

The Budget – 24 March 2010

AS IT AFFECTS THE CHARITY SECTOR

1. Introduction
 2. Gift Aid and tax reliefs for donors
 3. Tax administration
 4. Trading subsidiaries and business taxation
 5. Anti-avoidance
 6. VAT
 7. Employers and employees
 8. Helping people
 9. Improving long-term housing supply and affordability
 10. Securing low-carbon growth
 11. Protecting public services
 12. Social investment wholesale bank
 13. Conclusion
- Forthcoming events

This summary covers items in the Budget of specific interest to charities and the Not for Profit sector. It is not intended to be a full review of all the general taxation aspects of the Budget. For more general Budget commentary please visit our website www.horwathcw.com/budget

It must also be remembered that almost all of these comments are subject to any changes that may be made to the draft legislation prior to the passing of the Finance Act.

1. Introduction

The Budget speech itself seemed to contain little of direct interest to charities. The recurring themes of helping families and addressing child poverty were there of course, along with considerations of environmental issues, but it was rather what wasn't there that continued to give charities cause for some anxiety.

The Chancellor was clearly pleased to be able to point to a better than expected position on government borrowing, but he also said that he expected a further reduction of the deficit to come from three areas: tax, public spending cuts and growth. It is the first two of these that give charities most cause for concern.

The Chancellor announced no further changes to tax rates and emphasised his view that immediate cuts in spending could stall any recovery. There will, however, be a particular challenge next year when the next Spending Review is undertaken. Most commentators feel that significant cuts will have to be made. So the key area for larger charities that rely on public sector funding must continue to be the uncertainty over continued funding in future years.

Overall then charities will have to continue to plan for the worst, including increased costs of employment due to changes in National Insurance and perhaps additional costs if a widely predicted post-election increase in VAT comes about.

At a more 'micro' level, the announcement of a system whereby many more people will have bank accounts was welcomed and other changes saw clarification of a tax definition of what constitutes a charity aligned with proposals to extend tax reliefs to European organisations.

Those hoping for the promised improvements to the substantial donor rules, however must continue to remain patient!

2. Gift Aid and tax reliefs for donors

Gift Aid consultation

The Treasury continues to consult on potential changes to the Gift Aid system, for instance, allowing charities to claim higher rate relief on donations, or giving relief at a composite rate e.g. 30p or 37p in the pound. It does not appear that any changes will take place soon.

In a meeting of the Treasury's Gift Aid forum in February, the Economic Secretary to the Treasury, Ian Pearson, invited the group "to work to a definite timetable and to come up with specific recommendations by 30 September 2010". This encouragement was, however, mitigated by the comment that "any proposals should also take into account 'the difficult fiscal environment'", implying that any changes would be expected to be cost-neutral.

The transitional relief (for the reduction of the basic rate of tax from 22% to 20%) is still scheduled to end on 5 April 2011.

Timing of Gift Aid claims

HM Revenue & Customs (HMRC) is trying to reduce its administration costs, and have decided to consult on the possibility of reducing small in-year claims.

At the moment charities may make any number of claims on forms R68 during a tax year. Larger charities tend to make claims on a monthly basis, or more often. Clearly the earlier that charities make claims, the better their cash flow. However, it takes HMRC more time to process a large number of small claims than a single claim for the same amount. It would therefore hope to save costs if, for instance, charities were only allowed to make small claims on an annual basis.

A potential new rule would work by only allowing a charity to make a claim within the relevant tax year if the income tax met a minimum amount. This is unlikely to affect larger charities that claim more regularly, but smaller charities may suffer adverse cash flows. This issue needs to be addressed during the consultation.

Payroll giving

The government has taken the opportunity afforded by the new EU rules (see below) to tidy up the payroll giving rules. Currently there is no requirement for a charity to apply

the funds from payroll giving to charitable purposes, and apparently some charities have been taking advantage of this. The new rule will mean that the income is only tax-exempt in the charity's hands if it is applied to charitable purposes which is the same as for all the other charity tax exemptions. If funds are applied to non-charitable purposes, e.g. unauthorised payments to a trustee, tax relief is withdrawn on income up to the amount of the non-charitable payment, so that the charity incurs a tax liability on that amount.

This change closes a loophole but is unlikely to have a significant effect on charities unless they are incurring non-charitable expenditure.

