

The Budget March 2008 – implications for charities

We take a look at the implications of the March 2008 budget for charities.

Gift Aid

Payment of gift aid claims will be made at the transitional rate of 22 per cent for the next three years. This will come as a relief to the sector since charities had stood to lose substantial sums on gift aided donations as a result of the change in the basic rate of income tax from 22 to 20 per cent. Charities have three years to find ways in which to make up the lost income.

The HMRC has moved to reassure charities that the implementation of the transitional arrangement will not involve changes to the way in which charities submit their claims because the government will make gift aid payments as usual and top them up at the same time. Claims made before Royal Assent to the Bill is received will be backdated, with the gift aid being paid as normal and the top-up as soon as possible after Royal Assent.

From 12 March 2008 Gift Aid Audits for small charities (those that claim less than £2500 in gift aid each year) will be less daunting with no penalties applied where error levels are below 4%.

The Government's stated commitment is to make it easier for donors to give without increasing the administrative burden and has made a response to a public consultation on this issue which can be found at [www.hm-treasury.gov.uk/media/F/F/bud08_giftaid_335 .pdf](http://www.hm-treasury.gov.uk/media/F/F/bud08_giftaid_335.pdf) but paper gift aid declarations will be able to be destroyed after six years even when the declaration continues to be valid and with immediate effect donations of no more than £10 can be aggregated up to a total of £500, within claims.

A gift aid web information service has been launched at www.direct.gov.uk/giftaid which includes a gift aid toolkit containing comprehensive guidance on how to run a successful gift aid scheme.

Bond Washing

The Government will repeal the anti-avoidance legislation that put charities at risk of being charged with tax and interest going back six years by inadvertently being caught by the provisions brought in to prevent bond-washing.

Removal of Staff Hire Concessions (SHC)

The SHC will be removed purportedly to achieve the Government's stated intention of making VAT chargeable on temporary workers' full salaries, agency fees, pension and national insurance contribution. We think that it is far from clear that removing the SHC will actually achieve this result. If your charity is likely to be adversely affected by this change please ask us for our 'Budget briefing for recruiters' which also includes the use of VAT exemptions specific to the health/care sector, joint employment models and umbrella contractor expenses.

Substantial donor legislation

The draconian nature of this legislation has become clear and following representations to the HMRC a consultation process is to be announced shortly.

Recovery of VAT costs on investment management

It is reported that HMRC have allowed charities to reclaim a proportion of their VAT costs on their investment management or advisory fees. If correct this could entail claims to be made on VAT on investment management costs as far back as 1973. We do not know the basis on which this allowance has been made but would advise caution in pursuing any such claim. Such claims must be distinguished from the recovery of VAT incurred by charities on raising donations which should in most cases be recoverable.

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