Charity Sector

Specialist Charity Accountants

Newsletter
Summer 2017

www.hawsons.co.uk

Introduction

Welcome to our Summer 2017 charity newsletter.

It is hard to believe that we are already half way through 2017. With the snap General Election firmly behind us attention now turns back to the Brexit negotiations. It has been a turbulent period for the UK economy and this looks set to continue as we enter the back half of the year. It will be interesting to see how the charity and business communities react and whether the resurgence in confidence witnessed in the first quarter of 2017 can be maintained.

In this issue, we look at:

- Leaving the EU and funding implications
- What charities need to know about the new GDPR
- Fundraising Regulator Levy not paid by a third of smaller charities
- Rates system and appeals from April 2017
- The Election result: What are the tax implications?
- CEO Fraud analysis
- Tony Nickson joins Hawsons as VAT Consultant

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

Leaving the EU could hit funding, charity leaders warn

According to a new study, over half of charity leaders believe that leaving the EU will have a negative impact on their funding opportunities, with a large number of UK charities and not-for-profit organisations having received substantial EU funding over the last few years.

The government could, in theory, continue to support the sector by matching all EU funding when the UK does leave. However, it is unlikely to do so given the current levels of uncertainty over public finances.

A recent report canvassing charity chief executives and their thoughts on Brexit yielded some interesting results.

The results for demand of charitable services were as follows:

- 63% of respondents feel leaving the EU would have zero effect on demand for services
- 21% of respondents expect a negative impact on demand for services
- Only 10% expected a positive impact for services
- The remaining 6% were unsure

The results for community cohesion were as follows:

- 54% of respondents felt leaving the EU would have zero effect on community cohesion
- While 36% felt it would have a negative impact
- And only 4% believe there will be a positive impact

An interesting statistic that did come out of the findings was that within three years, 52% of charities believe they will be partnering with other charities to a far greater extent.

Almost three quarters of respondents believe that within the next three years they will be undertaking a wider range of activities, while just 4% expect to be conducting fewer activities within the next three years.

Respondents identified funding and public perception as the two leading factors in increasing the sector's impact in society, followed by:

- Internal improvements
- Better relations within the public sector
- Sector co-operation
- Engaging users, stakeholders and volunteers

Simon Bladen, charity Partner here at Hawsons, had this to say about the findings: "I can appreciate that some charities are concerned about the impact of Brexit on their organisation, however at the moment there is far too much uncertainty to truly know one way or the other. However, I am keen to see what support the Government ends up offering to the sector as a whole in the wake of Brexit. It will be interesting to see if a soft Brexit will leave charities in a better position given the General Election result."

What charities need to know about the new GDPR

The General Data Protection Regulation (GDPR) is set to come into force from May 2018.

It will replace the current Data Protection Act and is the biggest overhaul of data protection legislation for over 25 years. GDPR will change the way organisations process personal data and regardless of what happens during the Brexit negotiations, it has been made clear that businesses and charities alike will have to comply with the new rules - this means it is likely we will adopt most if not all of GDPR as domestic legislation.

Fundraisers must ensure they are up to date with the new legislation to make sure they are fulfilling their legal responsibilities. In this article, we take a look at some of the things you can do to make sure you're prepared.

Consent

Usually, under the soon-to-be old rules, simply saying "click here to read our privacy policy" would be perfectly acceptable. However, under GDPR this is no longer the case. GDPR states that you must clearly explain why you are collecting personal data and how exactly you intend to use it.

Furthermore, if you plan on selling any of the data on to third-party organisations, you must get explicit consent. In order for the consent to be valid, it will need to be freely given, informed, specific and an unambiguous indication through a statement or clear affirmative action, i.e. ticking a box.

Not just fundraising

The main focus about data protection so far has been about how fundraisers can legally contact donors or potential supporters. However, it is not just fundraising - it is across the board. For example, it will apply to marketing, campaigning, managing volunteers and recording information about service users. To put it more simply, anything that involves processing an individual's personal data is subject to GDPR.

