Budget 2013
Charity Finance Group briefing

This briefing provides a summary of the highlights of Budget 2013, including those of particular interest to the charity sector.

Budget 2013 has delivered a few promising announcements for charities, despite the Chancellor's limited room for manoeuvre. The nasty surprise of last year's tax relief cap has not been repeated with anything equally as unexpected or potentially damaging. Clearly there are likely to be knock on effects of cuts in departmental spend and in particular pressures to reduce the welfare budget. However, there was little detail on welfare and related areas of spending and we expect much more information on these, and indication of the extent of how further cuts will be distributed, in the June spending review.

In February CFG submitted a budget representation to HM Treasury, asking Government to 'meet us half way' in addressing some of the fundamental anomalies in tax and regulation, and in doing so help improve the operating environment and provide greater incentives to give and invest in civil society. We are pleased that some of the calls we made are reflected in the announcements.

Headline provisions of relevance to the sector:

1. Gift Aid on digital giving will be consulted on this year
2. A new Employment Allowance will be worth £2000 in National Insurance contribution savings for employers
3. A new social investment tax relief will be consulted on in summer 2013

Useful links
Full Budget 2013 report and associated documents
OBR Economic and Fiscal Outlook
CFG Budget 2013 representation and blog post
CFG Economic Outlook Briefing Q1 2013

If you would like to discuss any of the issues arising from Budget 2013, please contact the CFG policy team at policy@cfg.org.uk or on 020 7250 8348.

Charities – the important provisions

Making it easier to employ staff

- The Chancellor announced a new **Employee Allowance** on Class 1 Secondary employer National Insurance contributions. This will be introduced in April 2014. This allowance will be worth £2,000 and will be available to all businesses and charities to offset against their National Insurance contributions bill.

CFG welcomes this announcement as a positive way to make employing staff more affordable. While this will make only a small dent in the employment costs of bigger charities, it will hopefully have an impact at the smaller end of the sector. The allowance will make a big difference for charities with only a few staff members, for some eliminating their NI costs altogether. HM Treasury have estimated that this allowance could be worth around £45million across 35,000 charities that employ staff.

Gift Aid and Digital Giving

In our Budget 2013 representation CFG asked the Government to consider how Gift Aid can be modernised and adapted to allow greater use through digital giving platforms, for example, through use of enduring Gift Aid claims for particular digital giving services.

- The Government will **consult on proposals to make it easier to claim Gift Aid through a wide range of digital giving channels**. The Budget 2013 documents also confirm that this will **include looking at Gift Aid claims that can be made once for a specific giving channel**. This is in essence a form of enduring Gift Aid claim for a giving platform. A universal Gift Aid declaration database will also be considered in the proposals along with amendments to the Gift Aid declaration requirements.

This announcement is in line with recommendations made by CFG and we engaged in discussions with HM Treasury, HMRC and other sector bodies since the Autumn Statement signalled a review of this area. HMRC has also confirmed separately that new IT systems, such as those for the new Charities Online, will be flexible in order to allow for such developments and changes to declaration requirements in specific circumstances.

We expect this consultation sometime in May/June. CFG will continue discussions with HMRC and HM Treasury on how Gift Aid might be improved in this area.

Social investment

In Budget 2012 HM Treasury committed to an internal review of social investment. There has also been work in the sector to identify how we might develop social investment further and improve the tax and regulatory framework.

- The Government has announced it will **introduce a new tax relief to encourage private investment in social enterprise**. A consultation into the social investment tax relief will be launched in summer 2013 and it is hoped proposals will be finalised in time to include in Finance Bill 2014.

The development of new and varied funding mechanisms is essential. While social investment is no panacea, it is promising that Government is taking decisive steps to develop a suitable tax incentive framework. At the consultation stage it will be important that those with knowledge and expertise in social investment engage fully to ensure that the right parameters are set.

Pensions

- The Government will provide the **Pensions Regulator with a new objective to support scheme funding arrangements that are compatible with sustainable growth for the sponsoring employer**.

CFG recently responded to the Government Pensions and Growth consultation and supports the position taken in the budget. This is only a small step but it is encouraging that the sustainability of the employer will be considered in scheme funding arrangements, in addition to other factors. There is still a great deal to be done in relation to easing the burden of defined benefit multi-employer pension schemes and CFG will continue to press Government to work towards solutions to this.

- The Government has **brought forward plans to implement a single tier state pension to April 2016.** This will mean abolition of the ability for members of defined benefit (DB) schemes to 'contract out' of the state second pension and they will therefore no longer be entitled to pay lower NIC rates. The impact of this will be alleviated by a statutory override for those with private sector DB schemes. However, for public sector employers and those in public sector pension schemes, NICs will rise.

