Charity Sector

Specialist Charity Accountants

Newsletter
Spring 2017

www.hawsons.co.uk

Introduction

Welcome to our Spring 2017 charity newsletter.

There have been a couple of particularly significant events since our last newsletter. Donald Trump was inaugurated as the 45th President of the United States and Theresa May formally triggered the UK's exit from the EU. The UK economy has, on the whole, weathered the storm created by Brexit uncertainty better than expected. However, inflation is starting to creep up again which could result in a reduction in consumer spending. With the most recent announcement of a snap general election, the coming year and beyond will surely be a big test for the UK economy and all the component sectors.

In this issue, we look at:

- 7 ways on how to keep up with your charity's reporting requirements
- Changes to inheritance tax could reduce number of charity legacies
- How technology may impact the charity sector in 2017
- Spring Budget 2017
- Making Tax Digital: Post-Budget update
- Apprenticeship Levy: Post-Budget update
- Car-Tax-Trophe for new car buyers!
- Hawsons Wealth Management seminar: Pensions Continue to Evolve

We hope you enjoy this edition of our newsletter and, as always, please get in touch if you would like any further information.

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Hawsons are specialist charity accountants

At Hawsons we recognise that not-for-profit organisations have very different requirements from other businesses and are currently exposed to a challenging economic climate. Our dedicated team fully understands the complex, ever-changing regulatory requirements of the charity and not-for-profit sector. Given the additional pressures on fundraising, complex tax regimes, internal risk exposure and stakeholder demands, it has never been more important to obtain specialist professional advice.

Our specialist team acts for a large number of charitable and not-for-profit organisations across each of our Sheffield, Doncaster and Northampton offices. For more information on our charity and not-for-profit expertise, including the services we offer and our experience, please visit: **www.hawsons.co.uk/charities**

HLB International

7 ways on how to keep up with your charity's reporting requirements

A recent article published by the Charity Commission showed that over 3,500 charities with income in excess of £250,000 and a financial year ending 31st March 2016 still needed to file their accounts by 31st January 2017.

This is quite worrying as good procedures for accountability are at the heart of best practice for charity trustees. Demonstrating a good and timely compliance record can enhance a charity's reputation, increase public trust in what that charity is doing, and strengthen applications for funding from grant issuing bodies.

Filing a charity's accounts and annual return has been made easier via the use of the Charity Commission's online services, meaning that the information available to the public can be updated overnight. A charity has 10 months from the end of its financial year to submit its accounts to the charity commission, and the detail required, along with the level of scrutiny depends on its level of income.

The Charity Commission gives seven top tips for trustees to keep on top of their accounting and reporting requirements:

- Don't wait for deadlines – submit as soon as you can.
- Submission is a board responsibility – all trustees are equally responsible, not just the treasurer or secretary.
- Ensure all trustees know the password to access the annual return and other online services.
- Make sure your charity's trustee details are up to date before you complete the annual return.
- Record income of expenditure in whole pounds without decimal points or rounding them into thousands.
- Don't mistakenly tick the box that says your accounts are "qualified".
- Ensure the trustees declare any serious incidents in the annual return.

At Hawsons we try to help our charity clients file on time and keep the process as painless as possible. If your charity is struggling to file accounts correctly and on time, give one of our experts a call.

Changes to inheritance tax could impact charity legacies

According to the legacy consortium Remember a Charity, over 1,000 fewer individuals could donate to charities as part of their wills as a result of changes to inheritance tax allowances.

In the 2015 summer Budget, a new inheritance tax framework was announced which was introduced on 5 April 2017. It implements a new residence 'nil-rate band' of £100,000 when a property is passed on to a direct relative and is intended to facilitate passing on the family home without incurring any extra tax charges.

The new nil-rate band could potentially reduce the amount of people who can benefit from the tax incentives for charitable giving. For those who donate at least 10% of their estate to charity there is a tax break available, with the rate of inheritance tax paid on their estate falling from 40% to 36% as a result. There could subsequently be a reduced incentive for people to make charitable gifts in their wills as a result of introducing the new allowance.

The current inheritance tax threshold is £325,000 and the residence nil-rate band will be in addition to that. This means that a couple would have a tax-free allowance of £850,000 which in 2020/21, could rise to £1m.

There are however, some positives to take from the changes, the main one being that the nil-rate band will ultimately lower the net value of an estate, so it should cost less for people who are above the inheritance tax threshold to access the reduced 36% rate by giving to charity.

