Charity Sector

Specialist Charity Accountants

Newsletter
Spring 2016

www.hawsons.co.uk

Introduction

Welcome to our Spring 2016 charity newsletter.

Following a year in which it often seemed the charitable sector made the headlines for all the wrong reasons, rebuilding and regaining public trust will be a top priority for many trustees in 2016. This year is also set to bring significant changes to governance along with major challenges for trustees. With changes to regulations and ongoing cuts to public funding, it is arguably more important than ever for charities to seek sound and proactive financial advice.

In this issue we look at:

- 2016 Budget charity review
- FRSSE SORP v FRS 102 SORP – what's changed?
- Cuts in public funding to hit small charities
- Charity fundraising guidance (CC20) revised
- Important changes to Employment Allowance
- Maximising generous tax reliefs for charities

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

INVESTORS IN PEOPLE

2016 Budget charity review

Last week, on 16 March, the Chancellor delivered his first Budget of 2016. Following on from an Autumn Statement which didn't bring much change for the charitable sector, many were unsure at what the Chancellor's Budget may bring. In this article we summarise the key points arising from the Budget and focus specifically on what the changes may mean for the charity sector.

2016 Budget charity impact

Simon Bladen, Partner at Hawsons, commented: "Although this was another opportunity for the government to pledge its support to the charity sector, as was probably expected, charities were not a key feature in the Chancellor's 2016 Budget. There was a strong focus from the Chancellor on small businesses and individuals – 'a Budget for the next generation' was the key theme. There was hardly a mention of the charity and voluntary sector. There was, however, a number of small funding boosts for the charity sector, including a significant tax break for museums and galleries which will provide welcome support."

"For the largest charities, it was disappointing to see no real clarification on the new apprenticeship levy. This is a new employment tax which is due to come into force next year and will create significant additional costs for those charities with a payroll in excess of £3m."

Tax relief for museums and galleries

The Chancellor announced a number of measures that will benefit museums and galleries in the 2016 Budget, including that museums and galleries are to get tax relief to help cover the costs of developing temporary or touring exhibitions from April 2017. The announcements also included an extension of museum VAT refund eligibility, which will provide vital support to free museums up and down the country.

Alistair Brown, the Museums Association's (MA) policy officer, says: "The MA has campaigned for a tax relief for touring exhibitions, and we are delighted to see this become a reality today."

No change to the charitable rate relief

As the Chancellor promised an overhaul of business rates, there were growing and widespread concerns over the future of the charitable rate relief.

The Chancellor announced that business rate relief for small businesses will more than double from £6,000 to £15,000. This increase to the annual limit will exempt thousands of small businesses, with 250,000 businesses paying less in business rates.

Simon added: "Perhaps the biggest announcement for the charity sector in this year's Budget was that there was no announcement on the charitable rate relief. The charitable rate relief is an invaluable relief for the charities and is worth around £1.5bn a year to the sector. It is therefore very welcome news that the Chancellor confirmed after the Budget that the government will maintain the 80% mandatory business rates relief for charities."

More information

Please get in touch with your local office specialist for more information and to book your free initial meeting.

You can find more information on the 2016 Budget at www.hawsons.co.uk/guide-2016-budget

FRSSE SORP v FRS 102 SORP – what's changed?

This is designed to act as a brief synopsis of the changes arising from the implementation of the two new versions of the Charities Statement of Recommended Practice (SORP). These are designated as the Charities SORP (FRS 102) and the Charities SORP (FRSSE).

Implementation date

Both the FRS102 and FRSSE SORPS are effective for accounting periods commencing on or after 1 January 2015. So for example, a charity with a March year end will have its first set of accounts prepared under the new framework for its year ended 31 March 2016. Consideration should also be given to the 2015 comparatives, since it is likely they will need restating under the new FRS 102 SORP. An opening balance sheet will also need to be prepared at 1 April 2014; which is known as the transition date.

FRSSE SORP

Note that the FRSSE SORP makes only limited changes and, as such, a number of changes appearing in FRS 102 SORP do not appear in the FRSSE SORP. To be eligible to use this SORP the company must meet the size criteria that define a small company or small group under the Companies Act 2006. A charitable company currently qualifies as small if it meets two of the three criteria in both the current and preceding financial years: annual turnover < £6.5m; balance sheet total < £3.26m; average no of employees < 50.

Company

The FRSSE SORP requires fewer detailed disclosures than the FRS 102 SORP and also removes the inclusion of a mandatory cash flow statement (optional under the FRSSE SORP, mandatory for 'large' charities under FRS 102 SORP). In addition, many charities participate in multi-employer pension schemes and where the share of liability cannot be identified then the existing policy can be used (this is not permissible under the FRS 102 SORP). The other significant change is that under FRSSE SORP goodwill has a rebuttable presumption that it has a finite useful life of no more than 20 years if the entity is unable to make a reliable estimate of its useful life. Under FRS 102 SORP this finite life falls to 10 years.

