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Stewardship Briefing Note 2015/3

The Government 2015 Budgets Implications for Church Treasurers

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1. Introduction

Being an election year, there have been not one, but two Budget Statements this year: The Coalition Government's closing Budget in March, and one in July following the General Election. Media focus is often on matters such as the personal tax allowance, income tax rates, alcohol, fuel duty, cigarettes and the like. Little attention is given to the finer detail (which is extensive) and none to perhaps the unintended consequences for charities.

This Briefing addresses the issues that will arise for churches and, church treasurers in particular, from some of the key the measures announced.

The Appendix provides a calculation showing that the potential cost of the two 2015 Budgets to a fictional church that employs just two staff at close to the current National Minimum Wage, is over £2,700 in 2016 and £13,200 by 2020.

2. National Living Wage

2.1 Increase in hourly rates

One of the headline grabbers in July's Budget was the introduction of a new compulsory National **Living** Wage. This is set to have huge implications for businesses but the impact on churches (like all other charities) is rather more stark. The reason for this is two fold:

- Unlike commercial businesses, charities cannot increase prices to accommodate increases in staff costs; they will have to raise additional funding to cover those costs;
- Charities do not pay business taxes and so the reduction in corporate tax rates will not offer any form of compensatory relief to the sector.

The proposed rates for the National Living Wage will see the (compulsory) minimum hourly rate increase to £7.20 in April 2016, climbing to £9.35 by April 2020. This compares with the current National **Minimum** wage of £6.50 per hour.

Whilst this is very good news for lower paid workers, from the church perspective, these rates represent huge increases over a relatively short space of time: Nearly **11%** in the next six months and approaching **45%** over the next four and half years.

Increases of this magnitude will present real challenges for churches that employ even one or two staff at the current National Minimum Wage levels. They will need to budget for a significantly increased wage bill over the coming years - and raise the funds to pay for it.

2.2 Illustrative Example

For someone working a 35 hour week on the current legal minimum of £11,863 per annum, their pay will increase by over £1,277 in April (to £13,140) and by over £5,201 (to £17,064) by 2020. And these figures do not take into account the forthcoming compulsory workplace pension contributions requirements, nor employer's national insurance contributions, both of which will increase in line with the increased wages.

2.3 Knock on effects

Churches don't exist in a vacuum. It is reasonable to expect that the costs of other goods and services supplied to churches will increase as well, as third party businesses adjust to **their** increased staff costs.

That in turn may lead to inflationary pressures in the economy, which may lead to increased pay demands, and so a dangerous upward cycle could be triggered as a result of the step change in rates of pay.

3. Employment Allowance

One announcement that is beneficial, **for churches that can claim it**, is that the Employment Allowance will increase by £1,000 to £3,000 per annum, from April 2016. Employment Allowance enables employers to be relieved of the first £2,000 (£3,000 from April) of their Employers' (secondary) National Insurance costs each year.

Two issues limit this relief. If the church doesn't employ anyone, or the related National Insurance costs are less than the full £2,000 (£3,000 from April).

But there is a more fundamental restriction. Where two or more charities are deemed to be 'connected', then the one Employment Allowance is shared between all of them. For example, HMRC regard all Church of England PCCs in a Diocese to be connected with each other[1].

4. Measures impacting, indirectly, on churches' ability to claim Gift Aid

4.1 Introduction

Current trends are bringing more and more people out of the income tax regime each year. In this regard, the 2015 Budget Statements were no exception. Whilst this is undoubtedly good news for those no longer paying tax, it is not such good news for church and charity treasurers. The danger is that donors who are used to paying tax, forget to advise the charities that they support that they are no longer a taxpayer – or they simply do not realise that they have stopped having tax deducted from their pay.

1. The Church of England, centrally, do not agree with this interpretation of the legislation and the position, at the time of writing, remains uncertain.

4.2 Reclaiming Gift Aid

In order for a charity to be able to claim Gift Aid on a donation, the donor must have paid sufficient income Tax and/or Capital Gains Tax. If the donor has not paid the 'tax to cover' the Gift Aid donation either they, or the charity[2] must pay the difference back to HMRC.

