Charity Finance Group: Budget 2018

29 October 2018

This briefing provides a summary of the highlights of the Budget 2018, including those of particular interest to the charity sector. We have also asked some of our corporate members to put forward their initial responses to measures announced in the budget which are placed next to relevant announcements.

Useful links:

- CFG's Autumn Budget Live Blog
- https://twitter.com/CFGtweets
- HM Treasury Autumn Budget 2018
- Office for Budget Responsibility's Economic and fiscal outlook, October 2018

Overview

The Chancellor of the Exchequer, or 'Fiscal Phil' (as he referred to himself) stated that after the tough decision of the last few years 'the era of austerity was finally coming to an end'. While the extent to which this is true will be debated, there was some additional spending for a number of government departments, perhaps most notably the NHS. But with the failure to make progress on the Brexit negotiations foreshadowing this budget, a no deal scenario will make the OBR's forecasts which these spending commitments rest upon, null and void. The Chancellor made clear that the failure to reach a deal will result in the 2019 Spring Statement becoming a full fiscal event.

Suffice to say that there was not a great deal of interest for charities in this year's budget. Rather than offer a strategic long-term vision for the sector, there were a smattering of funding commitments which failed to deliver a plan which clearly articulates the vital role charities play in the 'shared society'

A common complaint in the recent past has been the absence of a coherent overarching strategy to supporting the sector, and this year was no different with only a few targeted giveaways. With £10 million for veteran charities to help support people with mental health needs, air ambulances receiving £10 million of capital funding and £15 million to charities focused on avoiding food waste, there were some positive individual sums of money, but a lack of any coherent overarching strategy for the sector as a whole.

Perhaps the biggest surprises for the sector were the predicated changes that did not come to pass, with no mention of regulation for online giving platforms in relation to Gift Aid which had been trailed in The Sun. More positively, there were no further increases to Insurance Premium Tax (IPT), so the campaigning work of the Association of British Insurers, CFG and Ecclesiastical Insurance appears to have paid off.

With no mention of the UK Shared Prosperity Fund in either the Chancellor's speech or the Red Book, charities will need to keep an eye out for the upcoming consultation which is expected towards the end of November.

If you would like to discuss any of the issues arising from the Autumn Budget 2018, please contact our the team via [policy@cfg.org.uk.](mailto:policy@cfg.org.uk)

Latest data on the UK economy

To accompany the Budget, the Office for Budget Responsibility (OBR) also publishes forecasts for the economy and public finances.

- **Growth** – the OBR has downgraded its expectations for growth in 2018 from 1.5% to 1.3%. The new forecast from the OBR sees predicted growth to be 1.6% in 2019/20 and 1.4% in 2020/21. Growth is expected to increase to 1.5% by 2022.

  The deficit (public sector net borrowing (PSNB)) as a % of GDP – Following better than expected economic data prior to the budget the OBR predicted that the PSNB will drop to £37.1bn in 2018/19 and will reduce down to £21.4bn by 2022/23. Giving the Chancellor more wiggle room for the additional spending commitments announced.

- **Unemployment** - is expected to fall to 3.7% in 2019 but then increase to 3.9% by 2022. The UK labour market remains the major success story of the UK economy, with UK unemployment at its lowest since the mid-1970s.

- **Employment** - is due to increase in 2019 to 32.7m and increase further to 33.1m by 2022. Lower unemployment and higher employment however, could mean higher pressure on wages which could create higher costs for charities. Although in recent years falls in unemployment have had little impact on wage growth.

- **Inflation (CPI)** - is predicted to be 2.6% in 2018, 2.5% in 2019, falling to 2% in 2020 keeping it in line with the Bank of England's target by 2020.

- **Earnings -** average earnings are expected to grow 2.6% in 2018, 2.5% in 2019 and increase to 2.8% by 2020.

- **Inheritance tax –** The OBR has reported that annual inheritance tax receipts will increase from £5.2bn in 2017/18 to £6.2bn by 2021-22.

With the deficit falling much faster than previously forecast the public finances are in a much better place than expected, so the Chancellor has had more revenue to make additional spending commitments.