Increase in income tax for high earners

A change that was announced in the previous Budget and has already been widely discussed is that from 6 April 2010 onwards there will be a new 50% top rate of tax for those with a taxable income above £150,000. For high earners Gift Aid will become a more valuable relief. When they make a Gift Aid payment to a charity they will save tax at a higher rate than now when the top rate of tax is only 40%.

From 6 April 2010 onwards personal allowances will be gradually reduced to nil for those whose 'adjusted net income' (broadly taxable income with a few alterations) is greater than £100,000. Gift Aid will also be available to mitigate the effects of this change.

EU developments

Cross-border charitable donations in the EU

Following the German tax case of *Hein Persche v Finanzamt Lüdenscheid* the government is now obliged to extend UK charity tax reliefs to EU-resident charities. The case related to a German taxpayer who claimed tax relief on a donation to a Portuguese charity, but it had an EU-wide application. The Budget is now extending UK charitable reliefs to charities resident in the EU, Norway and Iceland.

This means that donors paying UK tax (whether resident in the UK or otherwise) will be able to get Gift Aid and other UK reliefs on donations to charities that are resident in the above countries. Such charities will also be able to receive repayments of UK income tax and, if they have any income that is subject to UK income or corporation tax, they will also be able to take advantage of UK charity tax reliefs.

The government had two concerns over the decision. The first was that it would increase the cost of the various reliefs to the Exchequer. The second was the increased potential for fraudulent claims.

The only way to prevent an increase in legitimate claims would have been to restrict or withdraw reliefs to all charities, and the sector will no doubt be glad that the government chose not to go down this route. However, they have had to make some changes to charity administration in order to try to reduce the possibility of fraudulent claims, and the following measures will be introduced.

New rules

A new UK or existing non-UK charity that wants to claim UK reliefs will need to:

- meet the English and Welsh definition of a charity (in accordance with the 2006 Charities Act)
- be based in the EU, Norway or Iceland
- be registered with any charity regulator in their home country which the law requires an organisation to register with, such as the Charity Commission in England and Wales
- be managed by 'fit and proper persons' (see below). This will include trustees but also anyone who in practice controls the financial aspects of running the charity.

Fit and proper person

One of the new helpsheets issued by HMRC on Budget day states:

"If HMRC needs to decide if a person is 'fit and proper' it will look at the records it holds, and has access to, to determine whether that individual is likely to exploit the charity tax reliefs for non-charitable purposes. The position the person holds within the organisation will be very important as those with greater control over how charity tax reliefs are used will clearly present a greater risk than those with no such control. As a result the tests applied will vary from case to case, depending on individual circumstances (and the position held), and will range from simple verification of the person's name and address to detailed examination of the facts where, for example, there has been a previous conviction for tax fraud.

"The approach HMRC will take will depend upon the individual circumstances in each case. For example, if a charity trustee had previously been convicted of a finance related offence, but was not involved in, or capable of influencing the financial affairs of the charity then HMRC would probably consider that the charity continued to be eligible for charitable tax reliefs."

For existing UK charities it will be assumed that everyone currently in office is a 'fit and proper' person, but when an officer changes HMRC must be notified using a 'Variations Form'.

Funds sent overseas

When a charity sends funds overseas it has to comply with additional procedures to make sure that the funds are applied to charitable purposes. These rules will be enhanced so that a charity must be able to demonstrate that it has carried out appropriate checks, and HMRC will be publishing guidance on this.

If the charity cannot demonstrate that it has carried out appropriate checks, it may be treated as incurring non-charitable expenditure, and if so it will have a tax liability on income up to the amount of the funds spent abroad.

Insufficient tax paid by donor

Under current rules, if a donor incorrectly certifies that he has paid enough tax to cover the tax reclaimed under Gift Aid, HMRC recovers this from a UK-resident donor, but not from an overseas-resident donor. Under the new rules this will change so that in all circumstances HMRC will recover the tax from the donor.

Operative dates

Most of the new rules take effect later in 2010/11, with the following exceptions:

- restrictions on the payment of charitable funds outside the UK which will have effect on and after 24 March 2010
- changing the nature of payroll giving income such that it will need to be put to charitable purposes to qualify for exemption, to have effect on and after 24 March 2010
- the new definition of a charity will apply to donations by individuals to charities under Gift Aid on or after 6 April 2010
- the rules aligning the treatment of UK resident and non-UK resident taxpayer donors who make donations under Gift Aid without sufficient tax to cover the repayment to the charity will have effect on and after 6 April 2010.

