



## Charity Tax Commission: Consultation on charitable tax relief

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### Response by the Wellcome Trust

6 July 2018

#### Summary

1. Wellcome is the UK's largest charitable foundation, and a beneficiary of several UK tax reliefs. Last year, we invested £1.1 billion into biomedical research and the medical humanities to improve health. We welcome this opportunity to respond to the Charity Tax Commission's review of charitable tax relief and recommend that:
  - **The Government should align tax reliefs with wider incentives, to create a world-leading environment for charities.** Charities make an important contribution to society, and the Government should take a coordinated approach to the incentives which attract charities to invest in the UK.
  - **Charities should be eligible to claim R&D Expenditure Credits (RDECs) in recognition that our activities align with the objectives of the scheme.** In the same way as industry, Wellcome undertakes research activities and is liable for taxes which could be offset under the RDEC scheme.
  - **The VAT system should be refined to remove barriers to research collaboration between academia and industry.** The current "cliff-edge" approach to VAT on shared research buildings penalises the changing nature of collaborations within a facility over time.
  - **Charity exemptions from specific taxes should be coupled to exemption from corresponding anti-avoidance measures.** The current approach generates ongoing, unnecessary administrative burden.
  - **UK charities should continue to move towards greater transparency on their intentions, activities, decision-making, and impact.** Wellcome is proactively seeking to strengthen our accountability, and recently developed a Success Framework to help society hold us to account against our mission.

#### **Recommendation: The Government should align tax reliefs with wider incentives, to create a world-leading environment for charities.**

2. Charitable investment increases the diversity and volume of UK research funding, which helps UK science to thrive. In 2016, members of the Association of Medical Research Charities invested £1.6 billion in UK research – a significantly larger contribution than either the National Institute for Health Research (£1.04bn) or the Medical Research Council (£0.93bn).
3. Tax relief allows charities to spend more on their charitable objectives, and therefore makes the UK an attractive place from which to pursue our mission. In just one example, the charity exemption from full business rates releases substantial funds which we use towards our mission. Without this relief, business rates would have represented almost 25% of our 2017 tax bill, equivalent to our National Insurance Contributions.

4. Supported by tax reliefs, Wellcome seeks to tackle big problems in ways that other funders may not be able to. Our long-term investment in the Human Genome Project saw 30% of the human DNA sequence mapped at the Wellcome Sanger Institute, and secured a legacy of world-leading genomics in the UK. We co-funded the development of a new and effective Ebola vaccine during the West African Ebola outbreak in 2013. And our leading stance on Open Research has seen the UK pioneer the move towards equitable access to research findings. Each of these was made possible by Wellcome's ability to take swift and decisive action when we see an opportunity to improve health.
5. We urge Government to take a coordinated approach to developing the charity environment. This should recognise the variety of levers and incentives which support charities, including direct co-investment sources such as the Charity Research Support Fund (CRSF), and the impact of the Apprenticeship Levy or the planned refresh of the Community Infrastructure Levy. These have a significant impact on how we fund research – for example, the CRSF represents a cooperative arrangement between Government and charities that enables us to focus our resources directly on research, rather than overhead costs such as lighting. Adopting a coordinated approach will help protect and enhance the UK's reputation as a leading location for effective charities, helping them to channel philanthropic funding towards shared challenges.

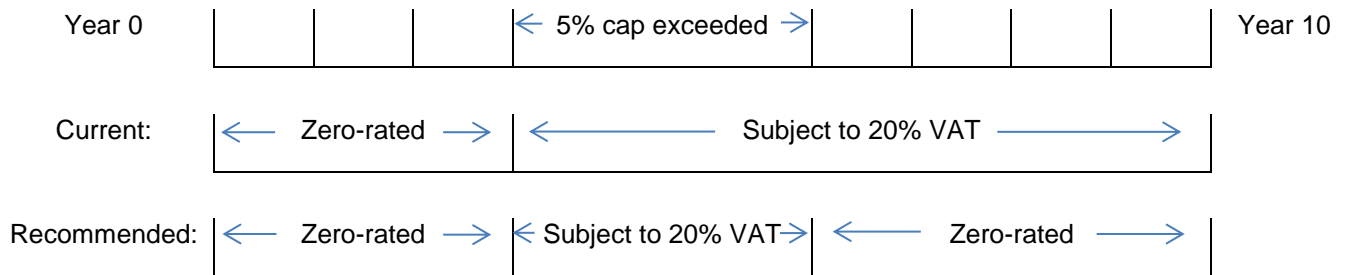
**Recommendation: Charities should be eligible to claim RDEC in recognition that our activities align with the objectives of the scheme.**

6. RDEC is designed to promote R&D activity by offsetting this investment against tax liabilities. Wellcome undertakes research activities and is liable for taxes which can be offset under the scheme. In 2016, Wellcome applied for RDEC amounting to £11 million, based on our understanding that our activities were in line with the intentions of the scheme. The claim remains unresolved and is the subject of ongoing discussions.
7. The current arrangement treats business investment differently to charitable investment, despite this tax relief being destined for reinvestment which further amplifies impact. If charities are to remain excluded, we would welcome a swift clarification from the Government on the objectives of the scheme

**Recommendation: The VAT system should be refined to remove barriers to research collaboration between academia and industry.**

8. Under EU legislation, construction of a new building is normally subject to VAT at 20%. However, UK charities including universities are eligible for zero-rating if the facility is used entirely for a "relevant charitable purpose" for the 10 years after completion. As a concession, up to 5% of commercial activity is permitted to support greater interaction between academia and industry.
9. We would welcome commercial activity being measured cumulatively over several years, ensuring that zero-rated status can be restored if the 5% threshold is breached only temporarily (see Figure 1). At present, exceeding the threshold leads to an irreversible loss of zero-rated status – creating a "cliff-edge" which penalises the changing nature of collaborations within a facility.

**Figure 1: Assessing commercial activity over time.**



**Recommendation: Charity exemptions from specific taxes should be coupled to exemption from corresponding anti-avoidance measures.**

10. Charities remain subject to a suite of anti-avoidance mechanisms, including those for taxes where they are exempt. While it is important to protect these tax reliefs from illegitimate use, the current approach creates an ongoing and unnecessary administrative burden, with constant vigilance required to avoid accidental costs. To be coherent, the Government’s clear choice to exempt charities from specific tax burdens should be coupled to a targeted exemption from corresponding anti-avoidance measures where this doesn’t create undue risk.

**Recommendation: UK charities should continue to move towards greater transparency on their intentions, activities, decision-making, and impact.**

- 11. Charitable tax relief plays an important role in helping charities achieve their goals – without these reliefs, Wellcome’s ability to improve health would decrease substantially. However, this support is coupled to a responsibility to maximise the positive impact of our charitable activities.
- 12. Charitable organisations in receipt of tax reliefs should be open about their intentions, activities, decision-making, and impact. The charitable sector continually strives to be at the forefront of transparent engagement with society, but improvements can always be made. Wellcome is proactively seeking to strengthen our accountability – our recently developed Success Framework is designed to help us make progress towards this goal and encourage society to hold us to account against our mission<sup>1</sup>.

*Wellcome exists to improve health for everyone by helping great ideas to thrive. We’re a global charitable foundation, both politically and financially independent. We support scientists and researchers, take on big problems, fuel imaginations and spark debate.*

<sup>1</sup> <https://wellcome.ac.uk/news/how-weve-defined-what-success-looks-wellcomes-work>