But it is worth bearing in mind that the OBR forecasts presume a smooth Brexit process. If this isn't the case, then forecasts could change significantly, and as the Chancellor stated in the case of a no deal, the Spring Statement will need to be a full fiscal event taking into account the revised forecasts.

The news continues to be positive on unemployment, employment and Labour force participation, but the Growth figures are much less rosy. Under ordinary circumstances, it would be expected to see higher wage growth under such a tight labour market, but in recent years this hasn't materialised with wages forecast to increase only slightly above the rate of inflation. This, alongside increases to the National Living Wage of 4.9% to £8.21 an hour in April 2019, should mean the wage bill will increase slightly for the sector, but this could be offset with an increase in charitable giving due to higher wages.

While next year's Spending Review will set out in more detail departmental spending, there were some indications that there will be increases in departmental spending, even above and beyond that allocated for the NHS.

Charity funding

There was very little focus on policies specific to the charity sector at this year's budget. However, there were a few announcements of note:

- **Holocaust commemoration and education fund** – The government will provide a charitable organisation with £1.7 million for educational projects in schools to mark the upcoming 75th anniversary of the liberation of the Bergen-Belsen concentration camps.
- **The government has committed £10 million** to support veterans with mental health needs
- **The government will provide up to £8 million** to help with the cost of repairs and alterations to village halls, Miner's welfare facilities and Armed Forces organisation's facilities.
- **Air Ambulances** – The government is making available £10 million of capital funding for air ambulances in England.
- **Food Waste** – The government will provide £15 million to charities and others to distribute surplus food.
- The Budget committed to launching a pilot of a new prize-linked saving scheme for credit unions.

"Today's Budget speech saw the word "charity" appear three times, and "charities" six times. Despite this low count, there were some announcements of interest in specific areas for charities. Debt management charities will want to look at the detail of the various financial inclusion announcements in relation to support for social and community lending, including a proposed feasibility study to look at a no-interest loan scheme. Charities dealing with food waste may welcome the announcement of government funding of £15m to distribute surplus food. Blood Bikes charities will also benefit from an exemption relating to vehicle excise duty. There was also news of funding for village halls, Miners' Welfare facilities and Armed Forces organisations, including funding to support the mental health of veterans."

Julie Hutchison, Charities Specialist, Standard Life Wealth

"The Government also announced extra funding for Air Ambulances and a £10 million donation to the Armed Forces Covenant Fund Trust to support veterans on the

centenary of the First World War, in lieu of exempting VAT on the sales of commemorative statues. It's good to see the Government supporting the sector with welcomed funding."

Charlotte Ayers, Associate Director, NFP Team, Moore Stephens

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Brexit

Alongside some minor consequential amendments to tax legislation to reflect EU exit, the Chancellor announced that the spending commitments he outlined suppose a deal can be made with the European Union. In the event of a no deal Brexit next year's Spring Statement will need to become a "full fiscal event" as the figures in the OBR forecasts depend on a smooth Brexit process. If progress cannot be made on the Northern Irish border and a no deal scenario occurs, the OBR will need to drastically revise their forecasts, as the public finances will be in a worse position in the short to medium term. As outlined in our cost-benefit analysis of Brexit CFG remains committed to the view that a no-deal would be the worst of all worlds for the charity sector and should be avoided.

Tax

There were a number of announcements on tax that directly affect charities, particularly those on Gift Aid and charity trading, alongside a number of others which will also be of interest to the wider sector:

- **The Upper limit for trading** that charities can carry out without incurring a tax liability will be increased from £5,000 to £8,000 where turnover is under £20,000, and from £50,000 to £80,000 where turnover exceeds £200,000. This is to be welcomed.

- **Charity shops using the Retail Gift Aid scheme** will only need to send letters to donors every three years when their goods raise less than £20 a year, rather than every tax year. This measure will assist charities in reducing the administrative burden of the scheme.

- **The individual donation limit under GASDS has been increased to £30**, which will keep the donation limit in line with contactless payments. This increase is a welcome measure.