Claims to tax relief in respect of donations to organisations equivalent to UK charities in the EU, Norway or Iceland after the date of the European Court of Justice (ECJ) judgment on 27 January 2009 and before 1 April 2010 will be considered on a case by case basis.

3. Tax administration

Business Payment Support Service

In his speech the Chancellor confirmed the continuing success of the Business Payment Support Service (or 'Time to Pay' scheme) which has been in operation since November 2008. He said that the scheme should be extended for the whole of the next parliament.

In its document "Delivering a new relationship with business" HMRC said, "We will continue to offer time to pay as a permanent part of our support for all viable businesses having difficulty in meeting their tax obligations."

The Business Payment Support Service is a tax deferral scheme to help businesses with temporary cashflow difficulties. It is available to all businesses, including charities. The taxes that can be deferred are VAT, PAYE, NIC and income or corporation tax. Arrangements are made on a case by case basis, but tax can be deferred for up to six months, if instalment payments are arranged. In most cases we are told that a decision will be given in about 10 minutes.

Interest will continue to run at the normal rate for overdue tax but there will be no additional late payment surcharges.

Online filing of tax returns

With effect from 1 April 2011 all companies as defined for tax purposes (including corporate charities and their trading subsidiaries) will need to file their tax returns online, for accounting periods ending after 31 March 2010.

Smaller businesses (including charities) are already able to file online through the HMRC website. For larger businesses systems and processes are being put in place to enable online filing to take place. In particular Companies House and HMRC have agreed to use the same iXBRL format for the submission of accounts using commercial software.

Time limits reduced for Gift Aid reclaims

With effect from 1 April 2010 the time limit for reclaiming income tax on Gift Aid donations will be four years rather than six.

Trusts make claims in relation to the tax years to 5 April. The change means that 31 March 2010 is the last date for reclaiming income tax on donations made in the tax year 2004/05, and the deadline for the tax year 2005/06 will be 5 April 2010.

Corporate charities make claims according to their accounting years. For accounting years ending within the two years to 31 March 2005, corporate charities will have a deadline of 31 March 2010 for making Gift Aid claims, and thereafter the deadline will be four years after the year end.

The deadline for claiming the transitional relief which is available until 5 April 2011 will continue to be two years after the relevant tax year, so that if a claim is made within the normal Gift Aid deadline but after two years, the supplement will not be added to the claim.

4. Trading subsidiaries and business taxation

Corporation tax rates

The rate of corporation tax for small companies, broadly those with taxable profits of £300,000 or less, will remain at 21% for the year to 31 March 2011.

The standard rate of corporation tax will remain at 28%.

The marginal relief fraction for profits between £300,000 and £1.5 million will remain at $\frac{7}{400}$

Taxable profits	Year to 31 March 2011
£1 - £300,000	21%
£300,001 - £1,500,000*	29.75%
Over £1,500,000	28%
*Marginal relief rate	$\frac{7}{400}$

The above limits for taxable profits are divided by the number of active companies (not including trusts) in a group.

Where charities or trading subsidiaries pay tax, they tend to have lower profits and pay tax at the lower rate.

Capital allowances

Currently a 100% deduction (the Annual Investment Allowance) is available for the first £50,000 of plant and machinery expenditure. The rest of the expenditure is placed either in the main pool where it attracts a 20% annual allowance or in a few cases a special rate pool where the rate is 10%.

From 1 April onwards (6 April for trusts) the Annual Investment Allowance will be increased to £100,000. Where an accounting period straddles 1 April the extra £50,000 of allowance will be time apportioned. As in previous years groups of companies only get one Annual Investment Allowance which they must share between them.

A 100% deduction is also available for the cost of purchasing certain environmentally beneficial plant and machinery.

These changes will be relevant to the trading subsidiaries of some charities.

Estimated Gift Aid payments

In general Gift Aid is available on the exact amount of money paid to the charity – no more and no less. HMRC accepts in practice, however, that 100% owned trading subsidiaries of charities can make estimated Gift Aid payments in advance of the nine month deadline and if the payment turns out to be an overestimate the charity can make a repayment. This is subject to the intention being properly documented.

HMRC has been undertaking a review of its practices and concessions, with a view to incorporating them into the statute where appropriate. The practice on estimated payments will now be included in the tax legislation with effect from 1 April 2010. However, it is now subject to a further condition.