FRS 102 SORP

Some key changes are highlighted below; please note that many are also applicable under the FRSSE SORP:

Trustees' Annual Report

- There is now a greater emphasis placed on identification of the risks and uncertainties faced by charities and how those risks will be managed.
- Trustees will be required to compare the level of reserves to the policy put forward and explain how the current reserves will be brought into line with that policy.
- The arrangements for setting the remuneration of key personnel must now be disclosed (benchmarks, conditions etc.).

Primary Statements

- Governance costs are now included within support costs.
- The headings for the Statement of Financial Activities have been simplified under the new SORP which will change the presentation.
- Heritage assets should now be disclosed separately on the balance sheet where possible.
- Social investments should be disclosed separately on the face of the balance sheet (where applicable).

Policies and Disclosures

- Income should be recognised in the financial statements when it becomes 'probable' (previously 'virtually certain' under the old SORP 2005). The 'measurement' and 'entitlement' criteria remain unchanged. We anticipate that this will impact charities who achieve a large amount of income via legacies.
- A liability should now be recognised in the balance sheet for unpaid holiday entitlement.
- Goods that have been donated for resale should now be recognised when the charity first receives the goods as a gift unless impractical.
- The going concern assessment requires a greater degree of consideration and disclosure in the accounts.
- Financial instruments need to be classed as either 'basic' or 'non-basic' with 'non-basic' instruments requiring measurement at fair value at each balance sheet date.
- The definition of related parties has now been expanded to include key management personnel.

For more information please get in touch with your local office specialist.

Cuts in public funding to hit small charities

New research has shown that the smallest charities in the UK – those with annual incomes of between £25,000 and £1m – have been the worst affected by the recent cuts in public funding.

Smaller charities the hardest hit

Recent research published by the Lloyds Bank Foundation highlights the impact that these funding cuts have had on smaller charities. The report shows that between 2008/09 and 2012/13 charities with annual incomes of between £100,000 and £500,000 have lost 44% of their income from local government. In the same period, charities with annual incomes of between £500,000 and £1m have lost 40%.

In terms of central government funding, charities with annual incomes of between £100,000 and £500,000 have lost 26% of their funding, whilst charities with annual incomes of between £500,000 and £1m have lost 32% of their central government funds.

Department for Communities and Local Government (DCLG) funding cuts

The table below shows the real change in a selection of the hardest hit departmental budgets between 2010/11 and 2015/16.

The DCLG has taken the biggest hit of any department budget (in percentage terms) since 2010/11 – a staggering 51%.

Department	Real change in budget 2010/11 to 2015/16
Communities and Local Government	-51%
Work and Pensions	-35.8%
Justice	-34.1%
Culture, Media and Sport	-30.7%

The communities-focused part of the DCLG's government budget was reduced by 50% and direct grants to local government fell by 27% in real terms between 2010/11 and 2015/16. The department is now also facing further funding cuts.

As well as some of the other government departments (including the Department for Transport and the Department for Environment, Food and Rural Affairs) the DCLG recently agreed to cut 30% from its budget over the next four years after reaching a deal with the Treasury. The impact of more funding cuts for small charities cannot be understated.

Comment

Paul Wormald, Charity Partner at Hawsons, commented: "Cuts to local authority budgets have in many ways been the silent killer for a lot of smaller charities across England and Wales. Charities are set to be subject to even tighter public funding and, although the challenges are not insurmountable, many smaller charities in particular are facing a difficult future."

"The recent Lloyds Bank Foundation report found that 23,000 charities closed between 2008/09 and 2012/13, with many of those being organisations with annual incomes of less than £500,000. Without funding, a lot of smaller charities are struggling to stay open."

"Smaller, local charities often fill niche gaps in community needs and provide invaluable support provisions for disadvantaged people. A lot of these organisations are facing major financial challenges, even in spite of their ongoing efforts to diversify their income streams. Sourcing and sustaining new funding streams is getting harder; public trust in charities, for example, is at its lowest level since 2007 and of course this is having implications on fundraising and revenue streams."

For more information please contact your local office specialist.

Charity fundraising guidance (CC20) revised

On the back of concerns over charitable fundraising, the Charity Commission is currently consulting on its revised draft charity fundraising guidance. The commission is seeking views on its revised guidance for CC20 – "charity fundraising: a guide to trustee duties" – and has welcomed responses from trustees (see details below).

The updated guidance looks to provide advice on charitable fundraising and, in particular, helps trustees to "comply with their legal trustee duties when overseeing their charity's fundraising" activities. The guidance also looks to reinforce the notion that trustees must take responsibility for – and are publicly accountable for – all fundraising undertaken by their charities.

