



NICVA Briefing Paper

Non-Domestic Charitable Exemptions and Reliefs from Rate Liability in Northern Ireland – A Policy Paper

February 2005

Non-Domestic Charitable Exemptions and Reliefs from Rate Liability in Northern Ireland – A Policy Paper (February 2005)

Background

The Department of Finance and Personnel (DFP or the Department), which has responsibility for policy and legislation on rates in Northern Ireland, is currently reviewing the existing legislation relevant to charities.

As part of this process, the Department has published a Policy Paper (28 February 2005) which considers the need to reform existing non-domestic charitable exemptions and reliefs from rate liability in Northern Ireland. This is in addition to an earlier consultation exercise held in 2002 on the Review of Rating Policy in which the majority of respondents indicated broad support for the retention of exemptions and rate relief to deserving organisations.

This NICVA briefing paper outlines the key proposals set out in the February 2005 policy paper for the voluntary and community sector. The ‘comments’ within this briefing paper have been discussed and developed from NICVA’s policy work, related consultations and findings from NICVA’s Charity Advice Service. The Charity Advice Service has provided extensive guidance on rates matters to charities.

The closing date for the consultation is **17 June 2005**. The Department’s Policy Paper and the full Integrated Impact Assessments are available from the Review of Rating Policy website www.nics.gov.uk/ratingpolicy or by contacting Rating Policy Division in Rathgael House on 028 9127 7606.

It is important that charities and other voluntary not-for-profit organisations take this consultation opportunity to discuss what is most relevant and important to them, and how rating policy and legislation can reflect their needs (for more information on this briefing paper, please contact Paula Reynolds or Denise McCann at NICVA on 028 9087 7777).

It is anticipated that there will be a consultation workshop in NICVA in early May.

General Comments

NICVA welcomes the proposals set out in the policy paper and recognises that cognisance has been taken of other relevant consultations and proposals for changes in policy - most notably the ‘Review of Charities Administration and Legislation in Northern Ireland in 2005’ and the ‘Review of Public Administration’.

At this time the Policy Paper therefore is confined to examining the ‘charitable’ issues that emerged from the consultation on the Review of Rating Policy and in particular the treatment of properties used for:

- Public or charitable purposes;
- Sports and recreation; and
- Certain other functions such as religious worship.

It is expected that the expansion of the definition of charity will help to reflect the wide range of charitable organisations working in Northern Ireland. NICVA anticipates that DFP will implement rating reliefs for any new charitable bodies that may arise following the modernisation of charity law in Northern Ireland.

The Proposals and Potential Implications for the Sector

INTRODUCTION TO CHARITABLE EXEMPTION AND RATE RELIEF

DFP acknowledges that reliefs and exemptions serve as an important means through which the revenue system can be used as a tool of social, economic and environmental policy.

The Department calculates the total non-domestic rate bill for 2004/5 in Northern Ireland at £371 million approximately and estimates that charitable exemptions and reliefs amount to £46 million (12.4% of the total bill) in revenue foregone. The paper uses various tables to illustrate rates relief in Northern Ireland by type of organisation and revenue foregone by council area.

The policy paper explains that exemptions of charities from rates dates back to the late eighteenth and mid-nineteenth centuries and that legislative provisions and case law have shaped the application of the law to charitable exemptions till the present day.

NICVA COMMENTS

NICVA's State of the Sector III (published 2002) showed that in 2000-2001, the general public in Northern Ireland donated an estimated £146.9 million to the voluntary and community sector. The business community donated an estimated £12.4 million. The generosity of these donations underlines the tremendous support that exists here for voluntary and community organisations. At a time when government support for the voluntary and community sector is declining, the rates exemptions and reliefs are an essential factor in maintaining the sustainability of the sector which provides vital support to the most disadvantaged and vulnerable sections of our society.

NICVA's experience through its advice services is that reliefs and exemptions contribute to the very survival of those organisations which are newly established or whose income is restricted.

CHARITABLE EXEMPTION AND RATE RELIEF ISSUES (SECTION 3) CHARITABLE ISSUES (SUB-SECTION 3.2)

Currently charities are entitled to complete exemption from rates provided that their premises are used for charitable purposes. The paper outlines an example of a non-charitable purpose as being the leasing of a gable wall for advertising purposes to a private company. The paper recognises that the existing classification of charities may change in line with the review of the current framework for the regulation of charities in Northern Ireland and so it does not propose any change to the main charitable exemptions.

The paper also reports that no issues were raised in the Review of Rating Policy Consultation on charitable exemptions and that respondents generally were content with the present system.

NICVA COMMENTS

Though the outcome of the Charity Law Review cannot be pre-empted by DFP, NICVA would expect that if a register of charities is introduced in Northern Ireland, the rating authorities will align their definition of a charity for rating purposes with the decisions of the proposed Northern Ireland Charity Commission.

ISSUE 1 – ‘QUASI CHARITIES’

Proposal: to retain the current position in relation to quasi or recreational charities at this stage.

This section of the Policy Paper defines quasi charities as ‘not for profit’ organisations whose main objects must be either charitable or concerned with science, literature or the fine arts (covered by section 41 (2)(d) of the Order). Article 41(2)(e) of the Order extends rates exemption to recreational charities that are declared charitable under the scope of the Recreational Charities Act (Northern Ireland) 1958. Examples of organisations concerned with science, literature or fine arts include non-profit museums and heritage centres, according to the Policy Paper.

The range of recreational activities and of organisations existing to provide them is greater now than when the 1958 Act was passed according to the Department; and that difficulties can arise in determining how far the scope of the Act embraces the many new and varied recreational activities that are now commonplace. Examples of some of the activities that have been deemed recreational include bingo, dancing, art classes and gym training.