Where an estimated payment is made on or after 1 April 2010, any repayment must take place within one year after the end of the relevant accounting period. In effect, a trading subsidiary has up to nine months to make the Gift Aid payment, and the charity will have a further three months after that deadline to make any repayment. This does not leave a lot of time for the trading subsidiary's taxable profits to be finalised, and it is likely that estimated payments will become much less useful to trading subsidiaries.

5. Anti-avoidance

Substantial donors

In the 2008 Pre-Budget Report we were told that the government was committed to changing the onerous substantial donor rules.

Under these rules charities are penalised for undertaking particular transactions with substantial donors. The rules are very widely drawn and catch a number of transactions which are completely innocent and where neither the donor nor the charity is involved in any tax avoidance. Moreover the necessity to track substantial donors (and individuals or companies that are connected to them), and transactions with them,

means that charities which try to comply with the rules suffer significant extra administration costs in addition to the potential tax liabilities.

The 2009 Budget Report stated that: “[The] Budget announces further informal consultation with the sector to develop new rules based around an effective anti-avoidance purpose test. The government aims to bring forward proposals at the 2009 Pre-Budget Report, with a view to legislating in 2010.”

Consultation has been taking place, and representatives from the charity sector and professional bodies have agreed with representatives from HMRC in broad terms that the most satisfactory form for new rules would be to withdraw tax relief from donors who enter into arrangements which return value to the donor, and the purpose of which is to avoid tax.

The 2010 Budget Report, however, says only: “The government is committed to replacing the anti-avoidance rules relating to substantial donors to charities and will continue to explore the details of the proposed new purpose test with interested parties.”

Although the lack of immediate action is disappointing, we believe that a properly drafted anti-avoidance test should satisfactorily address the numerous problems with the rules. We hope that eventually this will mean that charities which are not involved in tax avoidance will no longer have to worry about the substantial donor rules. We are concerned, however, that the forthcoming election will push it further down the government’s legislative agenda.

Gift Aid anti-avoidance

The Finance Bill will include anti-avoidance provisions that were brought in on 15 December 2009 to stop people abusing the reliefs for gifts of quoted shares to charity.

The tax avoidance schemes broadly involved taxpayers buying shares at a huge discount to the market price due to restrictions imposed on their disposal, giving the shares (subject to the restrictions) to a charity, but then claiming the full market value rather than the amount paid. The value obtained by the charity was minimal and many times lower than the market value of the shares.

The new anti-avoidance rule applies to gifts of qualifying investments (shares and property). It will apply where:

- the donor has acquired shares within four years before the gift
- the acquisition was part of a scheme
- the main purpose (or one of main purposes) of the donor entering into the scheme was to obtain tax relief or an increased amount of tax relief.

In these circumstances the donor will only be able to get relief on the price actually paid, rather than the full unrestricted market value of the shares or property.

6. VAT

VAT registration limits

The taxable turnover registration limit which determines whether a charity must be registered for VAT increases from £68,000 to £70,000 with effect from 1 April 2010. The deregistration limit rises to £68,000.

VAT on postal services

VAT on the majority of postal services provided by Royal Mail Holdings Plc will remain VAT exempt. However, supplies made on or after 31 January 2011 which do not fall under a licence duty will be subject to VAT at the standard rate.

This could be bad news for charities that have bulk postal agreements as VAT may have to be levied which will not be recoverable.

VAT on shared services

It has been perceived as a major problem for charities who wish to share services, in that any recharge between the parties involved may create a taxable supply.

The government has recognised this problem and will be holding a consultation with the charity sector to see what can be done to make these cross-sharing recharges either non-business or exempt.

VAT and the Lennartz Mechanism

The Budget announcement confirmed changes to the Lennartz accounting rules on recovery of VAT on certain assets used for both business and non-business purposes by charities. From 22 January 2010 the Lennartz Mechanism only became available where the non-business use related to private use.

Current users of Lennartz accounting rules will be permitted to use it for the full accounting period.

7. Employers and employees

The Budget contained very little of immediate importance for employers or employees. Nevertheless, matters announced in earlier Budgets and Pre-Budget Reports will take effect from the start of the 2010/11 tax year.

