

# The States of Jersey

## Income Tax Office

# ***Goods and Services Tax: Treatment of Charities***

GST PUBLIC INFORMATION LEAFLET

### **What is a “charity”?**

Charity means a body of persons or trusts established for charitable purpose only.

### **What is meant by “charitable purpose”?**

Income Tax currently uses a standard interpretation of “purpose” under four activity headings to determine exempt status:-

- *Poverty*
- *Education*
- *Religion*
- *Other (of benefit to community)*

### **What is GST?**

- *GST is a tax on consumer expenditure*
- *It is a tax on domestic supplies (made in Jersey) of goods and services*
- *It is also charged on imports of goods and services into Jersey*

GST is applied on the value added to goods and services at each stage in the production and distribution chain.

### **Who will be responsible for collecting GST?**

A registered taxpayer is responsible for charging and collecting GST. The taxpayer passes the tax on to the customer by including the tax in the price of the goods or services being supplied. The taxpayer must then pay over the tax charged on sales less any tax credited on his purchases and expenses to the Income Tax Office (ITO).

### **What is the current status of implementing GST in Jersey?**

We are currently nearing the end of a consultation period covering the GST law, regulations and treatment of FSI. All contributions received will be considered, reviewed, analysed and amendments will be made to the proposed legislation, as necessary. The legislation will also be subject to debate by the States later this year. Part of the consultation exercise was specifically aimed at agreeing on the future treatment of charities. Although no decision has yet been made on final treatment the GST consultation document clearly indicates that the States will consider the provision of some type of relief.

### **What is the tax status of charities in Jersey?**

Currently charities apply to the Comptroller of Income Tax for “exempt” status. This relieves the tax burden on any income. Charities can also recover directly from ITO the tax content of any taxed donations.

### **What will be different under GST?**

Nothing as far as income tax is concerned. But as described earlier GST is a new form of taxation that could have an impact on the expenditure and/or income of charities.

### **What are the difficulties under GST?**

The main difficulty is that charities vary greatly in legal status, size, activities, levels of

expenditure/income and sources of income. Some can be compared to quite large and complex "normal" businesses.

As a result two main issues emerge:-

- *Whether the commercial activities of charities should be treated as taxable supplies and render the charity potentially registerable for GST; and*
- *Whether input tax incurred on purchases/expenses should be rebated to charities and if so the manner in which the rebate is to be made.*

### **How are charities treated elsewhere?**

Charities are recognised throughout the world by a range of special reliefs and concessions. An obvious comparison for Jersey is to look at is the VAT treatment of charities in the UK. Relief is provided in different forms on both supplies to, and made by, charities. Unfortunately, as with the rest of the UK system, (which must be compliant with EU directives), it is complex and difficult to understand. Internationally there is no simple one fit solution that is considered to be best practice or that provides blanket exemption.

### **So what are the options for Jersey?**

For most charities operating in Jersey it is unlikely that they will be required to register for GST as businesses.

They will not have a taxable turnover in excess of the £300,000 limit (note: taxable turnover would not include income from donations/legacies). They would not be required to charge GST on any taxable supplies they make but they would not be able to recover GST incurred on some expenditure (utilities etc).

Any charity considered to be making taxable supplies (by way of business) in excess of the registration threshold would be required to register in the normal way.

They would account for GST on their taxable supplies and be entitled to reclaim any GST incurred on business purchases and expenses.

Any charity with a taxable turnover below the threshold could volunteer for GST registration. They would only do this if it was considered to be of financial benefit (this would very much depend on their activities and income mix).

As previously stated inevitably most charities will not be required to register for GST but this could mean an increase in costs as a result of the GST incurred on some expenditure.

A rebate scheme could be provided based on either "end user relief" or a "pay and claim" basis to allow full or part recovery.

"End user relief" – tax is not charged by the supplier based on the "status" of the customer.

"Pay and claim" – tax is paid in the normal way but then recovered from the tax authority.

What is required for Jersey is something that can be applied fairly (does not give charities a competitive advantage over normal commercial businesses), is cost effective and is simple to understand and operate.

As such any system is likely to provide treatment that offers at least parity with the UK (no worse).

When all representations have been considered the Minister for Treasury and Resources will include new provisions (as required) in the legislation to be debated by the States. Further guidance will also be available in the form of a public notice/leaflet.

This leaflet is issued by the Income Tax Office for general guidance only. The content reflects the tax position at the date of publication and is not a substitute for the legislation (Law or Regulations). If you need any further assistance please contact the Income Tax Office (help desk).

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