NICVA COMMENT

The government’s intention to retain the current position in relation to ‘quasi charities’ or recreational charities at this stage is welcome. NICVA would argue that such

organisations are at the core of modern charitable activity and contribute enormously to counteracting the effects of poverty and disadvantage, as well as contributing to the health and wellbeing of the community in other ways.

ISSUE 2 – CHARITY SHOPS

Proposal: The Government recognises the concerns of local businesses, particularly with the proliferation of charity shops in recent years. However it is satisfied that the original rationale for providing relief to this sector is still relevant. It does not propose therefore to make any changes at this time to the current legislation relating to the rate relief system for charity shops.

In relation to the treatment of ‘fair trade goods’ it proposes to await the outcome of the review of charities legislation in Northern Ireland. It will also take note of developments in Great Britain.

NICVA COMMENTS

NICVA agrees that the system of rate relief for charity shops in Northern Ireland works well and should be maintained in its present form. In Great Britain a charity needs only to sell ‘mainly’ donated goods to qualify for 80% or full exemption (the 20% is at the discretion of the Local Authority).

In Northern Ireland charity shops are treated as ‘used for charitable purposes’ to the extent that they are used for the sale of donated goods so long as the proceeds (after expenses) are applied for charitable purposes. If new or bought-in goods are sold, then the relief is reduced by a process of apportionment.

After considering introducing the Great Britain model (where a charity shop needs only to sell ‘mainly’ donated goods to qualify for 80% mandatory relief), the Department says the government concluded that the system in Northern Ireland works well in providing an incentive to maximise the level of donated goods sold through charity shops and in doing so reduces the selling of new goods, thereby suppressing direct competition with local retailers.

In relation to proposal (b) the review of charities legislation in NI does not overtly cover the issue of trading or the treatment of ‘fair trade goods’ and it is not envisaged that it will. Therefore the Department needs to consider the rating implications for charity shops which sell ‘fair trade goods’. NICVA hopes that the sale of ‘fair trade goods’ from charity shops would come under the scope of charitable tax and rates exemptions.

HALLS (SUB-SECTION 3.3)

Proposal: To fully exempt halls from rates providing the properties are made fully available for use by the wider community. It is likely some form of confirmation that this condition is met would be required, however this would be much less of a burden than

the present requirement to keep detailed records of use and would be likely to improve the take up of rate relief by halls generally.

Properties with a liquor licence will be excluded from applying for this relief. A small number of licensed halls are currently in receipt of partial relief and would not be disadvantaged by these changes in terms of any relief they currently receive.

NICVA COMMENTS

The Initial Regulatory Impact Assessment identifies halls as being village halls, community centres, women's institutes and Hibernian, Masonic and Orange and other halls.

NICVA agrees that halls should not be awarded full automatic exemption from rates unless they can demonstrate that they are available for the use of the wider public. As is the case in Great Britain when determining eligibility, the contribution that the organisation makes to its local area must be considered.

DFP's intention to lessen the present requirement on halls to keep detailed records of use is a concern. How will halls qualifying for the relief be accountable to the general public for their activities if they are not required to record detailed records of use? NICVA would ask the Department to consider whether such a requirement is a burden, or is it not something that halls would do anyway in the course of their work, and for purposes other than compliance with rates legislation? For example, do they not need to keep records of usage for health and safety and insurance purposes? NICVA believes that the monitoring of the use of these halls is essential.

SPORT AND RECREATIONAL RELIEF (Sub-section 3.5)

Proposals: The Government proposes to bring Northern Ireland into line with the rest of the United Kingdom in increasing the level of rate relief available for all qualifying sports clubs from 65% to 80%. However it does not propose to introduce the availability of 20% discretionary rate relief (which is applied by local authorities in Great Britain) until the Review of Public Administration has concluded and the future format of local government is known.

The Government will review also the list of prescribed recreations in the Rates (Recreational Hereditaments) Order (Northern Ireland) 1979. Any addition to or exclusion from the list of prescribed recreations will be carried out through subordinate legislation.

In the light of the changes in the dividing line between amateur and professional sport, the Government proposes to consider the question of relaxing the restriction on the employment of professional player coaches. It will examine also the continuation in rate

relief in circumstances where substantial income from commercial interests is earned by clubs.

NICVA COMMENTS

NICVA supports all of the above proposals as being beneficial to charitable sports and recreational organisations as well as to non-charitable voluntary sports groups which are often closely inter-related with the broad charitable sector in general. NICVA recognises that in many instances amateur sport has been successfully used as a mechanism for community development in Northern Ireland.

THE SOCIAL ECONOMY SECTOR (SUB-SECTION 3.6)

Proposals: The Government considers that it would not be appropriate to make any changes with regard to rate relief for social economy organisations at this point in time. It will await developments in Great Britain (where a framework for social economy organisations is currently being developed) and the outcome of the DETI review in Northern Ireland.

NICVA COMMENTS

In the course of NICVA's policy work on the Strategy Unit Report 'Private Action, Public Benefit', no charities were opposed to the idea that social economy organisations could benefit from the sorts of tax or rates reliefs currently available to charities. Indeed many were closely aligned with social economy initiatives arising out of charitable activities in communities and are conscious of the struggles that many social economy organisations face in trying to address unemployment and economic disadvantage in challenging circumstances.

It should also be recognised that charitable and other voluntary and community organisations are being encouraged to initiate social economy projects for the purposes of income generation. Future changes in rating policy should take account of this.

EQUALITY ASSESSMENT - SECTION 4

During screening the Department must consult representative groups and affected individuals. The results of that exercise should be published with feedback about the responses and the Department's reasoning. It would also be good practice for the Department to publish its timetable well in advance to alert people about impending screening exercises.