It means the whole organisation must adopt a new approach, with new strategies being developed from the top down. Volunteers and employees alike should receive training to ensure compliance with the rules.

Opt ins and opt outs

With GDPR, it is essential that a charity complies with a set of lawful conditions to process data for direct marketing purposes.

It should be noted that organisations do not need consent for all forms of marketing, charities are allowed to make contact for direct marketing purposes via calls to numbers that are registered with the telephone preference service or by post. As long as the organisation can satisfy the legitimate interest condition.

While giving people the opportunity to opt out is acceptable, it will not mean a charity has consent, that will rely on legitimate interest only. Charities must ensure that they get this right.

Managing data

People can request the removal of data under GDPR, dubbed the "right to be forgotten". This could be for a number of reasons, such as the individual no longer wants the charity to have the information or if it's no longer to be used for the purpose for which it was initially collected. The data must be kept up to date and accurate, so charities should consider how they are keeping data to ensure it is not held for longer than is necessary.

User access

One of the key points to GDPR is giving people the opportunity to see what data that charity has about them. Individuals are able to make information requests to view the data and what the charity intends on doing with it.

Data breaches

The fines for organisations that are subject to a data breach have been increased by the Information Commissioners Office (ICO), as well as new duty for organisations to report data breaches should they occur. Charities must ensure they have the correct procedures in place to detect, report and investigate a data breach. It is worth staying up to date with information from the ICO to keep on top of developments.

Fundraising Regulator Levy not paid by a third of smaller charities

Almost a third – 600 of the 1,900 charities asked to contribute to the Fundraising Regulator's Levy are still yet to pay, according to the chair, Lord Grade.

The Regulator's chair stated that the charities that have been asked to pay have either refused or not responded to requests for payment. He also said that the regulator will be reviewing the payment position over the next few months and depending on the findings, he may recommend to the Government that paying the levy become a statutory requirement if insufficient charities contribute.

Charities that are spending more than £100,000 on fundraising are eligible to pay the levy. It is currently a voluntary charge but there are concerns that the Government could enforce it should insufficient charities sign up to it.

The Fundraiser Regulator was created in the wake of the negative press aimed at the sector back in 2015. By registering with the Regulator, organisations agree to the commitment made to donors and the public as set out in its Fundraising Promise.

Whilst it appears around two thirds of the largest charities had paid or were committed to paying the levy, smaller charities are less engaged.

Lord Grade announced that there will be a review in order to determine if there are any ways to better collect the levy and the findings will base his decision on whether to recommend to the Government that the levy should be made compulsory from 2018/19. The Regulator and the Office for Civil Society would prefer not to make the levy a statutory enforcement, but can't ignore the cost and time implication involved chasing non-payers.

Simon Bladen, charity Partner here at Hawsons, had this to say: "Obviously depending on the nature of the charity, signing up to the Regulator will have differing levels of relevance. Larger charities may see the value in it, but I can understand why smaller charities are less engaged. In my own mind, I'm still not convinced that the benefits have been communicated widely enough."

Rates system and appeals from April 2017

The Valuation office Agency has completed the revaluation of rateable values on all properties to reflect the changes in the property market since 2008.

Local Councils will use this value to calculate business rates bills from 1 April 2017. If your rateable value is below £12,000 you may be eligible for small business rate relief of 100%. In addition, there is a new appeals system. The Government is trying to reduce the number of appeals whilst streamlining the system.

There is a new three stage appeal system: Check, Challenge, Appeal.

Check:

- Factual information is confirmed by the rate payer e.g. floor area.
- The VO (Valuation Office) has three months to respond to the provision of information
- The rate payer then has four months to move to the challenge stage and the VO has 18 months to respond

Challenge

- The rate payer submits their opinion of rateable value based on the rental value of the property at 1 April 2015
- This is a crucial stage as evidence cannot be submitted after this

If these two stages do not result in agreement, the rate payer can make a formal appeal to the Valuation Tribunal. It is worth considering the use of professional help to avoid losing out because of technical issues including the timing of the presentation of evidence.