CFG has been lobbying Government to address issues with multi-employer DB schemes and the impact on charities that are caught in them. We are concerned that this move will exacerbate pressure on those charities that are participating in local government DB pension schemes and push some of their contributions up to ever-more unaffordable levels. Pension expert David Davison from Spence and Partners was quoted in a ThirdSector report suggesting that the cost to some charities may be as much as an additional 10% on their pension bills, and could hit the sector to the tune of £30million.

Community amateur sports clubs

- The Government will consult on measures to clarify the eligibility conditions for CASCs.

Guidance for volunteer events

- The Cabinet Office and Department for Business, Innovation and Skills will work together to **update the guidance for volunteers running events.** The new guidance will be published in a single document on www.gov.uk and is due to be launched in the autumn.

The economy

Alongside the budget the Office for Budget Responsibility (OBR) publishes new forecasts for the economy and the public finances, taking into account budget policy measures. The OBR uses the forecasts to assess whether the Government remains on course to meet its medium-term fiscal objectives.

- **Growth:** Expected to be 0.6% this year (revised down from 1.2% previously forecast). Then growth of 1.8% in 2014 (revised from 2%), and 2.3% in 2015, 2.7% in 2016 and 2.8% in 2017.

- **The deficit (public sector net borrowing)** is forecast to fall from 11.2% of GDP (in 2009-10) to 7.4% in 2012-13, 5% in 2015-16 and 2.2% in 2017-18. This equates to £114bn this year, dropping each year to reach £42bn in 2017-18. This excludes the transfer of assets from the Royal Mail Pension Plan to the public sector which should reduce the deficit further.

- **Public sector net debt:** Is 75.9% of GDP this year, and forecast to rise to 79.2% in 2013-14, 82.6% in 2014-15 85.1% in 2015-16, 85.6% in 2016-17, then falling to 84.4% in 2017-18.

- This fall is two years later than hoped – meaning the Government will miss its supplementary debt target. However the OBR has concluded that the **Government remains on course to meet the fiscal mandate** (balance the cyclically-adjusted current budget) **a year early**.

- **Employment** is expected to rise each year, to 30.5 million by 2017. The unemployment forecast has been revised down to 7.9% in 2013 (representing a 0.3% drop) and 6.9% in 2017 (- 0.2%).

- **Inflation** forecasts are up slightly, attributed to higher oil and import prices. It is expected to return to target by 2016.

- The Government has carried out a review of **monetary policy** and has published its *Review of the monetary policy framework* report alongside the budget. Resulting measures include a reaffirmation of the 2% inflation target and an updated remit for the Monetary Policy Committee (MPC).

See CFG's latest Economic Outlook Briefing, which includes official economic trends and forecasts, details of sector research and expert insights into the state of the economy and charity sector.

Departmental budgets

- After an **£11bn underspend of departmental budgets** this year, there will be a further reduction in **Departmental Expenditure Limits by £1.1bn in 2013-14** and £1.2bn in 2014-15, however the **protected schools and health budgets will remain unchanged**. These savings will be used to support housing in the short-term.

- Government will **maintain their commitment to the overseas aid target of 0.7% of GDP**. However the DfID budget will be adjusted to ensure it does not spend more than 0.7%.

- The next spending review, which will be held on 26 June 2013, will require savings of £11.5bn rather than £10bn as previously announced. £5bn of this will come from efficiency savings and cutting the cost of administration. **Health, schools and Official Development Assistance will be protected**.

- The Government will introduce a new, 'firm' limit on a significant proportion of Annually Managed Expenditure, **including areas of welfare expenditure**.

- The 1% cap on public sector pay will be extended for another year, and Government will cut 'progression pay'; however, the military will be exempt from this.

Tax

- As announced in Budget 2012 the **Government will introduce a General Anti-Abuse Rule (GAAR)** in Finance Bill 2013 to tackle abusive tax avoidance schemes. There are proposals in place to 'name and shame' those that promote use of avoidance mechanisms.

- The budget also announced a **package of measures intended to crackdown on offshore tax evasion, tax avoidance and aggressive tax planning**. It is hoped these will raise over £4.6 billion over the next five years.

- From April 2013 **the VAT registration threshold will be increased from £77,000 to £79,000** and the de-registration threshold will be increased from £75,000 to £77,000.

This may affect a small number of charities that sit close to this threshold.

