

REGULATORY IMPACT ASSESSMENT FOR COMMUNITY AMATEUR SPORTS CLUBS

Purpose and intended effect

1. The Government plans to implement a new tax package for community amateur sports clubs (CASCs) to support the positive contribution they make to the community.
2. This Regulatory Impact Assessment seeks to establish what the risks, benefits and costs are associated with the two options presented in the 'Promoting Sport in the Community' consultation document.

Background

3. Up until Budget 2002, CASCs received no special treatment in the tax system. In the 2001 Budget, the Chancellor announced that Government would consult on the best way for tax relief to help CASCs that make a positive contribution to their local communities.

4. On the 30 November 2001, the Promoting Sport in the Community consultation document was published. It set out a proposed Inland Revenue administered tax package, as well as the Charity Commission's decision to recognise as charitable: *"the promotion of participation in healthy recreation by the provision of provision of facilities for participation in particular sports."*

5. The Treasury consulted on the option of a separate tax package for CASCs ("Option 1") in addition to the option of charitable status now available ("Option 2"):

- Option 1: To legislate in the Finance Bill for a separate Inland Revenue administered tax package for CASCs. This would confer a number of tax reliefs on CASCs, but did not include any mandatory business rate relief.
- Option 2: For CASCs to apply for charitable status through the Charity Commission. This would confer the full range of charity tax reliefs, including 80 per cent mandatory business rate relief, as well as greater funding opportunities.

6. The majority of respondents to consultation preferred option 1, as an addition to option 2. This RIA assesses both options, which form a package of support for CASCs. CASCs can opt for either the tax package or the charitable status option, but not both.

7. The Inland Revenue tax package followed consultation with sports clubs over their needs. It is particularly (but not exclusively) targeted at the smaller CASCs most likely to need financial help. It is not the Government's intention to put CASCs in better position than

charities or enable them to trade on privileged terms in competition with other businesses.

8. The main differences in the Inland Revenue administered tax package compared to the option of charitable status are as follows:

- £15,000 pa limit on fundraising income;
- £10,000 pa limit on rental income;
- Payroll Giving not included;
- Gift Aid on company donations not included;
- No tax relief on gifts of shares;
- No 80 per cent mandatory business rate relief.

Risks

9. The Treasury does not foresee any significant risks associated with either the introduction of the CASCs tax package, or the option of charitable status, which would lead to any harm or detriment to any individual or organisation. Both of these options will leave CASCs in a better financial position than they were previously. In both cases there are safeguards to prevent members building up a tax-privileged position and sharing out the benefits upon dissolution. There is no compulsion to adopt either option.

Benefits

10. The voluntary organisations affected would be those engaged in the promotion of community amateur sport. There are approximately 110,000 community sports clubs across the country, with a membership in excess of 5.6 million¹.

Tax Package

11. The impacts of the new tax package for CASCs will benefit CASCs that are open to the community and promote an eligible sport drawn from Sports Council lists. The tax package will help sports clubs who are either unable or do not want to apply for charitable status (although there are significant similarities between the Charity Commission definition of community participation in healthy recreation and criteria for the IR tax package).

12. The separate tax package for CASCs was set out in the November 2001 consultation document, comprising:

- Fundraising income up to turnover of £15,000 exempt from tax;
- Income from interest exempt from tax;
- Rental income up to £10,000 exempt from tax;
- Disposals exempt from capital gains tax;
- Gift Aid on individual donations;

¹ Source: Central Council of Physical recreation (2001).

- Inheritance tax relief on gifts;
- Gifts of assets on no-gain, no-loss basis for capital gains; and
- Business relief on gifts of trading stock.

13. This package was put together because of its relative administrative ease and following consultation with sports clubs and representative bodies during 2001. CASCs apply to Inland Revenue and it is easy for volunteers involved in a sports club to understand.

Charity Commission Option

14. The Charity Commission option will benefit CASCs that “promote community participation in healthy recreation by the provision of facilities for particular sports”. The system is up and running already (revised guidelines were issued on 12 April) and CASCs have been able to apply since November 2001.

15. Charitable status will provide qualifying CASCs with the full range of charity tax relief. This includes:

- Disposals exempt from capital gains tax;
- Gift aid on individual donations;
- Gift Aid on company donations;
- Inheritance tax relief on gifts;
- Gifts of assets on no-gain, no-loss basis for capital gains;
- Business relief on gifts of trading stock;
- Payroll Giving;
- Relief on Gifts of shares;
- [Relief on gifts of land and buildings;]
- 80 per cent mandatory business rate relief (with the remaining 20 per cent at the discretion of the local authority).