Challenges can be made on the grounds of physical change to properties or disturbances as well as rental values. In England, there will be transitional arrangements to phase in large increases in liability. Many professional surveyors do this work on the basis of a percentage of the saving achieved.

The Election result: What are the tax implications?

The general election has ended in a hung parliament – the Conservative party have the most seats but do not have an overall majority. Theresa May has announced that she will form a government with the support of the Democratic Unionist Party (DUP).

What does this potentially mean for tax? How will the election result affect you and your business?

Tax expert Craig Walker provides a recap of the key tax pledges made by the Conservatives and looks at how a hung parliament could hinder the Conservatives' ability to deliver on these pledges.

Hung parliament

If, as expected, the Conservative government remain in office, their loss of seats is likely to weaken their ability to implement the tax pledges made in their manifesto.

Passing law may need support from other parties, and this could require the Conservatives to amend or moderate a number of their proposed tax changes. We could even see some manifesto pledges dropped completely.

You may recall that a significant chunk of the 2017 Finance Bill had to be dropped due to the early general election, but there was an expectation that many of these changes would be introduced in a post-election Finance Bill. The election result puts into doubt whether some of these changes will in fact be passed.

Democratic Unionist Party (DUP)

The DUP and Conservatives appear to have similar views on tax. The DUP indicated in their manifesto that they would support Conservative proposals to increase the personal allowance. The parties also share a desire to reduce the rate of Corporation Tax – with the DUP proposing to reduce the rate to as low as 12.5%.

The DUP manifesto included a call to reduce VAT for businesses in the tourism sector. Northern Ireland has long argued that the UK tourism rate of 20% is extremely uncompetitive compared to Ireland's reduced rate of 9%. Currently Westminster controls UK-wide VAT policy but following Brexit it is thought that Northern Ireland will be free to claim a reduced tourism rate.

Below is a recap of the key tax pledges made by the Conservatives:

Income tax

- To increase the personal allowance to £12,500.
- To increase the threshold for the higher rate tax band to £50,000.

National insurance

- Remained silent on the issue of rises in national insurance but issued a statement of intent to lower tax/NIC.
- This followed the removal of the controversial proposal to raise self-employed national insurance contributions from the Spring Budget.

Corporation tax

- To reduce the current corporate tax rate of 19% to 17% by 2020.

Inheritance tax

- The current Conservative policy allows up to £850,000 in family property to be inherited by children without inheritance tax.

VAT

- Do not intend to raise the level of VAT.
- To introduce further measures to reduce online fraud in VAT.

Continued overleaf.

The Election result: What are the tax implications?

Other taxes

- No plans to reduce the rates of Stamp Duty Land Tax (SDLT).
- No assurances that Capital Gains Tax reliefs for entrepreneurs will remain in place.
- To introduce further incentives under the Enterprise Investment Scheme and Seed Enterprise Investment Scheme to help start-up businesses.
- To build upon existing tax arrangements for creative industries, including a creative industries tax credits scheme.

Making Tax Digital

- There is no evidence to indicate the Conservative party intend to abandon their plans for the controversial "Making Tax Digital" project.

Business rates

- A promise to review and reform the business rates system, such as by increasing the frequency of revaluations, exploring the possibility of self-assessment valuations and updating the system to appropriately deal with online shopping businesses.

Tax compliance

- To introduce tougher regulation of tax advisory firms.
- To take a more proactive approach to transparency and misuse of trusts.

In summary

It will be interesting to see to what extent the Conservative's tax proposals are implemented and how the UK tax system evolves. The economic consequences of Brexit are also likely to give the Chancellor much to think about and significantly influence UK tax policy.

In addition, we should remember that politicians do not always follow manifesto pledges (and have even been known to borrow ideas from the opposition!).

We will keep you updated.

