

Budget 2011 – The impact on the Charities and Education Sector

Introduction

In a budget which revealed significant cuts in UK growth forecasts, and a number of measures to boost business enterprise and alleviate increases in the cost of living, significant changes were announced which affect the charity sector. These changes, and particularly those which affect charitable giving, have been welcomed by many. Nonetheless many charities are more concerned by the impact of public sector cuts and some commentators think that a substantial number of charities will still struggle to survive as they are now.

For a full review of the general changes please refer to our website at:
<http://www.jamescowper.co.uk/assets/html/budget2011.html>

You should also note that these comments are subject to any changes that may be made in the draft legislation before the Finance Act is passed.

Highlights

The Chancellor announced some significant changes to charitable giving, and some see these as the most radical changes in this area for many years. Mr Osborne estimates that the changes to inheritance tax will be worth £300m to the sector and the changes to Gift Aid a further £240m.

The key changes include:

- Reduced inheritance tax where over 10% is left to a charity
- Gift Aid reforms to improve take up
- The introduction of Tainted Charity Donations rules to replace substantial donor rules
- Withdrawal of Self Assessment donations scheme

Reduced inheritance tax

From April 2012 the inheritance tax rate will be reduced from 40% to 36% when more than 10% of an estate is left to charities. The relief has been designed so that the tax benefit is reflected in bequests made to charities rather than increasing payments to other beneficiaries of the estate.

Gift Aid reforms

From April 2013 a new scheme will allow charities to claim Gift Aid on up to £5,000 of small donations without the need for Gift Aid declarations. This will mean that the contents of collecting tins and buckets will be eligible for Gift Aid. It is estimated that 100,000 charities will benefit.

Under the present rules donors cannot get Gift Aid relief if they receive significant benefits from the charity in return for their donations. For donations over £1,000 the current permitted benefit is 5% of the donation, up to a maximum of £500 each year. From 6 April this limit will rise to £2,500. This will give charities greater ability to thank wealthy donors and hopefully attract other individuals to give more.

The Chancellor promised a system for the online filing of Gift Aid claims by 2013. As a first step 'intelligent' forms will be introduced in April 2011 which will contain information to help charities complete them.

Tainted Charity Donations

The law will be changed to deny tax relief on charitable donations where one of the main purposes of the donation is to receive an advantage for the donor or a connected person directly or indirectly from the charity. These donations will be known as 'tainted donations' and there is no monetary limit on the amount of the donation which may be caught by these rules.

The rules will affect charity donations made on or after 1 April 2011 and replace the existing and much criticised 'substantial donor' rules.

Self Assessment donations scheme

SA Donate, the scheme which allows taxpayers to donate tax rebates to charities via HM Revenue & Customs, is to be abolished with effect from 6 April 2012. The take up of the scheme has been low and HMRC are concerned about possible fraud.

Conclusion

2010's Emergency Budget and the autumn spending review brought bad news for charities and the impact will be felt for several years. The 2011 Budget brought some relief for charities, but tough times still lie ahead.

How we can help

If you have any queries on how the Budget affects charities and schools please speak to your usual James Cowper charity contact or:

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