- The budget documents reiterated the previous announcement that the **VAT exemption for business supplies of research between eligible bodies** would be withdrawn from 1 August 2013.

It is disappointing that this exemption has to be withdrawn. At a time when budgets are stretched and many charities have to watch every penny, funds generated from research can provide much-needed additional income. Affected charities have raised a number of concerns with the removal of the exemption and we hope that adequate transitional arrangements will be put in place.

- The personal allowance is due to increase to £9,440 next month. The Chancellor has now announced a further increase ahead of schedule so that the **personal allowance will reach £10,000 for April 2014-15**.

- The Government will enable HMRC to **increase the amount of tax debt collected via PAYE from individuals on higher incomes**.

- The Government will cap previously unlimited income tax reliefs at the greater of £50,000 or 25% of income as announced in Budget 2012. However, following successful lobbying from the charity sector in 2012, tax **relief on charitable giving will be exempt from this cap** along with some other investment reliefs relating to specific schemes.

- **Corporation tax will again be reduced by an additional 1% in April 2015 so that it will reach 20%**. There are also corporation tax reliefs being introduced for the creative sector.

- Other tax measures to boost business include a new **research and development 'Above the Line' tax credit for large company R&D expenditure** incurred on or after April 2013 (announced in 2011 but now increased to a rate of 10% from 9.1% previously), a **limited extension on the capital gains tax holiday on the Seed Enterprise Investment Scheme** launched at Budget 2012, and **abolishing Stamp Tax on shares for companies listed on growth markets.**

- Following legislation to introduce a new employee shareholder status, the Government has decided the **first £2000 of share value anyone receives will be free from income tax**.

Welfare and housing

There was very little announced on welfare in the budget speech or in the documents – we anticipate that welfare announcements are being held back until the spending review in June.

- The budget **confirms the introduction of the new single-tier state pension** in 2016-17 (a year earlier than previously proposed). Further information on how this may affect charities is outlined above.

- One of the Chancellor's big budget announcements was **a new 'Help to Buy' scheme**. This includes:
    1. From 1 April 2013 Government will provide an equity loan worth up to 20% of the property value for those wanting to buy a new build home. It will be available for all buyers; however the maximum home value will be £600,000.
    2. A new mortgage guarantee to increase the availability of mortgages for those with small deposits. It will be available from 2014 for 3 years and is expected to help provide £130bn worth of mortgages.

- The qualifying period for **Right to Buy schemes will be reduced from five to three years** and Government will provide **an additional £225m to the affordable homes guarantee programme** to support a further 15,000 homes.

- As announced prior to the budget, a new **Tax-Free Childcare Scheme will support families with 20% of childcare costs up to £1,200 per child, per year**. The Government also plans **to increase childcare support within Universal Credit** by an additional £200m.

- Also announced prior to the budget was the **£72,000 cap on 'reasonable' social care costs**, drawing on the Dilnot Commission's recommendations, and **extension of the means test from April 2016**.

Business and regulation

- Over 2013, **£1.6bn of funding will be provided to support the Government's Industrial Strategy** which aims to enhance the UK's global position in 11 key sectors.

- The majority of Lord Heseltine's recommendations in his growth review, *No Stone Unturned,* have been accepted, including the **creation of a Single Local Growth Fund**.

- The Government will publish the **first strategy for the Business Bank** to support SME growth, including the launch of a £300m scheme to expand the supply of lending and £75m of new funding for venture capital. There will also be **£300m provided for a Growth Vouchers scheme for small firms seeking advice** on how to expand.

- On banking reform, the Government will shortly launch a **consultation on regulating payments** and review into barriers to entry and expansion in banking to encourage diversity and competition in the banking sector.

As the sector saw a few years ago when a (now repealed) target end date for cheques was announced, a robust payments system which meets the needs of all users is essential. CFG will be closely following this work and ensuring sector interests are put forward.

- **A second phase of the red tape challenge will be launched** to look at the whole regulatory system.

Employment and education

- Aside from the **Employment Allowance** (see above) there was very little announced on employment and education in the budget speech or documents.

Energy, environment and infrastructure

- The **fuel duty increase planned for 1 September 2013 has been cancelled**.

- The Government plans to **boost infrastructure with a commitment to increase capital spending by £3 billion a year** from 2015-16.

- The Government intends to **take forward two carbon capture and storage projects** to the detailed planning and design stage of the competition.

- To **support the UK shale gas industry** the Government will publish new planning guidance, introduce reforms to encourage investment into the industry and develop proposals by the summer to ensure communities benefit from local projects.