4.3 Budget Changes

Churches in general are heavily reliant on the Gift Aid Scheme, and make very good use of it. Broadly speaking, our experience of examining church accounts shows that around 70% of voluntary income of churches is claimed within Gift Aid.

The issue arising from the 2015 Budget is that the recent trend of increased allowances and tax reliefs for low earners, has accelerated. This in turn means that more people are no longer paying any income tax at all, and therefore having been eligible for Gift Aid on their past donations, may no longer be so. If donors fail to spot the change or notify the church, Gift Aid claims are likely to continue regardless.

Where the church has failed to take reasonable steps to remind donors of their obligation to pay sufficient tax, such that Gift Aid claimed in error becomes more than an occasional blip relating to one or two donors, HMRC could regard the church as responsible for the tax wrongly claimed. Whilst this could be technically controversial, churches would not want to find themselves in this position – not only in terms of their relationship of trust with HMRC but also their reputation and witness both within and outside of the church.

So, what are the recent changes in the tax rules that has led to the potential for formerly eligible donors to cease to qualify for 'gift aiding' their donations?

4.4 Income tax personal allowance

The income tax personal allowance (the amount of income a person can earn before they have to pay any tax on their income) has increased substantially from £6,475 to £10,600 (2015/16 tax year) over the last 5 years with further increases planned by the Government.

The result of these increases means that somewhere around 50% of adults no longer have to pay any Income Tax at all.

4.5 Measures relating to savings and investments

Coupled with the increase in the tax personal allowance, from April next year:

- There will be a tax exemption for the first **£1,000** of savings interest (limited £500 for higher rate taxpayers and zero for additional rate taxpayers).

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[2] The primary responsibility rests with the donor since in their Gift Aid Declaration that they give to the charity, they 'declare' that they **will** pay sufficient tax. In practice, some charities meet the liability in order to protect their relationship with their donors.

- The first **£5,000** of dividends income will be taxed at a new 0% (an exemption in all but name) with new tax rates for dividend income above this threshold, starting at 7.5% for basic rate taxpayers.

In addition, the subscription limits for Cash ISA[3]s have increased dramatically in the last fifteen months. The maximum amount that one could invest into a Cash ISA in 2009/10 was £3,600[4] and as recently as June 2015, the limit stood at only £5,940. This was significantly increased to £15,000 from 1 July 2014 and further to £15,240 from 6 April 2015.

4.6 Overall impact

Taken together, the increase in personal allowances and the three changes to the taxation of savings and investments mean that far more people who previously gave under Gift Aid will no longer be able to do so, because they will simply no longer have tax to cover their gift aid donations. This will particularly affect pensioners, the lower paid and those entering or leaving employment during the tax year. Indeed, many savers will, if they choose, be able to hold most or all of any savings in tax free accounts.

4.7 Example

Don retired about 5 years ago and receives pensions totalling £9,000 per annum. In addition, he has savings of around £250,000 of which £150,000 is held in tax-free ISAs and the remaining £100,000 is invested in a fixed term deposit earning 2% interest. Don also receives dividends of £6,250. Don tithes his income to his local church giving them £1,725 pa. and has had an open-ended Gift Aid declaration in place for a number of years.

Don's income tax payable for the 2015/16 current tax year, and the 2016/17 tax year (after the new changes have taken effect) will be calculated as follows:

Don's 2015/16 tax calculation		**2015/16**	
		£	
	Total pensions	9,000	
	Deposit interest	2,000	(£100,000 x 2%)
	Dividend income	6,250	
	Total income	**17,250**	
Less allowances			
	Tax-free interest allowance	-	

[3] Individual Savings Account, a Government approved investment account which is exempt from income tax and capital gains tax.

[4] But over 50 year olds were afforded a special limit of £5,100 from 6 October 2009. This was extended to all savers the following tax year 2010/11.

