

TAX STRATEGY FOR THE CHURCH COMMISSIONERS FOR ENGLAND (the “Commissioners”) and entities controlled by them

Overview

The Church of England, as the Established Church in England, is mindful of its central role in public life and the high levels of media attention that can be brought to bear on its activities. It is also mindful of its need to set an example to society of high levels of ethical and moral behaviour and to act in ways consistent with the Gospel.

It is the stated policy of the Church of England Ethical Investment Advisory Group (the “EIAG”) that in regard to tax ethics and the companies in which the National Church Institutions (“NCIs”) invest that:

“tax ethics should be a subject for investor engagement where it appears that a company’s approach is blatantly aggressive or abusive.” (Corporate tax ethics: engagement policy, published July 2013).

The paper also states the following:

“Boards of companies have a fiduciary responsibility to their shareholders, which implies some tax planning. However, the EIAG rejects the view that corporate tax planning is *only* a matter of legal compliance. The way in which tax planning is conducted is both a business risk and an ethical issue.” (Para. 5)

“The way in which a company approaches tax is part of its relationship with the societies in which it operates.

Corporate activity brings benefits to society (e.g. jobs, prosperity), but companies also derive benefits from society (e.g. limited liability, security, infrastructure, an educated workforce). The payment of corporate tax acknowledges companies’ responsibility to society. Societies should resolve for themselves what constitute appropriate government activities and tax regimes. Christians believe that the payment of tax in such circumstances contributes to a good society.” (Paras 9 & 10)

The Commissioners will ensure that, in conducting their tax affairs, they will abide by and act in accordance with the principles stated above.

Tax Strategy

In conducting their tax affairs the Commissioners will, therefore:

- ensure that they conduct them not only in accordance with the letter but also the spirit of the law;
- not behave in a manner that could be considered aggressive or abusive;
- endeavour to obtain all reliefs available to them as a charity;
- ensure that all tax filings are compliant with the law and that tax payments are made in a timely manner;

- engage in dialogue with Her Majesty's Revenue & Customs ("HMRC") on a regular basis to ensure that any matters where the tax treatment is uncertain or difficult are raised and discussed at an early opportunity;
- maintain suitable processes and controls to ensure that the risk of non-compliance with filing and disclosure requirements is minimised; and
- ensure appropriate compliance with non-UK tax regimes in relation to filing and payment obligations by paying the right amount of tax in the right place at the right time and disclosing all relevant facts and circumstances to the tax authorities and claiming reliefs and incentives where available.

Taxes Covered

As a charity, the Commissioners do not, in general, pay significant amounts of direct tax. However, they are still responsible for paying significant amounts of tax to HMRC by way of Value Added Tax ("VAT"), Income Tax (by way of Pay As You Earn ("PAYE")), and National Insurance Contributions ("NICs"). Subsidiary companies of the Commissioners also pay Stamp Duty Land Tax ("SDLT"). The Commissioners also suffer small amounts of tax such as Insurance Premium Tax but only in the sense that any consumer suffers these and does not administer any of these taxes or pay them directly to HMRC. In addition to taxes levied by the UK the Commissioners also pay taxes, where relevant, on overseas investments. The Commissioners are, therefore, responsible for paying significant sums of money to HMRC despite being a charity and, in the public perception, exempt from tax.

Risk Management and Governance

The Board of Governors of the Commissioners is accountable for the formulation, approval and regular review of this Tax Strategy. The Board of Governors has delegated the regular review of the strategy to its Assets Committee.

The Commissioners do not believe that there is a great deal of inherent tax risk in the conduct of their activities. This is because of the charitable nature of their activities and because they derive most of their income from grants and donations and from investment returns and gains rather than from trading activities. However, there are still operational risks involved in the calculation of the amounts payable to HMRC in respect of VAT, PAYE, NIC, etc.

The NCIs employ a specialist tax team headed by a Head of Tax who reports to the Director of Finance – Operations and indirectly to the Chief Finance and Operations Officer. The Head of Tax is responsible for all tax matters within the NCIs. He is responsible for the drafting of Tax Strategies for the NCIs and for ensuring that the tax affairs of the NCIs are conducted in accordance with those strategies. The tax team works in conjunction with other departments, particularly the Investment teams of the Commissioners, to review the structure of any complex investments and ensure that they are within the spirit of the law. It also advises the various departments of the NCIs regarding tax matters generally.

Tax Planning

As stated above, the Commissioners will ensure that, in conducting their tax affairs, they will abide by and act in accordance with the principles set out by the EIAG. Consequently, the Commissioners will only undertake tax planning that they believe is consistent not only with the letter but also with the spirit of the law. The Commissioners consider the "spirit of law" to mean that something is in accordance with the intended policy objectives of the government which introduced the relevant measure. This is the principal driver behind whether the Commissioners consider tax planning to be acceptable or not.

For example, the Commissioners operate a number of trading subsidiaries to ensure that no tax is payable on trading profits. However, the establishment of such subsidiaries is explicitly endorsed by the Government – see the official guidance re “Charities and trading” (<https://www.gov.uk/guidance/charities-and-trading>) published by HMRC and The Charity Commission on 9 December 2014 (updated on 6 April 2015) – and, consequently, the Commissioners consider planning of this nature to be consistent with the spirit of the law and, therefore, planning that they are willing to undertake.

Each individual Commissioner is, though, mindful of the fact that they have fiduciary duties as charitable trustees and, therefore, they ensure that the Commissioners take advantage of any tax exemptions or planning strategies that are available to charities. The use of trading subsidiaries as discussed above is a case in point. However, such planning or structuring is still subject to the overriding moral framework of being within not only the letter but also the spirit of the law.

This approach is also taken in respect of tax planning in respect of investments made outside the UK. Thus, the Commissioners may invest directly to take advantage of tax exemptions available to charities in the relevant jurisdiction (if recognised as a charity in that jurisdiction e.g. in the USA). Alternatively, they may structure their investment as an indirect investment so that any liability to tax would arise in a jurisdiction where charitable exemptions do apply (such as the UK).

As tax law can be extremely complex it is sometimes necessary for the Commissioners to seek professional external advice to ascertain whether an activity or transaction is likely to give rise to a tax liability and whether any charitable exemptions are available. This is sought on a case by case basis.

Level of Acceptable Risk

The Commissioners have a very low appetite for risk in respect of tax. They proactively seek to identify, evaluate, manage, and monitor all tax risks to ensure they remain in line with this risk appetite. They believe that their approach to tax planning of ensuring that everything is within the spirit of the law means that the level of risk to which they are exposed is also very low.

Dealings with HMRC

The NCIs have a specified Customer Compliance Manager (“CCM”) at HMRC. Regular meetings are held with HMRC to discuss matters and to update HMRC regarding the activities of the NCIs. Where the Commissioners disagree with a ruling or decision of a tax authority, they will seek to resolve any disputed matters through proactive and transparent discussions and negotiations.

Where appropriate, the Commissioners will also engage proactively with HMRC on issues that may not affect the Commissioners themselves but that are of interest and/or detriment to the Church of England in its broadest sense.