- **Personal allowance** - The government has pledged to meet its commitment to raise the Personal allowance to £12,500 from April 2019, a year earlier than planned. The threshold will remain at the same level in 2020-21 and then increase by CPI.

- **The Higher Rate Threshold will rise to £50,000 by April 2019,** a year earlier than previously announced.

- **IR35 -** The off-payroll working rules in the public sector will be extended to large and medium size businesses in April 2020. While this may not affect all of our members, those who employ people via personal service companies, such as arts organisations, may feel an impact.

- **Fuel duty has been frozen for the ninth year in a row.**
- **The VAT threshold will remain at the current level of £85,000 until April 2022**
- **Apprenticeship Levy -** Treasury has announced that the co-investment rate will be halved from 10% to 5% for small businesses. Which will be beneficial for small charities wishing to employ an apprentice. We welcome this but remain concerned with the overall impact of the apprenticeship levy on charities.

"It is great to hear that the Chancellor plans to help charities by increasing the annual limit for trading in a charity from £50,000 to £80,000 turnover (for charities with income over £200,000). This takes it very close to the VAT registration threshold of £85,000 so almost aligning these which is helpful.

In addition the decision to allow charities operating Retail Gift Aid to write to those whose donations raise under £20 a year, just once every three years rather than annually as at present, will save charities many thousands of pounds in administration and postage costs."

Helen Elliott, Partner, Sayer Vincent

"It is encouraging to see a number of announcements aimed at reducing the administrative burden on charities. In particular, the 60% increase to the maximum small scale trading limit, which is long overdue, should reduce the need for many charities to set up trading subsidiaries and minimise the risk of unexpected tax liabilities."

"With charity shops frequently refused full business rates relief, today's confirmation that smaller shops will benefit from a one third reduction on their rates will be welcomed. However it is only a temporary measure (until the revaluations in 2021) and councils should ideally be encouraged to offer the full 100% discretionary relief."

"Whilst unlikely to impact on larger charities that already max out the benefits of the Gift Aid Small Donation Scheme, the increase from £20 to £30 is a positive step that we hope will help charities make better use of this under-claimed relief and also brings it in line with the contactless payment limit."

Alice Palmer, NFP Tax Manager, Haysmacintyre

“The Autumn Budget brings some good news for the Charity sector. Charities will be able to generate more non-charitable trading income of up to an increased threshold of £80,000. This threshold has remained at £50,000 for many years.

This is great for those charities who for example, sell Christmas cards and sell general merchandise to raise funds without the need of incurring the administrative costs of setting up a separate trading company to carry out this activity, where the activity is still relatively small."

Luke Savvas, Tax Partner, Charity and Not-for-profit, Buzzacott

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“The VAT registration threshold will remain at the current level of £85,000 until 31st March 2022. This announcement means that by the end of the period it will have remained unchanged for 4 years with the effect that more small charities are likely to have to register for VAT than would otherwise have been the case if the threshold had been indexed.

Whilst it is good news that the threshold has not been reduced this is not the news the sector wanted to hear – some small charities hit with a double whammy administrative burden of VAT registration and Making Tax Digital.”

Simon Buchan – Head of VAT Services, BHP, Chartered Accountants

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Insurance Premium Tax (IPT)

Following similar speculation last year there had been concerns within the charity sector that the Chancellor would see the IPT as an easy way of raising revenues, increasing it to 20% to bring it in line with VAT. However IPT remained at 12%. While it is positive that there were no further increases this falls short of CFG’s aim of exempting charities from it entirely. We will continue to push.

Business rates

Business rates relief is again an area of continued concern for charities. The government announced that business rates will be cut by a third for retail properties with a rateable value below £51,000. It is likely that this will have an impact on charities with a retail arm. CFG will fully consider the impacts of these changes before we comment further.