- Metallurgical and mineralogical processes used in the ceramics industry and others will be **exempt from the Climate Change Levy** from 1 April 2014.

A view from the experts…..

This year we asked some of our corporate subscribers to put forward their initial responses to measures announced in the budget.

On Gift Aid and digital giving….

"We are all regularly asked to send a text as a way of giving to charity, yet doing this under Gift Aid is a cumbersome process that puts most people off. So much so that in 2011 a major charity raised 14% of its funds from text donations but only achieved an 8% Gift Aid claim rate.

Consultation is to be carried out over the summer on ways to enable donors to make a single Gift Aid declaration to cover all of their donations through a specific channel. Any legislative changes will be included in next year's Finance Bill.

While this does not sound like a one stop solution for all digital giving methods a mobile app that sends a Gift Aid declaration with a text donation should be easily achievable. Social media and mobile devices are becoming an increasingly important driver for charitable giving as the sector seeks to engage with younger donors, but the tax system needs to catch up with the technology.

This is a positive move and one we support."

Graham Batty, Associate Director, Baker Tilly

On the 0.7% of GDP spend on overseas aid commitment…

"The Chancellor confirmed the UK's aid promise in his budget speech, meaning that the UK will now hit the UN's long-held target of spending 0.7% of national income on aid.

We hope that DfID recognises the importance of UK charities in delivering these vital services. We also hope that they recognise that the requirements mean that many charities are unable to apply for DfID funding as in many cases they have to have alternative streams of income of up to 20% to meet pre-financing requirements. In effect this means that charities are having to provide the 'cash flow' for this funding."

Pesh Framjee, Partner, Head of Non Profits, Crowe Clark Whitehill LLP

On the corporation tax cut….

"The main rate of corporation tax will be reduced to 20% from April 2012, effectively merging the main rate with the small companies' rate which has been 20% since 2011. The main rate has decreased gradually over recent years: this merging of rates will be welcomed by corporate businesses and will avoid the need for complex marginal rate relief calculations."

Katharine Arthur, Tax Partner, MHA MacIntyre Hudson

On Gift Aid and the Employment Allowance….

"You are sure to be overwhelmed by the Government's generosity in reducing each charity's employer's NI payment by £40 a week following all the massive funding cuts the sector and its beneficiaries have suffered. Oh and of course there is the usual offer to consult on a Gift Aid issue - this time for a universal Gift Aid declaration so each donor would only need to make the declaration once - not a new idea but good to have Government support behind it, although Government funding would be even better...."

Helen Elliott, Partner, Sayer Vincent

On the Employment Allowance…

"For me the headline news for the charity sector at a time when the economy continues to struggle is the introduction of the £2,000 Employment Allowance towards Employers' NI bills. This is very welcome not only for the sector, (where employment costs often make up the highest proportion of charitable expenditure), but also for employers in general."

Jane Marshall, Partner, Barber, Harrison & Platt

On the Employment Allowance…

"The Chancellor announced an annual Employment Allowance of £2,000 for Class 1 Secondary "employer" National Insurance Contributions (NICs) from April 2014, delivered through standard payroll software and HMRC's Real Time Information system.

This will give all businesses and charities an allowance which can be offset against their employer NICs bill. Under RTI employers will submit an Employer Payment Summary each month showing the PAYE and NIC payment due to HMRC - the credit can be taken by all business via the RTI process against the employers National Insurance liability. Take-up is expected to be high, and I welcome this as positive news for all businesses and charities, especially new enterprises, as it will significantly reduce the cost of hiring the first employee. I believe this change will have a significant impact on smaller organisations, particularly the 450,000 small UK businesses who will no longer pay employers' NICs, and will do much to help with the high cost of employing people in the UK."

Susan Ball, Director, Employment Tax and Advisory Services, Crowe Clark Whitehill LLP

"A more interesting Budget than normal was given by Mr Osborne today…. The amount employees and business owners can earn each year tax free rises to £10,000 sooner rather than expected in April 2014. A new tax break to help parents with child-care costs ought to entice more parents to return to work more quickly and hence benefit businesses identify the talent they need.

Once again there is a tightening of Government policy on tax avoidance as the government does its best to dissuade taxpayers from entering tax avoidance plans. Despite the drop to 45% from April 2013, the Government reinforced its commitment to reduce the top rate of income tax back down to 40%. Perversely, this reduction coupled with the reduction in corporate tax could increase the tax taken by the Government as taxpayers are less inclined to avoid tax."

Leighton Reed, Tax Director, Broomfield & Alexander Ltd