

6. TAXATION

1. Value Added Tax (VAT)

The PCC, as a charity, is not exempt from VAT and may be affected in the following ways:

- Many of the goods and services that the PCC buys in are subject to a VAT charge
- PCCs with significant taxable supplies (explained below) may have to register for VAT and then they may be able to recover some of the VAT that is charged to them by suppliers
- PCCs are able to obtain relief from VAT on certain goods and services that they buy, regardless of whether they are VAT registered

VAT categories

For VAT purposes goods and services are categorised as below:

Outside the scope – examples are donations made and received and wages.

Taxable – the majority of supplies are taxable, mostly at 17.5% although there is a reduced rate for domestic fuel at 5%. There is another group of supplies that are ‘taxed’ at 0%, known as ‘zero-rated’ supplies. Food, books and passenger transport are typical examples of zero-rated supplies.

Exempt – examples are insurance and health care.

The tax on supplies and services made to others is called *output tax*; the tax on supplies received from others is called *input tax*.

Output tax and registration

The majority of the income of most PCCs is normally donation income, which is outside the scope of VAT so that VAT has no effect.

Apart from donation income, many PCCs have some investment income, which is exempt.

Most PCCs are unlikely to have many taxable outputs.

6. TAXATION

The following is a list of activities that may constitute a taxable supply:

- Sale of advertising in the parish magazine, brochures etc
- Sale of bought in goods such as Tradecraft
- Conference fees

More detailed information is contained in the VAT Notice [701/1](#) Charities. A PCC would have to register for VAT only if its total taxable supplies amounted to £64,000 p.a.

The effect of registration is that some input tax may be recovered. If possible, it is wise to avoid having to register for VAT by limiting taxable supplies rather than have the burden of completing quarterly returns and the difficulty of dealing with what would inevitably be non-business and/or partially exempt status (see VAT Notice 706 on www.hmrc.gov.uk).

The effect of not being registered is that the PCC does not have to charge VAT but it cannot recover any VAT in put tax.

VAT relief available to the PCC via zero-rating and reduced standard-rating

Even though not registered for VAT, the PCC can benefit by obtaining a zero rated or reduced standard rate supply. This is a complex area and the PCC would be wise to check its eligibility with the local HM Revenue and Customs Office before embarking on a project.

Zero-rating is likely to apply in the following areas:

- *Construction of a new church*

This can be zero-rated subject to the issue to the builder of the appropriate certificate (see [Appendix 8](#))

A church building is regarded as new for this purpose if it is a new and physically separate building. It will also rank as new if:-

- the new construction makes use of a part or all of the foundations of an existing building, where the whole of the former building has been demolished to ground level, which may include the “slab” of the ground floor of the former building, or
- the new construction makes use of what remains of a pre-

6. TAXATION

existing building where, before construction starts, this is no more than the foundations and a single façade, or double façade on a corner site, but only where a façade has been retained to comply with statutory planning consent.

- *Construction of a new church hall*

This may also be zero-rated subject to the issue of the appropriate certificate (see [Appendix 8](#)), provided that the hall is to be used for the provision of social or recreational facilities for the good of the local community.

An annex connected by a door or corridor to an existing church building is treated in the same way as a fully independent structure separate from the existing building. The construction work is zero-rated, provided that the annex is intended to be used for a non-business purpose (or as a church hall or similar), is capable of functioning independently from the existing building, has its own main entrance, does not provide the main entrance to the existing building, and is covered by the appropriate certification.

- *Any “approved” alteration or extension to a **listed** building*

An ‘approved’ alteration is normally one which has been granted listed building consent. In the case of a listed Anglican church building, approval can be given by ecclesiastical exemption following the approval of a faculty application by the Diocesan Chancellor. Any works of alteration to an approved listed church are zero-rated. Alteration does not include any “incidental” alteration to the fabric of a building which results from the carrying out of repairs or maintenance work.

NB Alterations to a non-listed building and repairs and maintenance to any building are standard rated.

- *Demolition*

Where demolition work is done in the course of construction or reconstruction work, which will itself be zero rated, and the demolition is down to ground level (but leaving foundations or leaving a single façade wall), then the demolition work can be zero rated.

6. TAXATION

- *Bells and Organs*

The cost of installing bells or a fixed organ in a new church is, like the construction of the church itself, zero-rated. The provision of new or additional bells or organs in an existing church, and work on the repair or maintenance of existing bells and organs, is standard rated, unless the church is listed. In the case of a listed church, the installation and/or alteration of organs or bells may be either standard rated or zero-rated, depending on whether the work is in the course of works of alteration to the fabric of the building. Consultation with the manufacturer/installer is recommended.

