

# **TAXREP 5/02**

## **PROMOTING SPORT IN THE COMMUNITY.**

*A submission in February 2002 to the HM Treasury in response to a Consultation document published by HM Treasury on 30 November 2001*

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## **PROMOTING SPORT IN THE COMMUNITY.**

### **Comments on the Consultation document published by HM Treasury on 30 November 2001.**

#### **Summary**

1. The ideal solution for community amateur sports clubs (CASCs), is exemption from tax, without the need to register as a charity. This would reflect the fact that the activities of such clubs is essentially charitable in nature, but which is not recognised as such under UK law. The issues of tax relief for donations etc are less relevant for very small CASCs.
2. Although we would have liked to support the proposal that CASCs should be allowed to simply register as charities and benefit from the advantages listed in Appendix C, Column 2, it remains the case that the real problem of administration would remain, and possibly even increase, because of the requirements of the Charity Commission.
3. We therefore conclude that the better solution is to implement the Tax Package set out in Annex A.

#### **General comments**

4. We welcome the opportunity to comment on the consultation document announced in November 2001 by the Financial Secretary of the Treasury, which coincided with the announcement of the Charity Commissioners that it will recognise as charitable 'the promotion of community participation in healthy recreation by the provision of facilities for the playing of particular sports.'
5. The title and introduction to this Consultation Document imply that it has been produced to find ways to promote sport in the community. Whilst this may have been its original intention, the output is concerned largely with tax.
6. In its paper 'Towards a Better Tax System' the Tax Faculty proposes Ten Tenets which should underlie all new legislation. Tenets 3 and 4, that tax should be simple and easy to collect and calculate are particularly relevant to the bodies covered by this Consultation Document.
7. The ideal solution for small CASCs, is exemption from tax, without the need to register as charity. This would reflect the reality of what such clubs do already, but bring them inside the law. The issues of tax relief for donations etc are irrelevant for very small CASCs.

8. In most cases, it will not be the amount of tax payable which causes a problem for a charity, but rather the administrative burden which accompanies any potential tax burden. It is this burden which needs to be addressed. Although many club treasurers are accountants, many are not. The Government is currently consulting on extending the help available to a small business operating a payroll. The knowledge and experience of similar Support Teams could also be made available to volunteer club treasurers. Such help would need to include not only tax advice, but also the fundamental problems associated with book-keeping and governance.

### **Specific comments**

9. Our specific comments in response to the two questions raised in the Consultation Document are listed below:

*Do clubs agree with the Government's assessment that the Charity Commission's decision on charitability would appear to offer better prospects for CASCs than the proposed tax relief package (administered by the Inland Revenue) outlined in this document?*

10. The decision of the Charity Commissioners gives an opportunity for the Government to retain a single system and avoid complicating further the administrative challenges facing sports clubs. However, it is likely that registering as a charity will be more proscriptive than staying as a membership based organisation.
11. This is particularly the case for most very small sports clubs run on a voluntary and informal basis. There will be an overwhelming temptation for such groups to not seek charitable status. This will be a missed opportunity when the alternative opportunities for fundraising, set out in Annex C, will be lost.
12. Consideration should also be given to the practical implications of the Charity Commission's new policy. Experience to date of the Commission's 'Gateway' procedure for dealing with new applications for registration, suggests that a high proportion of new applications (some 30% or more) do not proceed to registration. If CASCs are not to be deterred by this process, some thought should be given to 'fast tracking' CASC applications and/or giving the Commission increased resources to process the applications.

*Do any clubs feel that there is still a case for proceeding with the separate tax relief package for CASCs? The Government is interested in hearing the reasons why a separate package would be more beneficial than the charitable status option.*

13. The Charity Commission's new approach is to be welcomed, but it will not be a solution open to all CASCs. This is because:
  - some CASCs will not be eligible for charitable status, especially those that cannot demonstrate a link between the sport concerned and improved health and fitness;

- some CASCs will not wish to take on all the regulatory obligations of charitable status (e.g. trustee liability and compliance with charity law and accounting rules);
- other CASCs will consider that the tax and other benefits of adopting charitable status are outweighed by the costs of conversion and ongoing administrative burdens(e.g. the separation of social and trading activities from charitable activities).

**14.** Therefore, the tax package for non-charitable CASCs should be retained as a viable alternative option, subject to the following amendments:

- there should be specific tax relief for corporate as well as individual donations. It is anomalous that the proposals envisage that companies can support non-charitable CASCs by means of gifts of trading stock and sponsorship, but not by means of donations. In particular, donations are simple to implement and administer, whereas sponsorship gives rise to legal concerns and exposes the CASC to possible liability to corporation tax and VAT.;
- there is a case for extending the zero-rating of new buildings in Group 5, Value Added Tax Act 1994, to new CASC buildings. An extension of the VAT zero-rating would help CASCs with one of the main elements of their funding problems – the cost of premises.

**15.** We would be happy to discuss this further, if that would be helpful. We would also welcome feedback from this consultation.

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