CEO fraud

CEO Fraud is on the increase and it can hit both businesses and careers. More than 22,000 organisations across the world have been victims of CEO Fraud with losses estimated at more than £3 billion. In this article, we look at what CEO Fraud is and the techniques that can be used to help prevent your charity becoming a victim.

What is CEO fraud?

CEO Fraud involves convincing somebody in your business to make what they believe are legitimate payments but which are actually paid to fraudsters. The scam is often carried out by compromising business email accounts through the use of techniques such as social engineering or computer intrusion.

It's not just email accounts that can be compromised, the criminals are also known to tap into phone numbers. This process involves the criminals obtaining the phone number of a CEO, and sending a text message to, for example, the CFO (Chief Financial Officer) which appears to come from the CEO. The message asks the CFO to make a bank transfer. To make it more realistic, these cyber-criminals often wait until the CEO is away on business and the unlucky recipient of the text message is oblivious to the fact it's not a legitimate request. In addition, the criminals will often ask the recipient not to contact them as they "are in an important meeting" and/or "it needs paying promptly".

While you may think it's just the larger businesses which are targeted, smaller businesses are just as likely to be hit – the criminals don't discriminate, everyone is a target.

While it is probably impossible to predict which business will be attacked and when, it is useful and interesting to understand some of the methods they often use.

The methods

- **Phishing**: These are emails sent in large numbers to numerous accounts simultaneously in order to "phish" sensitive information by posing as legitimate sources. These emails are getting much more sophisticated – gone are the days of poorly worded emails that were obviously fake. These emails often have logos, are well-written and look like they could be from a bank, credit card provider, law enforcement or government agencies, delivery companies etc. While many people won't use the bank or service provider the email is claiming to be from, due to the sheer numbers that they send them out to, it has a certain percentage of hit rate. The criminals are smart and may change the spelling of words which can easily catch you out. For example, an email from webfiling@companieshousewebfilling.co.uk seems legitimate, doesn't it? Unfortunately, this is NOT from Companies House. Notice the spelling of webfiling at the start of the address and webfilling at the end.

- **Spear Phishing**: These attacks are emails which usually only go to one person or a small group of people at the most. They are much more focused and the cyber-criminals have often done their homework on the target by gathering data from social media sites in order to fool the unfortunate target. Usually some form of personalisation is included such as the person's name or client's name.

- **Executive "Whaling"**: This one can be very sophisticated. The criminals have detailed knowledge of who they are targeting and the business they are attacking. They target the top executives and administrators to draw money from accounts or to steal confidential information.

- **Social Engineering**: This is the psychological manipulation to trick people into giving away sensitive information or providing access to funds. All of the previous methods are aspects of social engineering. The act of social engineering might include mining social media sites such as Facebook and LinkedIn. These sites provide a wealth of information about a company and individuals, such as names of staff, contact numbers and emails addresses.

Unfortunately, these scams have a fairly high success rate. The Verizon 2016 Data Breach Investigations Report revealed that 30% of recipients open these phishing emails and thus provide an open gateway for malware to infect their systems and the possibility of CEO Fraud.

Continued overleaf.

CEO fraud continued...

Prevention

The majority of the following steps must link together to form part of an effective prevention plan forming 'layers of defence'.

- **Training**: While all the steps below will help, if a member of staff isn't properly trained a breach could be inevitable. Make sure all staff are aware of the things to look out for when opening emails and provide general security awareness training. Is the email sender legitimate? Always be sceptical and hover over links to see if they're going where they say they are going. Beware slight changes in company names (r and n together to imitate an m). Another tell-tale sign are emails requiring urgent action.

- **Technical controls**: Email filtering is an example of this. If you don't have a filter you need one. If you do have one you need to make sure you understand its features to get the most out of them and also accept that mail filtering won't always prevent phishing emails coming through. Two factor authentication is a good way of making it harder for the criminals to steal sensitive information, such as sending a code to your mobile phone.