- *Aids for people with disabilities on church premises*

The supply of goods or services for the following works will be zero-rated when carried out on existing church premises (see Notice [701/7](#) for details):

- the construction of ramps, or widening doorways or passages, or widening pathways from the gate to the porch, for the purpose of facilitating a disabled person's entry to or movement within the building, including any preparatory work or making good;
- the installation of a chair lift or stair lift designed for use in connection with invalid wheelchairs, and the repair or maintenance of any such lift, including work done on it to improve safety;
- the installation of a lift in a newly built annex to a church building with independent main access, where there is also internal access from the church. Subsequent repairs and maintenance to such a lift are standard rated;
- the installation of an induction loop system for the use of hearing impaired persons. Repair and maintenance are also zero-rated. But the provision of a general public address system is standard rated, except where it is a first time installation in a listed church building.
- the provision, extension or adaptation of a lavatory for use by a disabled person in a church building, provided that the building is used principally for church or other charitable purposes and the provision, extension, etc is necessary to facilitate the use of

6. TAXATION

the lavatory by a disabled person.

To obtain zero-rating it is necessary to complete an eligibility declaration to be signed by the PCC and the supplier. A form is attached in [Appendix 9](#).

- *Advertising and goods for collecting donations*

Advertising is zero-rated for charities – even advertising for staff.

Pre-printed envelopes, collecting boxes, printed appeal letters, lapel stickers given to acknowledge a donation should all be free of VAT (see Notice [701/58](#) for details).

When requesting zero-rating it is the usual practice to complete a declaration of eligibility – see [Appendix 9](#).

- *Fuel and power*

Fuel and power supplied to the church can be supplied at the reduced standard rate of 5%. See Notice [701/19](#).

Maintenance of listed places of worship

It is possible to obtain a grant to cover the cost of VAT on repairs to listed buildings. This is not a VAT relief but a government grant which will cover all of the VAT on repairs to **listed places of worship** incurred from 1 April 2004 onwards.

Full details of the scheme are on www.lpwscheme.org.uk or can be obtained from the Finance Department in Diocesan Church House. The contact address is:

Listed Places of Worship Grant Scheme,
PO Box 609,
Newport NP10 8QD,
South Wales.

Telephone 0845 601 5945

6. TAXATION

2. Income Tax

A charity is exempt from tax on most forms of income and capital gains if they are applied to charitable purposes. Once a body has been accepted as being a charity for tax purposes, it normally retains its charitable status until such time as it ceases to exist either in its original form or altogether.

This section deals with the recovery of tax and minimizing the tax suffered by deduction at source.

Avoiding tax on income

As a charity, a PCC can arrange to have income received from some of these sources paid to your charity before UK tax is deducted they include:

- bank interest
- income from land including way-leaves and furnished property
- royalties.

A building society may also pay interest gross before deduction of tax if you complete a form [38inp.pdf](#) .

It is usually sufficient to write to the bank confirming that the PCC is an excepted charity. They will usually credit the PCCs account with any tax previously deducted.

Recovery of income tax on investment income and trust income

Since 5 April 2004, it is no longer possible to recover tax credits on dividends. However, PCCs can reclaim any income tax deducted from certain other types of income they receive, for example:

- Other types of annual payment
- Estate income

The following forms should be used when making a repayment claim [r68-other-income.pdf](#).

Where the church is a residual beneficiary of a will and the estate is in receipt of interest it is possible for the PCC to reclaim a share of the tax suffered on income. The executor should be asked for a Form R185E. The form should be retained by the PCC in case of further enquiry. The PCC's entitlement will depend on the precise wording of the trust deed or will.

6. TAXATION

Recovery of tax on Gift Aid donations

Gift Aid replaced payments under Deeds of Covenant as a tax efficient means of giving to charity on 6 April 2000.

The basic rate tax which can be claimed on Gift Aid donations made by individuals in part or all of a tax year can be calculated by using the fraction:

The basic rate of tax for the year x amount of Gift Aid donations
100 - basic rate

For example, where the basic rate in force for a tax year is 20%, the fraction will be 20/80 (20/ (100-20)). On a Gift Aid donation of £10, the tax reclaimable would be £2.50 (£10 X 20/80) or 25%.

