to make voluntary disclosure and co-operate with the authorities than to bury one's head in the sand.

7 Tax returns - Self funded Christian Workers

Christian workers who raise their own support and are liable to UK tax may be required to submit self assessment tax returns. Currently, these returns are required to be filed by 31 January after the end of the tax year to which the return relates.

However, the deadline each year for filing returns is to change. For 2007-08 tax returns and subsequent years, there will be two alternative filing dates. For paper returns, the deadline will be brought forward to 31 October (for tax year 2007-08 that will be 31 October 2008). For taxpayers filing paper returns who want the Revenue to calculate their tax liability for them, the present cut off date of 30 September will also move to 31 October.

However, for returns *filed online*, the deadline will remain at 31 January (for tax year 2007-08 that will be 31 January 2009). A calculation of tax liability is automatically provided when a return is filed online.

Action Point:

- Taxpayers should be aware of the changing deadlines so as not to face unwelcome penalties, default surcharge and interest charges. The retention of the 31st January deadline for online filing has resulted from lobbying by the accountancy and tax professions and is welcome. Online filing requires users to register with the Government Gateway (information at www.hmrc.gov.uk). Online filers should build in time for this process ahead of filing their return.