PAYE

There is no change in the basic personal allowance, which remains at £6,475 a year. The PAYE threshold stays at £125 weekly, £540 monthly. Other personal allowances are similarly frozen at 2009/10 levels.

The important change is the restriction on personal allowances for individuals with taxable income in excess of £100,000. Allowances will be reduced by £1 for every £2 by which income exceeds £100,000 until the allowance is reduced to nil.

The basic rate band stays at £37,400; the 40% band runs from £37,401 to £150,000. Above £150,000 the new 50% tax rate comes into play.

In-year penalties for late payments of PAYE

From the start of the 2010/11 tax year late payments of monthly PAYE deductions can result in in-year penalties. The new rules apply to all employers and contractors, from the largest to the smallest, and for employers with 250 or more employees they replace the mandatory electronic payment surcharge. PAYE deductions for this purpose include all of the following:

- income tax and Class 1 NICs collected via the PAYE system
- Student Loan Deductions
- Class 1A NICs on benefits-in-kind reported on P11D returns
- Class 1B NICs in PAYE Settlement Agreements
- CIS deductions from subcontractors in the construction industry.

For PAYE tax, Class 1 NICs, CIS deductions and Student Loan Deductions the penalty will be a percentage of the total amount that is late in the tax year. The percentage will be on a sliding scale from 1% to 4%, depending on the number of times payments are late in the tax year.

Number of late payments in the tax year	Penalty percentage	Amount to which the penalty percentage applies
1	0%	Total amount that is late in the tax year (ignoring the first late payment in that tax year).
2 - 4	1%	
5 - 7	2%	
8 - 10	3%	
11 or more	4%	

In addition there will be a penalty of 5% of any amount still unpaid after six months, and a further 5% after 12 months. A single late payment will not result in a penalty unless the payment is more than six months late.

For Class 1A and Class 1B NICs, the penalty will be 5% of the amount paid late if the full amount is not paid within 30 days of the due date, plus a further 5% if it is still unpaid after six months, plus yet another 5% if it is still unpaid after 12 months.

Employers and contractors will not have to pay a penalty if HMRC accepts that they have a 'reasonable excuse'; however the excuse must be something unusual, unforeseeable and unpreventable. Inability to pay, or reliance on someone else to make the payment, will not normally be accepted as a reasonable excuse.

National Insurance Contributions (NICs)

Thresholds are frozen at 2009/10 levels with the sole exception of the Lower Earnings Limit which rises from £95 a week to £97. All Class 1 NIC rates remain unchanged for the time being.

From 6 April 2011, employer and employee rates will each rise by 1%. Class 1A and Class 1B rates will similarly increase from 12.8% to 13.8%. At the same time the Earnings Threshold at which contributions become payable will rise by £570 a year to compensate the lowest earners.

Cars

Car benefit charges are based on a percentage of the car's list price, varying between 15% and 35% depending on the car's CO₂ emissions. For 2010/11 the entry level drops from 135 g/km to 130 g/km. This will have the effect of increasing the majority of CO₂ percentages by one percentage point. The threshold for the 10% band (13% for diesel engines) remains unchanged at 120 g/km – cars must have CO₂ emissions of 120gms or less to qualify.

A new departure will be the introduction of a temporary 5% band for low emission cars with CO₂ emissions of 75g/km or less. This will last for five years from 6 April 2010 to 5 April 2015.

From 6 April 2011 there will be a further drop in the CO₂ entry level to 125g/km. At the same time the discounted percentages will be discontinued that currently apply to Euro IV diesel cars registered before 1 January 2006, petrol-electric hybrid cars, road fuel gas-powered cars and cars capable of running on E85 bio fuel. Also the £80,000 cap on the list price of company cars will be scrapped. The taxable benefit will be calculated on the full list price.

From 6 April 2012, the graduated table of company car tax bands will be extended down to a new 10% band that will apply to cars with CO₂ emissions up to 99g/km. All other emissions thresholds will move down by 5g/km.

Car fuel

Since April 2003, the fuel benefit charge has been calculated by applying the car benefit tax percentage to a set figure, or 'multiplier'. For 2010/11, the multiplier rises by 6.5% from £16,900 to £18,000.