- **Simulated Phishing**: This should be accompanied with the training. It is the process wherein staff are sent emails purposefully to see which staff are at risk and who needs more training.

- **Identifying high-risk job roles**: High-risk roles include accounting, payroll / HR and IT staff. It is recommended to impose more safeguards in these areas such as having layers of authorisation before, for example, a payment to an account can be completed. It is important to assess all high-risk staff to see how exposed they are.

- **Security policy**: While every company should have a security policy, it does sometimes slip under the radar when there are more important things to deal with. But in this day and age when cyber-attacks are frequent, it should be on your to-do list. It should be reviewed regularly for gaps and should be published somewhere that all staff can find. It should include things such as staff not opening attachments or clicking on links from unknown sources, password management policy (not reusing work passwords on other sites or machines), don't use USB sticks on office computers as well as much more security diligence.

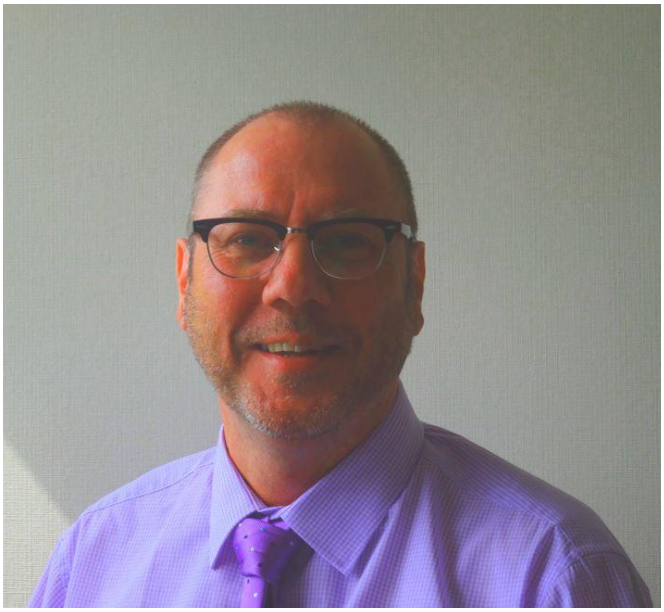
- **Procedures**: IT should have security measures in place to block sites known for their spread of ransomware. All software security patches and virus signature files should be kept up-to-date, conduct penetration tests on Wi-Fi to determine how easy it is to gain entry, ensuring backups are actually working as well as much more.

- **Cyber-risk planning**: This is no longer just a technical problem or just an IT problem. This should be managed from the very top (the CEO) so they are aware of the company's cyber risks and how they can manage those risks. CEO Fraud should certainly be included in the risk management assessment.

CEO Fraud and cyber-attacks in general are more frequent now than they ever were. It is wise to review your procedures and put the appropriate controls in place to stop it from happening to you. It could save you a lot of money.

If you would like to discuss any of this further, please get in touch.

Tony Nickson joins Hawsons as VAT Consultant



Hawsons are pleased to announce that Tony Nickson has joined the firm as a VAT Consultant.

Tony was formerly a VAT Officer in Customs and Excise and then Higher Officer in HMRC.

After 20 years of working in the VAT office, Tony has gained a wealth of knowledge of VAT processes, including VAT visits to customers, client education, VAT repayments and error corrections.

Tony can provide practical VAT advice to a wide range of clients in numerous business sectors and can advise on matters relating to sole proprietors, partnerships and corporate bodies on all VAT issues including exporting, importing or providing goods/services within the UK. European Union dispatches and acquisitions can also be advised upon. He also has a good knowledge of HMRC's penalty system.

Tony said: "I'm really excited to have joined Hawsons and I'm looking forward to advising clients on many aspects of VAT."

Stephen Charles, Tax Partner at Hawsons added: "I'm delighted to be able to welcome Tony to the firm. Tony has a wealth of experience in the VAT sector and will no doubt prove to be a valuable member of our team."

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?

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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:

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