Simon Bladen, Charity Partner at Hawsons, had this to say: "This could have an interesting impact on those charities that receive regular legacies, although I think it will probably impact the larger charities more than anyone else. The key will be for will writers to continue to ensure people are made aware of charitable giving options."

How technology may impact the charity sector in 2017

In this article, we look at some of the ways in which technology may impact the charity sector over the next 12 months.

Data security

With the amount of hacking scandals that dominated the press last year, data security will continue to rank very high on the agenda in 2017. With the new data protection mandates being introduced, it is now a requirement for data to be held in a professional, managed and highly secure data store. Desktop virtualisation could prove to be very important, along with certain restrictions on what is allowed to be printed outside of work. Data security, as well as cyber security, are vital in protecting all your charity's data and should be considered at the earliest possible opportunity. If you need advice with improving your data security, Hawsons can help. Find out more here: IT and Cyber Security.

Multiple platform integration

While charities are preparing themselves for the new General Data Protection Regulation (GDPR) rules, it is essential they do not overlook the ability to integrate data from a number of platforms and databases. It is important that data collected from websites, social media, events and mobile devices is all connected. This will ensure that data can be tailored and targeted to individual donors and supporters.

Digital disruption

Many charities see digital transformation as 'digital disruption' affecting the day-to-day activities of an organisation. But 2017 could be the year that charities see digital transformation as a positive rather than a negative and seize upon the opportunities that present themselves in order to give donors a clearer, enhanced experience. Many charities are worried about the new opt-in rules as well as clear consent to add people to their mailing list, they fear this will have a significant impact on their target lists when sending out letters or emails. However, some charities are already seeing opportunities with this and are embracing the technology, focusing on the transparency which is resulting in donors and supporters choosing to opt-in due to the charity's openness. Those charities who see digital transformation as a positive are more likely to receive opt-ins and subsequent engagement from donors than those who do not.

Cloud services

Although on site services are still popular, Cloud services are expected to gain traction with charities in 2017. The opportunities for smaller charities are definitely there, for example not having to rely on in-house IT expertise while also being able to increase security in line with new cyber-crime initiatives. One of the biggest strengths of Cloud is that it can be accessed from more or less anywhere, providing greater flexibility to its users. If you wish to find out more about the Cloud, please click here: Cloud accounting. Or if you would like to view a previous article about the benefits of Cloud accounting, please click here: The benefits of Cloud accounting.

Data responsibility

With digital transformation comes added data responsibility. This requires organisations to be digitally ready to handle the data and to ensure it is held efficiently and responsibly. It is absolutely vital to keep close control of data in order to ensure that an audit trail is maintained. This means that computer systems need to be integrated to allow the free flow of data and to ensure the data is properly secured along the way.

Trust building

2017 could be the year that defines the way charities interact with their donors. It is very difficult to manage the way someone donates to a charity, donors want to donate on their own terms according to their own timescales. Supporters of a charity need to have a reason to donate or at least a tempting offer of digital options so they can be the ones who decide how to have a relationship with the charity. Different social media platforms offer a variety of ways to interact, so charities need to keep this in mind when they decide how to communicate with new and existing donors. The charities that thrive respond to their donor's wants and needs and engage on as many fronts as possible.

Spring Budget 2017

The Chancellor Philip Hammond presented the last Spring Budget on Wednesday 8 March 2017. In his statement the Chancellor was keen to point out that he wanted the tax system to be fair, particularly in relation to the distinction between employed and self-employed individuals. In this article, we look at how the Chancellor's Spring Budget impacts the charity sector.

Our summary focuses on the issues likely to affect you and your business.

Main Budget tax proposals

Our summary concentrates on the tax measures which include:

- increases to the Class 4 National Insurance rates – Update 15/03/17 – Chancellor withdraws plans to increase NI.
- a reduction in the Dividend Allowance from £5,000 to £2,000
- changes to the timing of Making Tax Digital for smaller businesses

Previously announced measures include:

- increases to the personal allowance and basic rate band (a decreased band for Scottish residents)
- the introduction of the Apprenticeship Levy
- changes to corporation tax loss relief
- the introduction of an additional inheritance tax residence nil rate band
- changes for non-UK domiciled individuals

Main Budget announcements (Charity specific)

- £20m additional funding for charities working to combat domestic violence
- Charities to benefit from an extra £12m funded from the tampon tax
- English councils to receive £300m of discretionary relief to support those affected by increase in business rates – will be available to charities
- Businesses losing rate relief will see their increases capped at a maximum of £600
- Extra £2bn to be made available to councils over the next three years for social care

Charity 2017 Budget impact

Disappointment overall for charities

With charities struggling as they are, it is disappointing that there were no sector-wide plans announced by the Chancellor to help alleviate the current situation. While there are positives, charities will have certainly been hoping for additional funding and support.