Advisory fuel rates revised once more

HMRC has updated its 'advisory' petrol and diesel mileage rates for company/fleet cars and vans with effect from 1 December 2009. The previous change was on 1 July 2009. The current rates are:

Engine size	Petrol	Diesel	LPG
1400cc or less	11p	11p	7p
1401 to 2000cc	14p	11p	8p
Over 2000cc	20p	14p	12p

Vans and van fuel

The annual benefit in kind scale charge for vans for 2010/11 remains unchanged at £3,000. However the van fuel charge rises by 10% from £500 to £550.

Electric cars and vans

With effect from 6 April 2010 there will be a temporary suspension of the taxable benefit charge on electric cars and vans. This 'tax holiday' will last for five years and it will not apply to hybrid vehicles.

National Minimum Wage

The National Minimum Wage rates applicable since 1 October 2009 are as follows: £5.80 per hour for workers aged 22 or over and £4.83 per hour for workers aged 18-21 inclusive. The rate for 16 and 17 year olds is £3.57 per hour.

Full details of increased rates effective from 1 October 2010 had not been released at the time of writing. However, it is believed that the adult rate will rise to £5.93 an hour.

Statutory Sick Pay (SSP)

For employees with average weekly earnings of £97.00 or more, the SSP weekly rate on or after 6 April 2010 is £79.15, unchanged from 2009/10.

Statutory Maternity Pay (SMP)

The amount of SMP paid to an employee for payment weeks starting on or after 1 April 2010 is:

- first six weeks of payment - the earnings related rate of 90% of the employee's average weekly earnings
- remaining weeks - the lesser of the standard rate which is £124.88, or the earnings related rate.

Statutory Paternity Pay (SPP)

The weekly rate of SPP paid to an employee for payment weeks starting on or after 1 April 2010 is the lesser of:

- the standard rate, which is £124.88, or
- 90% of the employee's average weekly earnings.

Statutory Adoption Pay (SAP)

The weekly rate of SAP paid to an employee for payment weeks starting on or after 1 April 2010 is the lesser of:

- the standard rate, which is £124.88, or
- 90% of the employee's average weekly earnings.

Childcare vouchers

To qualify for tax relief, childcare voucher schemes operated by employers must be available to all employees. This is not always possible where some employees are paid at or near the National Minimum Wage and the vouchers are provided as part of a salary

sacrifice arrangement. Recent HMRC pronouncements on salary sacrifice schemes for bicycles, which have a similar 'available to all' condition, led to concern that childcare voucher schemes could also be at risk. New measures will relax the condition for childcare schemes and ensure the tax relief is not forfeited. The amendments will be retrospective to the 2005/06 tax year.

Salary sacrifice schemes for workplace canteens

From 6 April 2011 the legislation giving tax exemption to workplace canteens and free or subsidised meals for employees will be modified. The basic exemption will remain, but it will no longer be possible to exploit the exemption as part of salary sacrifice or flexible benefit arrangements.

National Employment Savings Trust (NEST)

Under provisions in the Pensions Act 2008, employers will shortly have a duty to enrol all employees automatically in a qualifying pension scheme. The effective date for this is likely to be October 2012. The NEST will be a trust-based, defined-contribution occupational pension scheme intended to provide a low-cost way of pension saving.

Proposals in the Budget are intended to ensure that NEST can register with HMRC for tax purposes and be subject to the same tax rules as other pension schemes. The legislation will include the power to make regulations where necessary to avoid any unintended tax charges arising from the new arrangements, for example where employers are required to pay interest into an employee's pension account owing to late payments of contributions.

8. Helping people

Supporting the unemployed

The Young Person's Guarantee provides a guaranteed job, training or work experience place for all young people claiming Jobseeker's Allowance for six months or more. The guarantee is backed up with the Future Jobs Fund, which is creating 120,000 paid jobs for young people, and 50,000 jobs for unemployed people aged 25 or over in those areas worst affected by the recession.

It was announced that the guarantee would be extended into 2011/12 to ensure that young people adversely affected by the recession continue to receive the support they need. In addition, the Budget also included measures to help people make the transition back to work. These included:

- enabling the eligibility of the Working Tax Credit to people aged 60 and above if they work at least 16 hours per week rather than the current requirement of 30 hours per week
- people moving into work from the Employment and Support Allowance with a limited capability for work will be automatically eligible for the disability element in the Working Tax Credit.

Encouraging people to save

The Saving Gateway is a cash saving scheme to encourage saving for working age people on lower incomes and promote much needed financial inclusion. The programme will be introduced nationally with the first accounts available in July 2010.