	Tax-free dividend income	-	
	Personal tax allowance	10,600	
Total allowances		**10,600**	
Taxable income		6,650	
Tax payable at basic rate (20%)		**1,330**	

Don's 2016/17 tax calculation		**2016/17**	
		£	
	Total pensions	9,000	
	Deposit interest	2,000	(£100,000 x 2%)
	Dividend income	6,250	
	Total income	**17,250**	
Less allowances			
	Tax-free interest allowance	1,000	
	Tax-free dividend income	5,000	
	Personal tax allowance	10,800	As announced at Budget 2015
Total allowances		**16,800**	
Taxable income		450	
Tax payable at basic rate (20%)		**90**	

Don's giving to the church - 2015/16 and 2016/17

		£
Gift Aid donations (net)		1,725.00
	Tax reclaimed by church	431.25
Gift Aid Donations (gross)		**2,156.25**

2015/16

Tax paid by Don	1,330.00
Tax reclaimed by the Church	431.25
➡	**HMRC Happy!**

2016/17

Tax paid by Don	90.00
Tax reclaimed by the Church	431.25
Gift Aid Tax not covered by Don's tax	**341.25**
➡	**HMRC Unhappy!**

HMRC will be seeking a tax of £341.25 from Don (or the church)

The church's 2016/17 Gift Aid reclaim

If the church sought to claim Gift Aid on all of Don's giving, this would amount to £431.25 (25% of the net gift of £1,725) and would leave Don with a primary liability to repay tax of £341.25 being the difference between the £431.25 claimed by the church and the £90 paid by Don.

To ensure that no liability arises, the church must limit its Gift Claim relating to Don's donations to £90, equating to a net gift from Don of £360, with the remainder of the gift not being eligible. Don should instruct the church accordingly as they will not be in a position to know what sums they can, or cannot claim under Gift Aid.

5. How should the church respond to the Budget changes?

It is of course a cause for celebration that those on low incomes or are otherwise vulnerable will benefit from lower or no tax. But are there actions that the church can take to protect their position whilst working within the rules that we find ourselves? The following are our suggestions for keeping the right side of the rules whilst maximising the church's own resources:

5.1 Gift Aid Small Donations Scheme (GASDS)

One way to preserve the value of the Gift Aid reclaim is to encourage donors that are no longer eligible for Gift Aid, to give their gifts **in cash** in a manner that qualifies for the separate Gift Aid Small Donations Scheme[5]. The GASDS is a 'Gift Aid' like scheme, but it is not Gift Aid proper. As such, **there is no requirement for the donor to have paid sufficient income tax** on their GASDS donations. Non taxpayers can give effectively under the Scheme and the church can claim an amount from HMRC equivalent to Gift Aid.

The March 2015 Budget announced an increase in the total amount of cash donations that can qualify under the GASDS, from £5,000 to £8,000, with a corresponding increase in the limit for cash donations collected in a community building such as a church. More information on the Gift Aid Small Donations Scheme can be found in our two Briefing Papers[6].

The Gift Aid Small Donations Scheme – a Practical Guide
The Gift Aid Small Donations Scheme – a Comprehensive Guide

So, in the example above, Don could gift aid £360 of his annual gifts to the church under Gift Aid itself, and the balance under the GASDS. He would need to cancel his open ended Gift Aid

[5] Broadly, this will mean cash gifts of £20 or less, collected during church services, that are then banked by the church.

[6] These two Briefing Papers provide more detail on donations that are eligible under the GASDS and in what circumstances. Please refer to these for any questions that you may have.

Declaration and give the church a single declaration to cover the £360 gift[7]. He could then individual cash gifts of £20 per service, or other church activity, to replace the remainder of his previous Gift Aid gifts. If desired, he could do this via a church envelope scheme although this is not strictly necessary. Any non cash gifts or single gifts of over £20 in cash will not qualify for the GASDS.

5.2 Don't panic unnecessarily.

The responsibility for adhering to the declaration made by the donor in their Gift Aid Declaration rests with them. In the event that excess Gift Aid has to be recovered by HMRC, the primary liability is theirs. It is not the responsibility of the charity to vet or pry into the circumstances of each donor. Provided that the church has not be 'reckless' in the way that it has promoted Gift Aid to donors (for example, by not drawing proper attention to the need for them to have paid sufficient tax), then there should be no issue for the church itself. Adopting one of the HMRC Model Gift Aid Declarations should provide this protection.