16. Charitable status will also have a beneficial impact by opening up greater funding opportunities (e.g. grants from community foundations), denote public recognition of a ‘charity’ and confer access to initiatives such as The Giving Campaign.

Policy Costs

17. Over three years, the cost of the Tax Package is estimated to be negligible in 2002-03; -£5m in 2003-04; -£10 in 2004-05. Charitable bodies receive a range of favourable tax treatment. Tax revenues and business rates receipts are reduced, and the local authority share of business rates is then reimbursed from central government to the local authority.

Staffing Costs

18. The Inland Revenue Charities Unit will bear the costs of administering enquiries / applications for the separate tax package (as they currently do with charities in Scotland and Northern Ireland). Inland Revenue has a target to

turn around 80% of applications within 15 working days and 95% within 40 working days.

19. The Charity Commission would meet the staffing costs associated with enquiries / applications for charitable status. It costs the Charity Commission on average £120 to process a standard application, but less for those using 'model' constitutions. The Charity Commission has a 36 day target turn-around time for applications using model constitutions and a 92 day target for turn around using standard applications.

20. Sports' representative bodies may also receive enquiries associated with both options.

Compliance Costs

21. These include the initial costs when CASCs first apply for the tax package or charitable status, and annual costs, which CASCs face in future years as a result of their being eligible for the tax package or charitable status. These compliance costs reflect the necessity for proper procedures and policing to ensure that public money is put to its intended use.

Initial compliance costs

22. *Tax package:* Compliance costs will arise from time and other resources spent by volunteers responsible for running CASCs. This may include some one-off costs associated with adapting club constitutions to conform with legislation. There will be necessary legislative safeguards to prevent tax privileged CASC property being shared by members on dissolution.

23. *Charitable status:* Compliance costs will arise from time and other resources spent by volunteers responsible for running CASCs. This will include some one-off costs associated with completing application forms, and adopting model constitutions. Model constitutions and simple tick-box checking should keep costs to a minimum. If, exceptionally, a CASC decides to take legal advice (e.g. to re-write its constitution), then lawyers' fees are estimated to be £1500 - £2000. However, this is expected to be carried out by governing bodies, so that individual clubs can simply follow model constitutions and need not incur legal fees. Moreover, the costs of initial registration are expected to reduce over time as the process beds in. All property belonging to a CASC would no longer be privately owned by its members, but would become charitable property.

Annual compliance costs

24. *Tax package:* Inland Revenue will require CASCs to provide annual accounts on request and CASCs will be subject to be subject to audit.

25. *Charitable status:* The degree of Charity Commission regulation depends on the size of the charity. Very small CASCs (with an annual turnover of less than £1000) are assessed by the Inland Revenue. Smaller

CASCs (with an annual turnover of less than £10,000) are required to complete a register check form to confirm that the nature of their business is unchanged. In reality the majority of CASCs are expected to fall within this band. Larger CASCs (with an annual turnover above £10,000) are required to submit annual accounts. In practice it is likely that any club of this size would prepare accounts in any case, so charitable status simply requires that these accounts are sent in to the Charity Commission. Very large CASCs (with an annual turnover of greater than £250,000) would be subject to a periodic random audit. All CASCs gaining charitable status would be required to run social activity and trading (e.g. bars) as a separate, non-charitable arm.

Securing Compliance

26. Inland Revenue will issue new guidance for the CASCs tax package on its website and in revised leaflets, once legislation is in place. The Charity Commission will issue guidelines and model constitutions on its website and in leaflets, in consultation with sports' bodies.

27. Inland Revenue compliance and penalty regime will apply for the tax package option. Charity Commission enforcement methods and penalties will apply for the charitable status option.

Consultation

28. The Treasury issued a consultation document – *Promoting Sport in the Community* - on 30 November 2001. Responses were invited from interested parties. Responses were received from a wide range of sports clubs, and sports' bodies – including the Central Council of Physical Recreation – have been involved. The consultation closed on 1 February 2002.

Monitoring and Evaluation

29. The impact of the introduction of a separate tax package for CASCs, together with the option of charitable status, will be monitored and reviewed to ensure that these systems of support are working for CASCs.

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REGULATORY IMPACT ASSESSMENT

COMMUNITY AMATEUR SPORTS CLUBS

Statement of Ministerial Approval

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister:

A handwritten signature in black ink, appearing to read 'P Boateng', written in a cursive style.

Paul Boateng
Financial Secretary

Date: 11 April 2002