Lloyds Banking Group, The Post Office and The Royal Bank of Scotland Group intend providing these accounts and it is likely that it will provide opportunities for others including credit unions.

It is estimated that 8 million people will be eligible to open accounts. This will only be people in receipt of certain benefits e.g. income support, Jobseeker's Allowance, incapacity benefit etc. The key feature of these accounts is 'matching'. The government is offering a 50p matched payment for each £1 saved.

ISA limits

The ISA limits set out in Budget 2009 for people aged 50 and over were increased to £10,200, up to £5,100 of which can be held in cash. From 6 April 2010 these higher limits are available for all savers. In addition, it was announced that from 6 April 2011 the limits will be indexed in line with the Retail Price Index (RPI) annually over the course of the next parliament. However, the Inheritance Tax threshold has been frozen at £325,000 for the next four years.

Ending child poverty

The Budget continues to focus on the government's commitment to eradicate child poverty. It outlines that paid employment is the single most important factor in reducing poverty and supporting additional earners to move into work is vital to the success of the strategy. As a result the government will consider options to improve the work incentives and move second earners into the labour market.

The Budget also outlines further support for low income families by:

- increasing the child element of the Child Tax Credit from 2012 for each child aged 1 or 2 by £4 per week
- taking further steps to simplify and improve the responsiveness of the childcare element of the Working Tax Credit.

Supporting people later in life

The 2009 Budget announced that households including someone aged 80 or over would receive an additional payment of £100 and those including someone aged 60 or over would receive £50 alongside the Winter Fuel Payment. The 2010 Budget has continued these extra payments for 2010/11.

Extending working lives

Employers have the legal right to require workers to retire at the Default Retirement Age, currently 65. The government intends to launch a formal consultation on reforms to the Default Retirement Age. However, no changes will be implemented before April 2011.

Housing

Despite signs of a housing market recovery, affordability remains a real issue for first-time buyers. Budget 2010 announces a two-year stamp duty land tax relief for first-time buyers for residential property purchases up to £250,000 to help reduce the upfront transaction costs. In order to offset the cost of this relief and to sustain the public finances in the longer term, an additional 5% rate of Stamp Duty Land Tax for residential property over £1 million from 2011/12 has also been introduced.

9. Improving long-term housing supply and affordability

Community Infrastructure Levy (CIL)

Draft CIL regulations were published on 10 February 2010. If agreed by the House of Commons they will come into force on 6 April 2010.

The CIL is a charge on new developments. The charge will apply to any building work for which planning permission has to be obtained, including both the construction of a completely new building or the re-development of an existing building. It will apply to the net additional increase in floor space as a result of the development. The amount will be set by the local planning authority, at a number of pounds per square metre.

Exemptions:

- there will be an exemption for small developments where the gross internal area of the new build is less than 100 square metres
- charities will have mandatory exemption from the CIL, but only for buildings that will be owned by a charity and used wholly or mainly for charitable purposes. This includes leaving the building unoccupied
- the local authority will also have the power to grant relief at its discretion where a charity or charities will be using a development wholly or mainly as an investment. This discretionary relief will not apply if the part of the building to be used as an investment is used for any trading other than the sale of donated goods. As with the discretionary 20% relief from business rates, charities will need to apply to the local planning authority which will decide whether or not to grant the relief
- there will be an exemption for social housing even when not let by a charity.

There is no exemption where:

- the building is owned by a charity's trading subsidiary, and use by a trading subsidiary of a building will not count as charitable use
- a building is owned jointly by a charity and a non-charity
- the exemption would count as State Aid.

The relief will be clawed back if the development ceases to qualify (e.g. if the building ceases to be used for charitable purposes) within seven years of the commencement of development.

10. Securing low-carbon growth

Charities involved in environmental issues will note the focus in several sections of the Budget on the issue of establishing a low-carbon and resource efficient economy.

Green investment bank

The Budget also included proposals to create a Green Investment Bank (GIB), funded by an initial investment of up to £1 billion from the sale of infrastructure-related assets. The government hopes that this will be matched by at least £1 billion of private sector investment. The GIB's mandate will be to invest in the low-carbon sector, with particular consideration of new energy and transport projects where there may be a gap in the

provision of suitable capital. The GIB is likely to focus initially on offshore wind electricity generation.