Welfare and public services

One of the main announcements from the budget was the additional £20bn in NHS funding. There was also a brief mention of additional funds for local government for social care and children's services, but not to the same scale as the funding commitments for the NHS. The main announcements were:

- **The NHS will receive an additional £20.5bn a year in real terms by 2023/24.**
- **Mental health crisis services will receive an additional £250 million a year by 2023/24,** including 24/7 support via NHS 111; children and young people's crisis teams in every part of the country; comprehensive mental health support in every major A&E by 2023-24; more mental health specialist ambulances; and more community services such as crisis cafes.
- Day-to-day departmental spending will grow at an average of 1.2% per year in real terms from 2019-20.
- The Chancellor also stated that there will be an additional funding for adult and children's social care, schools, defence and police at the Spending Review.
- **There will be additional social care funding** of £240 million in in 2018/19 and £240 million in 2019-20 for adult social care.
- **Additional funding of £410 million in 2019-20** for adults and children's social care.
- **Increase in National Living Wage to £8.21 (for over 25 year olds, different rates apply for employees below the age of 25) in April 2019 an increase of 4.9%**.

"The big announcement for this budget was apparently the £8.4bn deal for the NHS which was publicised 4 months early. A further 10-year plan for the NHS was announced and will include a new mental health crisis service, and a 24-hour helpline. Additionally, extra funding is being provided to English Authorities for social care and so it will be interesting to see what impact this has on funding and service provision within the charity and voluntary sector."

Rachelle Rowbottom – Tax Director, BHP, Chartered Accountants

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Universal Credit

With continued pressure from all sides to make significant reforms to Universal Credit, or even scrap it entirely, the Chancellor stated clearly that "Universal Credit is here to stay, and we are putting in the funding it needs to make it a success". With that in mind there were some key announcements around Universal Credit (UC):

- **An increase in work allowances in Universal Credit by £1,000 per annum** by April 2019
- Additional help for help for households moving onto Universal Credit via **extending the 12-month grace period** (the period before the Minimum Income Floor applies) to all gainfully self-employed people.

- From October 2019, the government will **reduce the maximum rate at which deductions can be made** from a Universal Credit award from 40% to 30% of the standard allowance.
- Housing Benefit claimants will receive an additional payment providing a fortnight's worth of support during their transition to Universal Credit, **the government will extend this provision to cover the income-related elements of Jobseeker's Allowance and Employment and Support Allowance, and Income Support**. New UC claimants in receipt of housing benefit will continue to receive two weeks when switching to UC.

While these changes may provide some benefit to charities whose beneficiaries rely on UC, for many, these changes do not go far enough to ensure that people will not be worse off as a result of UC. We will continue to monitor the changes that our members report on these issues.

Devolution

There were a number of announcements in the budget to promote regional growth to help boost productivity. Which included a number of announcements of additional funding, including:

- £770 million to extend the Transforming Cities Fund
- £675 million for a new Future High Streets Fund, which forms part of the government's plan for the High Street
- £420 million for local roads maintenance including potholes
- £200 million to pilot innovative approaches to deploying full fibre internet in rural locations
- £150 million for small road improvement projects
- £120 million for the Strength in Places Fund to support areas of R&D excellence across the UK
- £20 million to support local peer-to-peer networks focused on business improvement
- £10 million to generate proposals for new business-backed Development Corporations and similar delivery bodies
- £5 million to support new University Enterprise Zones

Hammond announced additional funding for the devolved nations:

- **£950m for the Scottish government;**
- **£550m for the Welsh government;**
- **£320m for the Northern Ireland executive.**

Other key department news

With the Spending Review occurring next year there was not the usual information on additional departmental spend. The Spending Review will be a key priority for CFG in 2019 alongside other infrastructure bodies we will try to ensure that charities are not punished by any additional cuts to funding.

A final word

“Yet another budget goes by without any strategic funding for the sector. The announcements on charity tax and some additional funding for local government social care and children's services are to be welcomed, but they don't go far enough. And it's great to see funds for the military charities and air ambulances, however, worthy though those causes are, we desperately need the government to be more strategic in their funding of the sector as a whole.

"It was noticeable that the budget was caveated with there being a successful outcome to the Brexit negotiations. Despite further funds being poured into managing the process however, a no-deal seems increasingly likely. In that event it's difficult to see how the Chancellor could hold off until spring to rethink spending."

Caron Bradshaw, CEO of Charity Finance Group