Prior to 6 April 2008 the basic rate of tax had been 22% which meant that charities were able to recover 28.2p back from HMRC for every £ given under gift aid. For the 3 years from 6 April 2008 to 5 April 2011, the Chancellor has granted a transitional relief of 2% which will allow charities to continue to recover tax at 28p in the £ for a further 3 years.

Claims to 5 April 2008 will continue to be made as previously. Claims after 6 April 2008 will need to be made based on a 25p in the £ recovery but the HMRC will automatically add the additional 3.2p in the £. In the case of any claims made prior to Royal Assent (probably in July 2008), the additional relief would be paid after Royal Assent. If not claimed within 2 years, the transitional relief will be lost.

Once a declaration form has been signed by a donor it covers all donations that person makes and is not restricted like the Deed of Covenant. A sample declaration form is included in [Appendix 11](#). This may be used for one off donations or regular donations. A sample banker's order form is included in [Appendix 12](#) for those who wish to donate that way. A form of wording for one off envelope giving is also included in [Appendix 2](#).

Parishes can also use gift aid envelopes for use at weddings, funerals or simply left out for visitors. These envelopes can be produced by the church the envelope needs the full name, address and postcode and a statement that the donor is paying "UK income tax or capital gains tax". Such envelopes are zero-rated for VAT.

6. TAXATION

Parishes are required to provide an audit trail should HM Revenue & Customs decide to carry out an audit. When opening envelopes it is important to record on the envelope the amount received and also the date. One month's (not necessarily the same month) supply of envelopes must be kept for a minimum of seven years. **NB** Gift aid envelopes received from visitors need to be kept indefinitely as they are classed as a gift aid declaration. It is better to over-record than under-record information on gifts received.

Repayment claims should be made using the new claim form R68 Claim and the Gift Aid form R68 Gift Aid. The person sending in the Gift Aid forms must be properly authorised by HMRC. A person can obtain authorisation by the use of Form ChN 1. Traditionally, many parishes have dealt with Gift Aid claims annually at the end of the tax year. However, HMRC now require claims to be based on a charity's financial year, which for parishes is the calendar year to 31 December. A parish can claim back tax on Gift Aid donations as frequently as it chooses but, in future, claims will have to fall within a single calendar year. For example, if the parish had claims to make covering donations in the period 6 April 2007 to 5 April 2008, it would have to produce two separate claims – one for the 2007 financial year and one for the 2008 financial year. In 2008 when the basic rate of tax changes, there will need to be at least two claims – one for the period from 1 January 2008 to 5 April 2008 and the other from 6 April 2008 to 31 December 2008.

No tax is recoverable from Gift Aid donations received from a company after 1 April 2000.

A PCC must make any claim within six years of the end of the year to which the claim relates. For example, claims for the calendar year 2002 would have to be made by 31 December 2008. Note that transitional relief will be lost if not claimed within 2 years.

A fuller explanation of from HM Revenue and Customs is included in their website www.hmrc.gov.uk/charities/gift-aid.htm.

Income Tax and National Insurance Contributions for staff

A special arrangement has been agreed with 'The Churches Main Committee' so that a local religious centre (LRC), including a parish church, can report payments made if they do not operate a PAYE scheme. HM Revenue and Customs have circulated a Guide for use in LRCs.

6. TAXATION

Examples of such payments may include payments to casual workers and fees paid to organists, cleaners, caretakers etc.

NB No fees or wages should be paid to PCC members as they are trustees of the charity and are not allowed to be paid anything except for the reimbursement of actual expenses incurred in connection with their membership of the PCC.

No deductions should be made from payments unless they will exceed the lower of the following limits for the tax year 2008/09:

Lower earnings limit for national insurance contributions (NICs):
£90 per week or £390 per month

Pay as you earn (PAYE) threshold:
£105 per week or £453 per month

Where the employee is a retired person in receipt of the state pension, the NIC lower earnings limit does not apply so that only the higher PAYE threshold applies.

