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Budget 2006: implications for sport

Measures outlined in Gordon Brown's tenth budget speech should benefit elite sporting organisations, such as the bodies involved in organising the London 2012 Olympic Games. However, they could have an adverse effect on grassroots organisations, explains Richard Baldwin, a tax consultant and individual member of the CCPR.

Well, what did Gordon Brown's tenth Budget Statement do for sport? The answer is it provided some help, but didn't go anywhere near far enough to help grass roots sport.

On the plus side, the Chancellor announced a number of positive measures, although these were largely expected:

- Additional funding for elite sport to support our team for the 2012 Olympics.
- Further money for the National Sports Foundation (NSF) and other relatively small additional contributions to a Schools Olympics, and a new venture to tackle anti-social behaviour.
- The expected tax concessions for the London Organising Committee of the Olympic Games Limited (LOCOG) and the overseas residents who will be attending the 2012 Olympics.

On the minus side was:

- The abolition of the so-called "nil rate band" for corporation tax purposes, under which companies with annual taxable profits of up to £10,000 paid a zero rate of tax. This will potentially have an adverse effect on 150,000 or so sports clubs.
- New anti-avoidance measures for charities, which may affect the growing number of charities involved in the provision of community sport.

Whilst additional funding for elite sport was to be welcomed, it is not altogether clear that the Government has provided precisely what it needed, since part of the £600 million package is to be supplied by sponsorship, which may be difficult in a very tight marketplace. As far as tax is concerned, the London 2012 Olympics are benefiting, but there are no tax incentives for grass roots sport which is being hit by the two adverse measures. As far as the grass roots is concerned, therefore, this

Budget Statement represents a missed opportunity and doesn't auger well for Government in meeting the important sports policy target of increasing participation in sport and physical activity nationally by one percent a year. Indeed, as the chair of The Central Council of Physical Recreation (CCPR), Brigid Simmonds, stated in a Budget Day press release; "There is no question that elite athletes really need more cash if the UK is going to make a push up the medals table in 2012, but where is the extra investment for grass roots sport and the champions of 2020?"

In this article I will briefly review the impact of the measures announced and point out some missed opportunities.

The funding of sport

Any additional funding for sport, particularly to support our 2012 Olympic Games effort, is to be welcomed, and certainly, even ignoring the £100 million sponsorship, the Government's investment is a significant sum. There is of course also the additional £7 million for the NSF, giving a total contribution of £34.5 million for this body to be spread over two years. However, it may be that the NSF will have to find matched funding from the private sector for the money to be released.

Putting aside the level of funding, one thing is absolutely clear and that is that part of the benefit from grants received for elite or grass roots sport may very well be clawed back through the tax system. It is likely that at least some recipients of both elite and grass roots grants will be taxpayers, and the general rule is that such grants are not specifically exempt from either corporate tax or income tax (see *World Sports Law Report*, issue 06 June 2005 in relation to National Lottery grants).

Tax concessions for the 2012 Olympics

London's Bid Document for the 2012 Olympics confirmed that the UK Government would ensure that tax issues would not have a significant impact on the Games and provided specific tax exemptions. The Chancellor has now confirmed that current tax law will be amended to provide these exemptions and, in particular:

- LOCOG will be exempt from corporation tax from the date it was incorporated;
- The IOC's revenues generated from the Games will not be chargeable to corporation tax;
- Income of non-UK resident athletes from their performance at the Games and income of other persons temporarily in the UK to carry out Olympic related business will not be subject to income or capital gains tax;
- Normal income tax withholding rules in relation to royalties, interest and certain other annual payments will not apply to payments made to LOCOG, visiting performers and support staff and to the IOC and any non-UK resident owned or controlled by it.

Whilst these tax measures are to be welcomed, they all relate specifically to the 2012 Games and do nothing to assist domestic sport in the build up to the Games or, indeed, to develop grass roots sport.

Measures having an adverse effect

So little has been done for grass roots sport. In fact the opposite is the case since there were the two measures noted above that have an adverse impact on sport, although of course they were directed at a wider audience.