In summary – charity fundraising guidance CC20

To ensure that trustees fully understand their responsibilities the Charity Commission has provided an "at a glance" summary:

- Plan effectively
- Supervise your fundraisers
- Protect the charity's reputation and other assets
- Comply with fundraising law
- Follow recognised standards
- Be open and accountable

"Trustees must take responsibility for fundraising"

Regaining public trust in charities

Simon Bladen, Charity Partner at Hawsons, commented: "After a very challenging 2015 – where the charity sector made the headlines for all of the wrong reasons – regaining public trust and confidence in charities is extremely important in 2016. As we commented at the time of the Kids Company closure, the impact of its financial oversights will have, and has had, an enormous impact on the sector as a whole."

"Fundraising is arguably a charity's most public-facing activity, which is why, now perhaps more than ever, trustees must be involved throughout the fundraising process. This revised CC20 charity fundraising guidance should help trustees understand their role in their charity's fundraising activities and help them get it right."

Trustees are publicly accountable for fundraising

Simon added: "It is important to reemphasise that trustees are the custodians of their charities and that they have ultimate responsibility for all of the charity's activities, including fundraising."

"As the guidance document states, 'first and foremost, it is the trustees of charities who are legally responsible for their charity's fundraising' activities. This particular focus on trustee accountability has come about on the back of concerns regarding trustee's ability to oversee fundraising effectively, undoubtedly heightened by last year's Kids Company case."

Consultation now closed

Announcing the draft guidance, the commission said that it "welcomes responses from trustees of all size charities as well as the public and other interested parties to ensure the guidance is clear" to everyone.

The consultation closed on 11 February 2016, and now we await further details.

Important changes to Employment Allowance from April 2016

The National Insurance Contributions (NIC) Employment Allowance was introduced from 6 April 2014.

It is an annual allowance which is available to many employers and can be offset against their employer's NIC liability. From April 2016, the government will increase the NIC Employment Allowance from £2,000 to £3,000 a year.

To ensure that the NIC Employment Allowance is focussed on businesses and charities that support employment, from April 2016, companies where the director is the sole employee will no longer be able to claim the Employment Allowance.

Good news with the new National Living Wage coming into force

As well as the changes to Employment Allowance on 6 April 2016, the new National Living Wage – the new minimum wage for those aged 25 and over – also comes into force.

The new rates will have a big impact on wage bills, particularly for smaller businesses.

The new National Living Wage will also cost the charity sector millions of pounds, so these changes to Employment Allowance are welcomed and will help support charities in absorbing the increases in their wage bills.

HM Treasury calculations estimate that up to 90,000 employers will see their employer NICs liability reduced to zero following the changes on 6 April 2016. The increase will mean that businesses and charities will be able to employ four workers full time on the new National Living Wage without paying any NIC.

Other changes

Other important changes to PAYE and employment tax include the phasing out of P11D dispensations; voluntary payrolling of benefits; trivial benefits; and the new National Living Wage.

Find more at: http://www.hawsons.co.uk/employment-tax-changes-2016-that-you-need-to-know

For more information on the changes please get in touch with your usual Hawsons contact or contact your nearest office.

Maximising generous tax reliefs for charities

There can be generous tax reliefs for charities, but only if the charity is correctly set up and run. HMRC have recently updated their guidance on the tax treatment of charities so it's timely to review the current tax position.

Qualifying conditions

To be a charity for tax purposes and to qualify for the generous tax reliefs for charities a charity must meet four qualifying conditions, of which the main one is the requirement to be established for charitable purposes only.

This condition means that the charity is restricted to using all its income and assets for its stated charitable purposes.

Trading profits

A charity's trading profits are exempt from tax as long as the activities contribute directly to the furtherance of the charity's charitable objectives. This is known as 'primary purpose' trading. In addition, any profit from ancillary services which contribute indirectly to the purposes of the charity are exempted from tax. This could include the sale of food and drink by a charitable theatre.

The overriding condition for tax exemption is that the profits from these activities are only applied for charitable purposes.

Any income received by the charity from the sale of goods that have been donated is not regarded as trading profit and so will be not taxable.

Activities which do not further the charity's objectives will be treated as 'non-primary purpose' trading and the profits will be taxable. This is the case even if the activities raise funds for the charity. A common example of this would be a charity letting out premises and facilities when the charity is not using them e.g. sports facilities hired out by a school which is a charity. Where a charity has both primary and non-primary activities it will need to apportion income and expenses between the two types of activities. There is however a small scale exemption for non-primary purpose trading.

It is important to seek professional advice when considering new income streams for your charity. Please do not just assume that they won't be taxable.

Other profits

The profits of a property business carried on by a charity will be exempt from tax although the exemption does not apply to the profits of a trade which is buying and selling land or property. If a charity sells land that has been held as an asset there is an exemption from capital gains tax as long as the gain is applied for charitable purposes.

In addition, all interest, dividends and Gift Aid donations should also be exempted from tax.

Trading subsidiaries

One way of dealing with the tax charge on non-primary trading profit is to set up a trading subsidiary of the charity which carries out the non-primary activities. This subsidiary then donates its profits to the charity under Gift Aid, thereby reducing taxable profits.

There have been some changes in this area over the last 18 months, so please do get in touch for more information.

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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