

Where now for charities following Brexit?

Following the UK's decision to leave the EU, charities are naturally concerned as to what the consequences of the leave vote will mean for their organisations. This uncertainty is likely to continue for the weeks and months and even years ahead as the fallout from Brexit continues to unfold. It is clear that Brexit will pose many challenges, and may also create some opportunities, for the charity sector.

Challenges

- **Reduction in income**

Many charities rely on funding from the EU to keep their organisations running and to meet their organisation's charitable objectives. A [review of charities' accounts by NCVO](#) estimates that £220 million was received from the EU in 2012/13, the latest year for which data is available.

It is not yet known whether Brexit will mean that UK charities lose all access to EU sources of funding, such as the European Social Fund and the European Regional Development Fund and if so, whether the UK Government will seek to match the funding previously provided from these sources. Although nothing will change in the short term, uncertainty about funding streams will pose a challenge for the long term planning of charitable organisations which currently rely on EU funding.

The uncertainty caused by Brexit will also have an impact on investment income. The stock markets have seen the value of UK companies reduced following the Brexit vote and this will have a knock on effect for organisations with reserves and pension funds invested in those companies. If individual donors also experience greater financial uncertainty they may be less willing to donate and income from fundraising may suffer.

The reduced value of the pound against the dollar and euro could pose an operational challenge for organisations which operate abroad and need to spend money on goods and staff outside of the UK in order to meet their objectives.

- **Changes to legislation**

An exit from the EU will mean that the UK need no longer be bound by EU legislation. The practicalities of disentangling the UK's legal position from the EU is likely to take years and could produce legal uncertainty.

In reality, UK legislation will likely mirror EU legislation in most circumstances. For example, charities are aware of the importance of data protection law and the upcoming changes proposed by the EU. The Information Commissioner's Office (ICO) has confirmed that if the UK comes out of the EU, it will not be bound by this new law. However, the ICO has also said that in order to trade with the single market, the UK will need to adopt standards that are broadly equivalent to those in the EU. Organisations will still need to keep their data protection policies under review and will need to respond to any changes in UK law, which will likely emulate the EU position.

Opportunities

▪ Political environment

The political environment has been turbulent since the Brexit vote. The UK has seen the appointment of a new Prime Minister since the vote and will possibly see a new opposition leader. There is a possibility of a general election taking place before 2020, which will lead to changes in ministers and potentially a change in the position of charitable organisations on the political agenda.

It is possible that new ministers, or a new party in power, with greater powers repatriated from the EU, may choose to exercise these powers in favour of the third sector. For example, in the long term changes to competition and procurement, rules could increase the focus on the role of social value in awarding contracts for public sector services.

▪ VAT

When the UK comes out of the EU, the UK Government could exercise greater control over VAT rules and reliefs. Charity Finance Group has estimated that the current VAT rules cost charities approximately £1.5 billion each year because although charitable organisations benefit from exemptions in some circumstances, they still pay VAT on goods and services bought from third parties.

It has been suggested that Brexit may present an opportunity for the UK to negotiate a more favourable position on VAT from which charities may benefit from cost savings. In any event, charitable organisations could lobby the Government to use any increased flexibility over VAT to introduce changes that are favourable to the sector.

What can charities do?

A number of large companies have already suggested they are considering moving some of their operations out of the UK to continue to take advantage of the free movement of people and to avoid taxes and tariffs on trade, should the UK leave the single market.

Charities may also be considering whether moving their organisations to the EU or setting up a separate entity could offer protection from the potential fallout of Brexit. This will involve detailed consideration and our charity and social business team are already helping a number of organisations with this.

Moving operations from the UK to an EU country would involve adjusting to a new jurisdiction, taxation laws and regulatory rules. The charity would need to consider whether the EU country to which it is planning to move recognises its current legal structure and whether its current contracts could be enforced.

An even bigger consideration would be whether the charity would be able to meet its charitable objects if based in another jurisdiction and whether such a move would best serve its beneficiaries.

Conclusion

These are early days but any organisation with international scope should be actively considering whether there are steps that should be taken at this point to safeguard against future uncertainties.

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