5.3 Check the wording of the church's Gift Aid Declarations

The wording of the Gift Aid Declaration that the donor gives to the church is important and is underpinned by law. Churches should use a standard form of words which meets the minimum legal requirements. The easiest way to do this is to follow the 'Model Gift Aid Declaration' wording. But do be aware that HMRC change their model Declarations from time to time and the current (September 2015) wording will be changing shortly. The new wording will be published towards the end of October 2015 and must be used for all new Declarations signed after 5 April 2016.

5.4 Be aware

Churches operate at a much more relational level than many other charities and as such church treasurers are likely to have a better understanding of a donor's personal circumstances. If you think that a donor is unlikely to be paying sufficient Income Tax to cover gifts received, a sensitive "word in the ear" is likely to be well received.

5.5 Review church leaflets and publications

Consider making changes to any Gift Aid information or leaflets that the church produces or provides to members and supporters to highlight the need to have paid sufficient tax and why some people may need to consider this more carefully than in the past.

5.6 Provide donors the opportunity to review their Gift Aid status

Provide a regular opportunity for the donor to re-consider the applicability of the statement made in the Gift Aid declaration. This opportunity could be given as part of an annual thank-you letter to donors, informing them of the value of gifts that they have given during a tax year; showing the amount of tax that the charity has or will be reclaiming; and reminding the donor

[7] This is because one of the conditions for gifts to qualify for the GASDS is that the gift is not eligible to be claimed under Gift Aid proper (regardless of whether or not it is in fact claimed). So the open ended Gift Aid Declaration, if still in force, would bar the cash donations from qualifying from the GASDS.

of the requirement to have paid sufficient Income Tax and/or Capital Gains Tax to cover those donations as well as any Gift Aid donations that they have made to others.

5.7 Correct any over-claimed Gift Aid voluntarily

Where Gift Aid over-claims become apparent, make use of the "previously overpaid amount box" on your next Gift aid claim.

6. Further help

Consultancy Helpline service

Stewardship also provides a subscription based Consultancy Helpline Service. Annual subscriptions start at £50.00 per annum (including VAT) and provide you with unlimited e mail and telephone support from a range of professional consultants, covering accountancy, tax, finance and a range of other advice areas common to the needs of churches.

Further information about the service can be found here:
www.stewardship.org.uk/support-services/consultancy:-employers

If you have any comments or questions on this Briefing Note, please contact
Enquiries@stewardship.org.uk

Appendix

Estimated costs of the two 2015 Budgets on churches

Assumptions:

- Two staff are employed at the National Minimum Wage level of £6.50 per hour (October 2014 to September 2015 rate). They will be entitled to increased pay, to National Living Wage levels
- The church qualifies in full for The Employment Allowance
- Five people in the congregation tithe but have an income limited to £12,000 per year. They currently all pay tax on the £1,200 that they tithe and these sums are therefore eligible for Gift Aid. But post April 2016, their tax liability is reduced to zero by a mix of personal allowances and other Budget changes.

The Church has already utilised its £5,000 allowance under GASDS in full but can make use of the increase, from April 2016, from £5,000 to £8,000.

	Increase from April 2016	Increase from April 2020	Notes
Revised minimum salary, 35 hour week, at Living Wage level will be:	13,140	17,103	
Increased / (decreased) costs to church:			
Increase in gross salary arising from National Living Wage	2,554	10,402	
Employers National Insurance	352	1,435	
Workplace pension, employer contribution on increased salary	26	312	Minimum 1% in April 2016; 3% in April 2020
Increase in Employment Allowance, April 2016 (from £2,000 to £3,000)	-1,000	-1,000	
Five members tithing £1,200 pa each, no longer eligible for Gift Aid: (5 x £300 each, Gift Aid claims, no longer eligible)	1,500	1,500	

Ineligible Gift Aid donors switching to GASDS (maximum church capacity: £8,000-£5,000 at 25%)	-750	-750	
Increased insurance premium tax (from 6.0% to 9.5%)	42	42	Assumes current total premiums of £1,200
Increase in supplier's charges from new National Living Wage (NLW rate increase over Sept 15 NMW is 10.8% 2016, and 43.8% 2020)	25	1,250	Assumes price increases of 5.0% (2016) and 25% (2020) on £5,000 of the church’s expenditure
Total cost to the church, based on the above assumptions	**£ 2,749**	**£ 13,191**	