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Charities lose around £236m per year as a result of Treasury changes to dividend tax credits

The charity sector has lost out to the tune of around £236m per year as a result of the Treasury's decision to abolish dividend tax credits, according to figures released by charity specialist investment management firm CCLA this week.

This loss was incurred by the sector in spite of warnings made by CCLA to the Treasury back in 1998. CCLA alerted the Treasury to concerns that pension funds would not be the only victims of this change, with charities standing to lose 20 per cent of their UK investment income.

Indeed, an analysis carried out by CCLA this week suggests the decision to end dividend tax credits and Advance Corporation Tax in the 1997 Budget has hit the charity sector particularly hard.

According to CCLA, the policy change has cost the customers of two of its investment funds aimed at charities £10.6m per year. Furthermore, the analysis revealed these charity customers would be required to raise a further £348m of capital to make up for this loss in income.

By extrapolating this loss of endowment income to the charity sector as a whole it would appear the sector is £236m poorer every year. To bridge this shortfall, the charity sector would be required to raise a further £7.6bn in capital.

Commenting on these figures, Michael Quicke, chief executive of CCLA, said: "As the debate rumbles on about the decision to end dividend tax credits and Advance Corporation Tax and the affects for pension funds, the plight of charities and charity endowments seems to be largely ignored.

"The 1997 Budget decision has had a profound long-term impact on the investment income of charities of all sizes. This has meant that those who have committed themselves to the sector are having to cut back on their essential work and run much faster to stand still. This cannot be in the best interest of those in need or for society as a whole."

According to CCLA's analysis, charities have been hit even more severely than pension funds by the abolition of the tax credits.

“Charity endowments are designed to last forever, and in order to do so, they must preserve the real value of their capital. Pension schemes in contrast, have a limited life and ultimately spend their capital. As a result, a charities investment income is much more important to it than a pension scheme’s income.”

“Many pension schemes have powerful sponsors. This has meant that much more has been written about the damage these changes have inflicted on pension schemes. In contrast, the vast majority of charities are small with limited resources. However, with 43,000 charity customers, CCLA is in a unique position to speak with authority and experience on the devastating effect these changes have had on charities.”

CCLA said it would be writing to the Office of the Third Sector in the Cabinet Office and the Treasury to highlight the full effect of the tax changes on the charity sector.

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Notes to editors:

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