Firstly, the abolition of the zero rate of corporation tax. It is not well-known amongst sports clubs that, whether they are incorporated

There is no shortage of suggestions for the Chancellor to incentivise grass roots sport

or not, they are, prima facie, subject to corporation tax, unless they are registered as a charity or Community Amateur Sports Club (CASC). Many local sports clubs (of which there are estimated to be 150,000) have small amounts of interest income or rental income from renting their facilities on an occasional basis. In the past, as a practical matter, such clubs need not have concerned themselves with corporate tax since, in any event, any taxable profits up to £10,000 per annum bore no tax. However, from 1 April onwards the zero rate will be abolished, and once again, both clubs and HM Revenue & Customs will need to turn their minds to the possibility that there may be corporation tax to pay. Voluntary club treasurers should beware, since they can be personally liable in the case of an incorporated club for this tax liability! This might provide an incentive for such clubs to be registered as a CASC, in which event interest and rental income should be exempt from tax. This is rather a back-handed incentive to register, one which the voluntary sport sector would have preferred to avoid. Needless to say, this will result in a significant increase in red tape for the voluntary club.

The second change is an anti-avoidance provision introduced for charities. As far as I am aware, this has been introduced without consultation and could have a potentially wide impact. At its extreme, this new rule could deny tax relief within a charity in relation to any transaction with a substantial donor to the charity where there are other transactions with that donor, such as the provision of services. Many charities have been established in sport in recent years, particularly due to a relaxation in the Charity Commission's approach. Often these charities are supported by

National Governing Bodies of sport (NGBs), and it remains to be seen whether such NGB donations are affected by these new rules. The potential impact could be disastrous and early clarification of the impact of these proposals is needed. Perhaps the Office for the Voluntary Sector, which is to be set up in HM Treasury, will be able to clarify the position!

Measures which the Chancellor missed

There is no shortage of suggestions for the Chancellor to incentivise grass roots sport, both through NGBs and their community clubs. CCPR and NGBs have made regular representations to Government on this matter. Indeed, this was the source of the successful CASCs scheme which provides tax breaks for community sports clubs and followed on from the work of a Working Group established in 1999 and based on significant support from CCPR. This Group worked closely with Government, resulting in a Consultation Document in 2001 followed by legislation in 2002. Over 3,600 clubs have registered as CASCs, saving an estimated £12 million approximately to date. These savings are based on corporation tax exemption, 80% mandatory business rate relief and, potentially most importantly, gift aid on donations. There are many examples of the good use of CASCs status by clubs, with one club using the tax repayment on gift aid to purchase moveable cricket nets for its youngsters.

The Government is happy with the CASC scheme, although the growth in registrations could have been faster. The Chancellor could help this process by extending the reliefs available for CASCs, e.g. he could provide gift aid on junior subscriptions, thus helping clubs to develop the most important

section of the voluntary sports sector. There are other measures he could introduce to encourage grass roots sport.

- NGBs, which provide the structure, discipline, rules, etc., within which community clubs operate generally benefit from no tax incentives on their development expenditure. In many cases there are tax disincentives. As I have argued previously, corporation tax exemption could be provided to NGBs or, if that is unattractive to the Chancellor, he could introduce tax incentives for coaching and development expenditure. Precedents exist in other sectors, for example the recently enhanced film tax reliefs and rules for research and development expenditure.

- Grants from the National Lottery could be exempted from tax.

- VAT on expenditure, which is often not fully recoverable by NGBs and clubs alike, constitutes a significant cost to grass roots sport. This whole area, as it applies to sport, should be reviewed to produce relieving measures. This is certainly possible without breaching EU directives.

The future

We need a coherent plan for the development of grass roots sport to provide part of the legacy which the Government desires from the London 2012 Olympics. Whilst the Government has recognised the importance of tax in this process through the CASC scheme, for community clubs much more could be done through the tax system to encourage the development of grass roots sport and increase participation.

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