Landfill tax

As we reported last year, the 2009 Budget announced that the standard rate of landfill tax would increase by £8 per tonne on 1 April each year from 2011 to 2013. The 2010 Budget confirmed that this will be continued with an £8 per tonne increase on 1 April 2014, and also announced that the lower rate of landfill tax of £2.50 per tonne would be frozen in 2011/12. The 2010 Budget confirmed that the list of wastes that qualify for the lower rate will remain broadly the same, although there will be a new set of qualifying criteria (for the lower rate of landfill tax) published in the autumn.

11. Protecting public services

The Chancellor emphasised the government's objective of protecting key public service priorities whilst halving public sector net borrowing over the next four years. The 2010 Budget confirmed that spending on frontline schools, the NHS, education for 16 to 19 year olds, and on the Sure Start programme would be protected in the years to 2012/13. Sufficient funding would also be in place to maintain police officer numbers.

The Budget announced a number of new measures which the government hopes will stimulate economic growth, including a £270 million University Modernisation Fund to finance a predicted 20,000 additional student places. This will provide some additional places to cope with the expected demand from increased numbers of school leavers applying for places in the Autumn. The additional places are to be mainly in the sciences, technology, engineering and mathematics. The university sector is however still expecting £1 billion of budget cuts over the next three years, and it should be noted that some of these extra funds are to be supplied by diverting money from other budgets.

12. Social investment wholesale bank

Last year we reported on the government's intention to consult on the design and functions of a Social Investment Wholesale Bank. The 2010 Budget sets out the model for the Bank, whose aim will be to deliver financial and social returns through linking mainstream investors with organisations focusing on social impact. Initial investment will include up to £75 million of dormant accounts money. The Bank will invest in other funds and organisations which themselves invest in third sector organisations and projects. A fund manager will be appointed following an open tendering process.

The government also plans to conduct a broader examination of the structure of public funding for social investment as part of the next spending review.

13. Conclusion

This really had the feel of an interim Budget, which, given the close proximity of the General Election was not entirely surprising. There were a number of areas which were welcomed and will help to improve the financial position of beneficiaries for charities working with families, children and the economically poorer of society, but the over-riding feeling is one of continued uncertainty as to how to plan for 2011 and beyond.

Charities in general have weathered the storm of recession, but have already experienced some fall in income and increased demand for services. Future changes to tax and potential cuts in spending, however, will add to the uncertainty and means that the position of many charities will remain challenging, for the foreseeable future.

Forthcoming events

Our Not for Profit unit organises a comprehensive seminar programme for charities. Forthcoming events include:

<p>21 April 2010 London</p> <p>Judy Vincent 020 7842 7319 judy.vincent@horwath.co.uk</p>	<p>Completing P11D Returns - Tax Training Workshop for Charities Time: 8.45am – 1.15pm (including a buffet lunch) Cost: £175 plus VAT, £125 plus VAT for HCW clients Venue: Horwath Clark Whitehill LLP, St Bride's House, 10 Salisbury Square, London EC4Y 8EH</p> <p>The half day workshop will deal with all the main aspects of P11D completion and general compliance with PAYE and National Insurance regulations. The content will be equally suitable for finance, HR and payroll staff.</p>
<p>20 April 2010 28 April 2010 27 May 2010 London</p> <p>Rhiannon Cutler 020 7842 7209 rhiannon.cutler@horwath.co.uk</p>	<p>Charity Magique workshops Time: 9.30am - 12.30pm (followed by a buffet lunch) Cost: Free Venue: Horwath Clark Whitehill LLP, St Bride's House, Salisbury Square, London EC4Y 8EH</p> <p>Risk management is playing an ever more critical role to ensure that the risks associated with these economic changes are identified and managed and that any opportunities coming out from the risk management process are identified and acted upon. We are delighted to offer assistance in the form of Charity Magique, a web based risk management solution to enable embedded risk management. You are invited to the first of our free product demonstration workshops for 2010.</p>

Further details are available at www.horwathcw.com

For any further information, please contact your existing contact partner within Horwath Clark Whitehill, or Pesh Framjee, head of our Not for Profit unit; David Daly, head of our Employers' Advisory Group; Nigel Glover, head of Taxation in the Not for Profit unit; Arthur Blackburn, head of VAT.

Horwath Clark Whitehill LLP
St Bride's House
10 Salisbury Square
London
EC4Y 8EH

Tel: 020 7842 7100
Fax: 020 7583 1720

nonprofits@horwath.co.uk