£2bn for social care

The good news is the extra £2bn for social care which is intended to ease pressures on the NHS. Charities who operate in the healthcare sector will be keeping a keen eye on the Government's forthcoming Green Paper. This will be looking at how the social care system can be put on a more stable, secure, and sustainable long-term footing, so charities will no doubt be looking ahead to engage with the Government as policies begin to take shape.

Business rates

Another bit of good news is the £435m to support businesses that are affected by the increase to business rates. English councils will see £300m of discretionary relief to use locally and this will be available to charities. As well as that, those who will be losing rate relief will see their increase capped at £600, which is welcome news.

Simon Bladen, Partner and Charity Specialist at Hawsons, had this to say: "I think it's safe to say that this was not a Budget that will live long in the memories of most charities. But in fairness this Budget paves the way for a Britain post-Brexit with much to concentrate on prior to the official exit. Hopefully in due course the charity sector will receive clarification on its future and the important role it has to play post-Brexit."

Making Tax Digital: Post-Budget update

What is Making Tax Digital?

MTD is the biggest shake-up of the personal tax system in 20 years and will fundamentally change the way taxpayers report to HM Revenue & Customs (HMRC) and keep their business records. Taxpayers will be required to keep records digitally and update HMRC more frequently than is currently the case. The roll out of MTD will commence in April 2018.

The general principles of MTD

The government has decided how the general principles of MTD will operate. Draft legislation has been issued on some aspects and more will be published in Finance Bill 2017.

Under MTD, businesses, self-employed people and landlords will be required to:

- maintain their records digitally, through software or apps
- report summary information to HMRC on a quarterly basis through their 'digital tax accounts' ("DTAs")
- make an 'End of Year' declaration through their DTAs.

DTAs are online areas where a business can see its tax details and interact with HMRC digitally.

Exemptions

Businesses, self-employed people and landlords with turnover under £10,000 are exempt from these requirements. There will also be a very limited exemption for businesses or people who "cannot engage digitally".

Changes announced in the Budget

The Chancellor announced a one year deferral (to April 2019) from the mandating of MTD for unincorporated businesses and landlords with turnovers below the VAT threshold (currently £85,000). For the self-employed and landlords that have turnover in excess of the VAT threshold, the commencement date will continue to be from the start of accounting periods which begin after 5 April 2018.

Lords call for delay

The House of Lords Select Committee on Economic Affairs, Finance Bill Sub-Committee (FBSC), have been looking at the potential impact of the MTD proposals. The FBSC have now published a critical report ("The Draft Finance Bill 2017: Making Tax Digital for Business") calling for a far more cautious approach by the government to the roll out of MTD. The committee has recommended delaying the introduction of the scheme to 2020 to allow for a full pilot.

The report concludes that the roll-out of the scheme is being rushed, imposing unnecessary burdens on small businesses and landlords, and will yield little benefit to the government. The Lords' committee recognised the unprecedented technological and logistical challenges that would be faced by the small businesses that do not currently maintain digital records or interact with HMRC on a frequent basis. The committee are also concerned that the government's estimate of the 'tax gap' saving is fragile and not based on adequate evidence.

New penalty regime

HMRC are set to introduce a new regime for late submission penalties and late payment sanctions under MTD. HMRC have now opened a consultation on how the new penalty regime should operate. The consultation paper sets out three possible models for late submission penalties and provides an update on late payment penalty interest. The proposals have been developed with the new MTD obligations in mind but the consultation also explores the suitability of the sanctions for other regular submission obligations. The consultation also provides an update on late payment penalty interest as a sanction for late payment of income tax, corporation tax and VAT.

The consultation closes on 11 June 2017.

How do I prepare for Making Tax Digital?

Over the coming weeks and months, we will provide further guidance on what MTD will mean for your business and explain the practical steps you should take to ensure a smooth transition to MTD.

If your business does not already keep digital records, you should consider doing so now so you can start to familiarise yourself with the software.

If you wish to discuss the implications of MTD for you and your business, please get in touch with your usual Hawsons contact.

Apprenticeship Levy launches

The new Apprenticeship Levy was launched on 6 April 2017. We look at what this is and who will be affected by the government's new levy.

What is the Apprenticeship Levy?

First of all, only employers with a wage bill of over £3m will be affected by the Apprenticeship Levy. The levy will be set at a rate 0.5% of an employer's pay bill, but each employer will receive an allowance of £15,000 to offset against the levy.

