

GST and Charities

I am writing as Deputy Chairman of the Lloyds TSB Foundation for the Channel Islands (the Foundation).

The Foundation is, as I am sure you are aware, a major funder for charities working and operating within the Channel Islands.

This year we have over £1 million to distribute in grants, approximately half of which will be within the Bailiwick of Jersey. Attached is a copy of the Foundation's accounts and annual report for 2005. This gives a flavour of the nature of the way in which we offer our support. While as a Foundation we are not in a position to qualify for GST exemption, all those we support would so qualify and be seriously affect by its introduction.

Over the years, and particularly more recently, the Foundation has very successfully been able to create a social partnership between some of the major charities we support and the departments of the States of Jersey. The Foundation has supported many charities with fragile finances which together with the States provide some important and essential services to those who are disadvantaged by health in its widest sense or poverty. Indeed our impression is that such charities on occasions fulfil roles which would properly be the responsibility of Government at a cost which, from our experience, would be lower than that of the public sector.

This submission is made with knowledge accumulated over 21 years of granting making during which time charities in Jersey have benefited to the tune of approximately £5 million. In the early years the annual sum available for distribution was about £80,000.

Firstly all registered charities are VAT exempt in the UK. This is significant in relation to a number of charities who have sought our assistance. As a general principle we require that charities be registered in Jersey prior to making grants. Currently we are in discussion with two such charities who are anxious to enter into a social partnership with the local health authorities and who were, to say the least, finding it difficult to understand the need to have funds raised in the island ring fenced for use for the benefit of those who needed the support they offered. The question then arises as to whether those charities would pursue their work in the islands if GST was applied to them. We would be unlikely to support charities whose funds, raised locally or through grants for use in the island, were controlled nationally. .

It is our experience that the finances of many charities both small and large are and will remain fragile. In the case of many of these the situation has been made significantly more difficult already by the reduced financial support from States funding.

We have seen that this has resulted in more charities seeking our assistance for costs they incur which hitherto would have been met in whole or in part by government. There is also more pressure on the public to donate but with the proposed new tax laws this in itself will become more difficult as people feel that they have less to donate to charity.

Prior to committing the Foundation to offering grants one of the most fundamental issues we consider is the sustainability of the project. Regretfully we have on a very small number of occasions been obliged to cease funding when charities have clearly been seen to have become unsustainable without further funding being in place after the Foundation's grant period has ended. On these occasions they have been the victims of the effects of the reduced ability of the States due to its financial constraints to provide assistance.

We wish to draw attention to the current pressure on many charities which need the support of government. It seems to us that the imposition of GST can only aggravate an already difficult financial position for them.

The test as to which organisations should be exempted is the simple one of adopting those that are registered under the Income Tax Law as being exempt from the payment of tax.

The imposition of GST would clearly have a significant impact on those charities which have to buy in goods and services to meet their clients' needs. These would in most cases be disadvantaged persons. In addition those charities would also have to impose GST in respect of service charges which would be payable by some of their clients or otherwise absorbed thus increasing the financial burden..

The States would not be subject to GST and this would create an anomaly in an already difficulty area. Whereas commercial ventures would have more flexibility to adjust, charities would find themselves incurring higher costs than the States and then having GST imposed on them where they are able to recover some of their outlays from income for services rendered. An example would be where a doctor referred a person to say an institution like the Cheshire home or Glanville. These organisations need to fill their capacity but would compete with States homes. When such persons were under the care of the health Department one party would receive the service free of GST the other would under proposals pay GST. (assuming that care homes will not be rated for GST at zero)

While we are very keen to assist in the development of a social partnership this will never remove from our society the duplication of some services offered. In deed we believe that in relation to healthcare the States would not be able to cope without the work of some major charities working in that area. In some cases the Foundation has been very successful in engaging charities with the States in this partnership which we hope in general terms will go from strength to strength. Certainly it is the Foundations policy to develop this through cautious funding.

Finally we cannot stress too strongly that as far as we are aware most charities are doing all they can to control their costs. As a matter of policy our Trustees look very carefully at costs as part of the procedure to assess sustainability

We have recently been made aware of the costs that some large charities face and in particular very significant costs in relation to the deficits in the Public Employees Contributory Retirement Scheme (PERCS). In one case we are given to understand that the charity is obliged to contribute to the funding of the deficit even though they had no employees in PERCS prior to 1987 even though all participants are obliged to contribute to the deficit. We understand that the particular organisation we have in mind is technically insolvent as a result of having to provide for this liability. It is these pressures which threaten the viability of some of the charities we support and is of considerable concern. To comment on the reasonableness of such a situation if correct is outwith this submission.

In summary therefore:-

The Foundation is not directly affected by the GST proposals.

The existing fragility of some charities cannot be overlooked.

The costs they incur in raising funds to supplement services provided by government should be considered with care and should not be the subject of GST

The costs of sales and purchases should remain outside the scope of GST.

The impact of additional administration costs for all charities in dealing with GST and refund applications if applicable.

The potential imbalance between services supplied by government and charities should be carefully considered.

We believe that there is potential for imposition of GST on charities for the States' costs to increase and thus be counter productive because fragile charities may be forced to reduce their services or wind up their operations as a result of increased costs. The question thus arises - have the calculations been made as to such potential consequences?

We also have to pose the question as whether the public will be happy to support charities to cover additional GST costs if they realise that this is to fund the payment of a tax - GST - to the States at a time when there is likely to be more pressure on incomes.

The previous point in this submission raises in itself several issues which are of considerable concern to the Foundation.

Is it morally right that the public should be asked to fund charities for the purposes of enabling them to pay tax?

As a Foundation we have to consider that having been constituted to fund charities which are exempt from taxation whether it is within our power to fund their tax payments under our current guidelines and constitution. This may well be a very difficult area for us and would need to be the subject of advice.

If charities are obliged to pay GST will the time come when the Treasury will remove the exemption to income tax?

We strongly urge that, as in the United Kingdom where there are three Lloyds TSB Foundations and charities are exempt from VAT, all charities in Jersey exempted from the payment of income tax should also be exempt from GST.

We regret having to make this representation but we feel that in the absence of a Charities Commission we are obliged to make this submission in further support of those we seek to help through our grant aid programme.