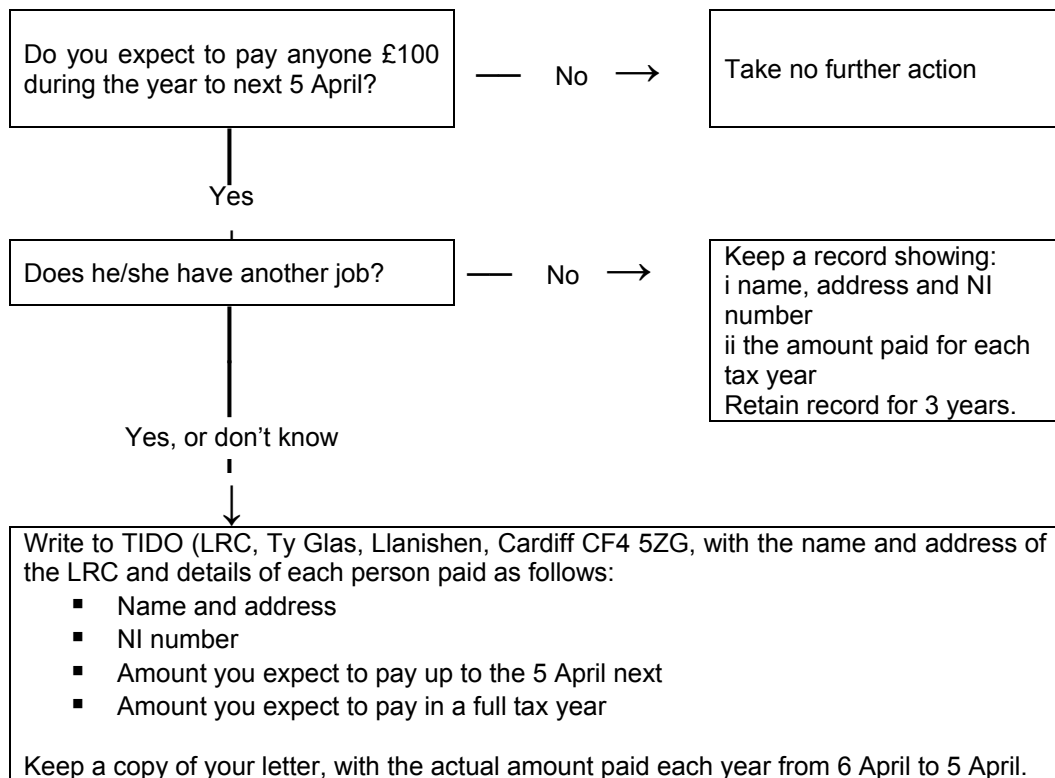
If you will pay anyone more than this, write to the PAYE tax office for the area where the church is located, with details for each recipient, as follows:

- Name and address
- Nature of employment
- National Insurance number
- Date and amount of first payment

The local tax office will then provide information for the operation of PAYE and will give instructions on how to report payments to the tax office.

6. TAXATION

If you do not make payments in excess of the above limits and you have no other instructions from the tax office you should act as below:



4. Tax and the clergy

Following the introduction of self-assessment for clergy, the following summary of PCC Treasurers' responsibilities in connection with clergy on the Church Commissioners' payroll was prepared by staff of the Church Commissioners.

1. When you pay expenses to your clergy, you must give them written confirmation of the amount(s) you have paid. This is to enable them to complete their tax returns. It does **not** mean they will be taxed on their expenses.

“Expenses” includes both payments of cash directly to clergy, and the payment of bills on their behalf, for items such as postage, stationery, telephone, secretarial assistance, travelling, hospitality, office materials, etc.

6. TAXATION

2. When you provide benefits to your clergy, you must give them written confirmation of the “cash equivalent” of these benefits. Again, this is to enable them to complete their tax returns.

“Benefits” includes providing a car and/or petrol, payments towards heating, lighting, cleaning and gardening at an official house, and any loans (for work purposes) at a concessionary rate of interest.

The Inland Revenue’s publication “Expenses and Benefits – A Tax Guide” explains how to calculate cash equivalents. It is available from any tax office or www.hmrc.gov.uk/guidance/480.pdf

3. For both expenses and benefits you can choose when and how to provide this information (e.g. each time you pay them **or** a grand total at the end of the year) but it must be in writing and it must not be later than 6 July each year.
4. You do not need to make any Returns to the Inland Revenue for clergy on the Church Commissioners’ payroll.

It is important that expenses are reimbursed only against actual expenditure. Written claim forms for the reimbursement of expenditure should always be obtained.

Sometimes the PCC may be asked to provide financial assistance to the clergy to help them with when, for example, they take a sabbatical. The PCC should not provide such assistance as it may affect the clergyperson’s stipend. However, if individual church members were to make donations directly to the clergyperson there would be no implications for the stipend.