

Emergency Budget 2010 – The impact on the Charities and Education Sector

Introduction

The new Chancellor delivered his Emergency Budget Report on 22 June 2010. This publication highlights issues of specific application to charities. For a full review of the general changes please refer to our website at:

<http://www.jamescowper.co.uk/assets/html/documents/EmergencyBudget2010.pdf>

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

Highlights

Charities, like so many other organisations and individuals, expected a difficult Budget - particularly in terms of cuts in funding at a time when demands for charity services are high. The Chancellor referred to fairness several times in his speech although it is likely that many in the charity sector will feel differently.

Whilst there were no measures announced which were specifically directed at charities, many of the announcements will have a major impact on charities.

Highlights included:

- Major public sector spending cuts
- Increase in VAT rate to 20%
- Withdrawal of Lennartz method of recovering VAT
- Consultation on Gift Aid
- Substantial donor consultation
- Changes to allowances and benefits

Public sector spending cuts

The Chancellor announced huge public sector spending cuts of £30bn – this is likely to reduce funding for the charity sector whilst at the same time increasing demand from beneficiaries. Many public sector bodies are facing 25% expenditure cuts and job losses seem inevitable.

Further details will be announced in the autumn spending review which will take place on 20 October.

Increase in VAT rate to 20%

The VAT rate will increase from 17.5% to 20% from 4 January 2011.

It has long been a sore point across the sector that charities cannot recover VAT, and calls to change the system have been ignored for years. This change makes the pain even greater and is likely to cost charities £150m.

Withdrawal of Lennartz method of recovering VAT

The budget confirmed that from 1 January 2011 the 'Lennartz' method of recovering VAT on assets used for non-business purposes would be withdrawn. Charities already using the Lennartz method can continue to account for VAT over a 10 year period.

Consultation on Gift Aid

There was no change to the base rate of income tax. Consultation on how to improve the Gift Aid system has been underway for some time, with no specific proposals yet. The Budget confirmed that the government would continue to explore ways of improving the system, with an aim of making recommendations by 30 September 2010.

There was no announcement of an extension to the transitional relief scheme. This was introduced in 2008 to help charities deal with the reduction in Gift Aid income which arose from the reduction of the basic income tax rate from 22% to 20%. This supplement applies for donations up to 5 April 2011.

Substantial donor consultation

The incoming government confirmed a commitment to changing the substantial donor rules. Any changes are unlikely until 2011.

The current rules penalise charities when they undertake certain transactions with donors, and have been widely criticised for both their impact and complexity.

Changes to allowances and Benefits

From 2013/14 the government will introduce objective medical assessments for Disability Living Allowance benefits claimants. The measure is intended to save costs and charities working with disabled people are likely to find that beneficiaries are adversely affected.

The government will also review the Housing Benefit system with a view to reducing costs. Charities working with the lower paid and vulnerable people on housing benefit are expected to be significantly affected.

Welfare reforms were announced to reduce the burden of the current welfare system, with major changes in the tax credits system.

Conclusion

The Budget did not bring good news for charities. The VAT increase will add significant cost. However the cuts in public sector expenditure are likely to have an even greater impact – further details will be clearer after the autumn spending review in October.

How we can help?

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

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