Any employer with a wage bill of £3m or higher must adhere to the new rules, whether apprentices are employed or not.

The good news is that it is expected that only 2% of UK businesses will be affected by this new scheme.

All sectors

The new apprenticeship levy will apply to all sectors – including the charity sector who will not be exempt from adhering to this new scheme.

How is this levy paid?

The levy will be paid through the PAYE system alongside tax and National Insurance Contributions.

Apprenticeship funding

Any employer that is too small to fund the levy – roughly around 98% of those in England – will be eligible to receive 90% of training costs funded by the UK government. Along with this, employers and training providers that take on young apprentices aged 16 to 18 can claim extra support worth £2,000 per trainee.

Employers with fewer than 50 employees on their books can claim 100% of their training costs to be funded by the government if they take on apprentices or young care leavers. As well as this, there are to be 15 funding bands – with the caps ranging from £1,500 to £27,000 and, as previously stated, the plans will be launched in April 2017. The funding system will not be launched until a month later.

Employers that pay the levy

The new 'digital apprenticeship service account' will be the platform for employers to access government funding for apprenticeships to pay for the training. This service will also assist employers in finding training providers in order to deliver a successful apprenticeship programme.

This only applies to businesses in England; as separate arrangements will be made in regards to Scotland, Wales and Northern Ireland.

Employers that do not pay the levy

From May 2017, when the new funding system is launched, employers can use the registers on the digital apprenticeship service to choose the type of training they wish the apprentice to receive, the training provider and an assessment organisation.

Employers that do not pay the levy will not need to use the digital apprenticeship service in order to pay for apprenticeship training and assessment until at least 2018.

Full steam ahead

The British Retail Consortium had called for a delay to the introduction of the Apprenticeship Levy until at least 2018 which, according to its Chief Executive, Helen Dickinson, would "allow more time to design a truly viable system that delivers high quality training."

The manufacturers' organisation EEF had acknowledged that an increase in funding for topics such as maths, science and engineering would be a welcome change, but also warned that there should be a delay in the levy's introduction.

Despite the calls to delay the introduction of the levy, it will go ahead as planned from April 2017.

Car-Tax-Trophe for new car buyers

The way Vehicle Excise Duty (car tax) is calculated is changing. These changes are going to have a significant impact on all new car buyers and care will need to be taken to avoid potentially hefty tax charges. Below are details of the new rules affecting all new cars from 1st April 2017.

New Vehicle Excise Duties

From 1st April 2017
New Vehicle Excise Duties (VED) rules come into force for new cars registered after 1st April 2017. These tax changes mean that all new car buyers will face a significant increase in their car tax in the first year of registration, depending on CO2 emissions. Whilst currently low emission cars are exempt, the new VED system will only be free for vehicles with no emissions i.e electric and hydrogen cars. There is also a new five-year supplement to pay for cars costing more than £40,000 which will be £310 per annum. Buyers of smaller, more economical cars will face the largest increases in duty as they have previously benefited from the old regime favouring low emission cars.

Why change?

Manufacturers have slashed CO2 emissions resulting in reduced tax revenue for the Exchequer. It is estimated that a quarter of new cars pay no road tax as CO2 emissions are below 100 g/km.

The new changes in detail

Cars registered after 1st April 2017 will pay a one-off tax charge for the first year under a revised CO2 based band system. From the second year onwards, the CO2 scale becomes irrelevant as there will be two flat rates. A zero rate for zero emission vehicles and a flat rate of £140 for other cars. Cars costing over £40,000 will pay the £140 from year two plus £310 for the first 5 years, meaning a total of £450 pa. After five years, they revert back to the £140 flat rate. A £40,000 plus car with zero emissions will pay the £310 expensive car supplement. As part of the changes, alternative fuel vehicles e.g. hybrids, bi-ethanol and liquid petroleum gas will benefit from £10 lower rates for the first 5 years.

The VED tax bands from April 2017 are as follows:

Emissions (g/km of CO2)	First year rate	Standard rate
0	£0	£0
1-50	£10	£140
51-75	£25	£140
76-90	£100	£140
91-100	£120	£140
101-110	£140	£140
111-130	£160	£140
131-150	£200	£140
151-170	£500	£140
171-190	£800	£140
191-225	£1,200	£140
226-225	£1,700	£140
Over 225	£2,000	£140

Cars above £40,000 pay £310 annual supplement for five years.

Cars registered before 1st April 2017

Existing VED bands will remain in place so that these cars continue to pay the current VED rates even after the new bands come into force.

Car-Tax-Trophe for new car buyers

Current (pre-April 2017) vehicle VED tax bands:

VED Band	Emissions (g/km of CO2)	Annual rate	First year rate
A	Up to 100 g/km	£0	£0
B	101-110 g/km	£20	£0
C	111-120 g/km	£30	£0
D	121-130 g/km	£110	£0
E	131-140 g/km	£130	£130
F	141-150 g/km	£145	£145
G	151-165 g/km	£185	£185
H	166-175 g/km	£210	£300
I	176-185 g/km	£230	£355
J	186-200 g/km	£270	£500
K	201-225 g/km	£295	£650
L	226-255 g/km	£500	£885
M	Over 255 g/km	£515	£1,120

Road tax refunds when you sell your car

Any remaining road tax is refunded to the seller and the buyer has to re-tax the car. The tax refunds should be sent automatically when the DVLA receives notification that the car has been sold. Sellers must inform the DVLA of the change of ownership immediately and fines for not doing so are £1,000.

Conclusion

With the news that only cars with zero emissions costing less than £40,000 will qualify for the new £nil rate tax band, it's clear that the government is keen to put pressure on manufacturers to provide more vehicles within this bracket. This is another step on the road towards the Transport Minister's goal for all cars and vans to be zero emission by 2050.

Hawsons Wealth Management Presents

Pensions Continue to Evolve

Hawsons would be delighted if you could join us for a seminar where Nigel Smith, Director of Hawsons Wealth Management Limited, will talk you through the ongoing changes in the pensions world.

As a qualified pensions specialist, he will provide details of the favourable tax benefits currently available with pensions, looking at:

- **Funding options**
- **Income requirements**
- **Flexible retirement options**
- **Death benefits**
- **Inheritance tax consequences**

During this seminar, Nigel will explore all these areas and inform you how our Wealth Management team can help.

Following Nigel, Erica Dietsch, Independent Financial Advisor at Hawsons Wealth Management Limited, will look at investment opportunities that may be suitable to provide income in a tax efficient manner. She will consider the following:

- **Investment bonds**
- **Offshore solutions and how they are taxed**
- **ISAs, Unit trusts & Investment trusts**

Sheffield

- **Tuesday 16th May 2017**
- **Tapton Hall, Shore Lane, Sheffield, S10 3BU**

Doncaster

- **Friday 19th May 2017**
- **The Portland Suite, Doncaster Racecourse, Leger Way, Doncaster, DN2 6BB**

Northampton

- **Thursday 25th May 2017**
- **Sunley Conference Centre, The University of Northampton, Park Campus, Boughton Green Road, Northampton, NN2 7AL**

Programme (for all venues)

- **Registration and refreshments: From 7:45am**
- **Presentation: 8:15am**
- **Finish: 9:30am**

To register for this event, click here.

Charity Health Check

How healthy is your charity?

If you answer no to any of the below questions, we would really like to meet you and share with you how Hawsons may be able to help you. We offer all new clients a free initial, no-obligation consultation, at a time to suit you. Whether we are appointed as auditors/advisers, or helping with a one-off exercise, we look forward to meeting you.

Questions

	YES
Do you feel that your charity has sufficient funds to undertake all of its aims?	
Have the trustees outlined a policy for reserves setting out the amount the charity needs to hold in funds?	
Have you reviewed the new charity SORP and understand how your charity's accounts may be affected?	
Do the charity's accounts present the best image to funders and the public at large?	
Are you making full use of the SORP exemptions to make the charity's published accounts easier to follow?	
Have you undertaken a VAT health check in the last 12 months?	
Does the charity have incoming resources that may be VATable?	
Are you confident that your charity is not undertaking trading activities?	
Are you aware of the tax laws relating to charities and are confident that the charity is complying with them?	
Do you find dealing with the charity's payroll and making HMRC returns a straightforward process?	
Do the charity's trustees know about their responsibilities and level of personal risk?	
Has the charity considered the potential benefits of incorporation?	
Have you reviewed the structure of the charity recently to check that it's still appropriate for the activities that it undertakes?	
Are you comfortable that the charity has control over all of its incoming resources and expenditure?	
Can the charity demonstrate how funds have been applied to its aims with relative ease at any given point in time?	
Does the charity have a funding plan for the next 12-24 months?	

Did you answer no to any of these questions?

Spring 2017

Registered to carry on audit work in the UK and Ireland and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

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Find out more about how Hawsons can help your charity.

Please call your local office or visit:

www.hawsons.co.uk/charities

Register to receive this edition quarterly:

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