Charity Sector

Specialist Charity Accountants

Newsletter
Summer 2016

www.hawsons.co.uk

Introduction

Welcome to our Summer 2016 charity newsletter.

As I write this it is hard to believe that we are already six months through the year. On the financial side, the first quarter has been a bit hit and miss. Inflation has stayed close to zero and interest rates have remained at 0.5% since March 2009. A far bigger concern is the fall in disposable income however. We consider this and the possible implications of the UK's decision to leave the EU, amongst other things, in our latest charity newsletter.

In this issue we look at:

- Challenges charities and trustees face in 2016
- Charitable Incorporated Organisations
- Brexit: implications for the charity sector
- New Gift Aid declaration wording for donors
- The apprenticeship levy for large 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

Challenges charities and trustees face in 2016

Many charitable organisations are being tasked with doing more with less, resulting in increasing pressures for trustees. The charity sector is clearly facing challenging times, and this article summarises some of the key challenges facing the charities and trustees today.

Risk management

How trustees can identify, assess and manage risks to their charity is a key challenge. Effective risk management is of greatest importance to every organisation - to safeguard assets and funds and ensure sustainability – and particularly for those that operate in the charity sector. There is a requirement for trustees of charities that have their accounts audited to also include a risk management statement in their trustees' annual report. The new charity SORPS also reinforce the importance of the risk management statement. One of the key challenges in the new SORPs is that there is now a greater emphasis placed on identification of the risks and uncertainties faced by charities and how those risks will be managed. In order for trustees to make this positive risk management statement they will need to consider the risks the charity is exposed to and their risk management procedures.

Fraud and cyber crime

No sectors are immune to fraud and the charity sector is no different. Fraud is one of the biggest challenges charities are facing and with almost 1 in 10 charities (with income of more than £100,000) reporting fraud and an annual cost to the UK charity sector of £1.65bn, it is essential trustees understand their risk exposure and do all they can to mitigate vulnerability.

Today's charities run in the most digital era in history, with technology having a very positive impact on the way charities operate on a day to day basis. Charities will, however, inevitably find themselves more vulnerable to cyber breaches in the years to come, and need to be prepared for such attacks. The growing emergence of cyber risks is a significant area of concern for charities and organisations must implement robust internal standards and procedures to ensure that criminals do not undermine their financial standing. As well as the financial impacts this can have, charities must also not lose sight of the reputational damage that can be caused. Fraud and cyber security can be a tricky area to understand, but is one than charities must take very seriously. We have a great deal of experience in helping charities detect and prevent fraud, so if you're looking for advice in this particular area please do get in touch.

Recruitment and retention

Trustee recruitment is arguably one of the most important governance challenges that any board at a charitable organisation is likely to face. Trustees are the people who lead charities, the people who decide how the charity is run and, ultimately, the people who safeguard the charity's future. It is therefore absolutely essential that the process of trustee recruitment is one that is carefully planned and thought-out, but it can be a detailed and complex process.

Find more information on trustee recruitment at www.hawsons.co.uk/trustee-recruitment-guide

Managing the charity's finances

It is essential that the charity's trustees have a good knowledge and solid understanding of the charity and its finances. Understanding and managing the charity's finances is a vital part of a trustees' role and is part of their legal duty. Determining the role of a trustee is a very serious matter for any charity's board of trustees and, although keeping of top of the charity's financial information can sometimes be a detailed and complex process, even the smallest charity needs to implement proper financial management. There are a lot of things to consider when managing the charity's finances, but getting basics right is an absolutely essential part of good governance. Support it is out there and it can be a very cost-effective way of ensuring effective financial management.

Minimising the VAT burden

One particularly complex area of managing the charity's finances are the challenges relating to tax and VAT. VAT is a constant focus in the sector and presents a wide range of different challenges and issues for charities. The VAT reliefs available to charities are detailed and tightly defined, which is why it can sometimes be a complicated process. Even for very small charities, the area of charity VAT can be a very complicated area and is an area where professional advice is strongly recommended.

Charitable Incorporated Organisations

There are various legal forms that can be used when structuring a charity. The newest of these is the Charitable Incorporated Organisation model (available since 2013), which has been designed specifically with charities in mind. Following the notable success of the Charitable Incorporated Organisation structure for smaller charities to date, the Charity Commission has now issued draft regulations on converting existing charitable organisations and Community Interest Companies (CICs) to the legal structure. The government has started a consultation process and is inviting responses.

What is a Charitable Incorporated Organisation?

The Charitable Incorporation Organisation (or CIO) is a relatively new form of incorporated legal structure that was introduced in the Charities Act 2006. Since the CIO was introduced in 2013 over 6,500 new CIOs have been set up in the UK. This company structure option now accounts for around one in four new charity registrations.

Advantages of a CIO

The CIO is only available to charities and is designed to allow them to take advantage of many of the benefits of incorporation without being registered with Companies House. A CIO only needs to register with the Charity Commission. The two main advantages for a charity adopting a CIO structure is that of greater legal protection for trustees and members and the commercial advantages of reduced administrative burden whilst creating a more business like structure.

It is very similar to the current charitable company limited by guarantee model, with the exception of having to file with Companies House in addition to the Charity Commission. CIOs only file with the Charity Commission. CIOs are recognised as separate legal entities and, again, this is very much like charitable companies limited by guarantee. As a result, they can increase the level of protection available to trustees when compared to a charitable trust model, for example. The more business like CIO structure will also allow charities to reap some of the benefits of being a company without the associated burdens. For example, having just one regulator (the Charity Commission) could lead to a reduction in reporting requirements, freeing up staff time.

The consultation

Although the CIO is a simplified framework, converting to the legal structure can be a complex and detailed process. Under the current system CIOs can only be formed from existing unincorporated charities or as completely new entities.

The consultation, therefore, proposes draft regulation required to allow existing charities and CICs to become CIOs.

The consultation will last 10 weeks from 1 April 2016 to 10 June 2016.

Is a CIO model right for your charity?

The CIO model is not suitable for all charitable organisations and, in many cases, there are a number of factors that should be considered before deciding whether becoming a CIO is right for your charity. Two of the key considerations for your charity will be:

- Does the charity need to enter into contracts (including employing people) in its own right, and/or;
- Is there a good reason to want to limit or remove trustees' personal financial risk.

If you are thinking about setting up a new charity as a CIO (or converting to a CIO following the consultation process), then we recommend you seek professional advice. The type of structure you choose affects how your charity will operate and it is important to get this right. For more information and guidance on the Charitable Incorporated Organisation structure please do get in touch.

Brexit: implications for the charity sector

Now Brexit is confirmed, many charities and non-for-profit organisations may be thinking about how the UK's exit from the European Union may impact them. The impacts for the charity sector on the back of Brexit will of course be wide ranging, depending on how individual organisations raise their money. As for many UK businesses, with so many questions remaining unanswered, it is difficult to predict what may happen over the coming months and years. Most charities, however, will be rightly concerned about any negative impacts to the UK economy that Brexit will bring and how that will in turn impact the charity sector. This article looks at how charities could face a triple setback, with potential falls in donations, cuts in government funding and the loss of EU funding. On the flip side, we also look at how an exit from the European Union could bring about some positive changes for charities.

Fundraising

As well as yearly National Minimum Wage increases, the introduction of the new National Living Wage, the ongoing onset of auto enrolment and the forthcoming apprenticeship levy have led to employee wage growth being largely stagnated. The most recent statistics show that household disposable income has fallen by 0.6% in recent years. Household disposable income is strongly linked to donations so this is a growing concern. Charities themselves are also facing increasing input costs, partially due to the significant rises in employment costs and wage bills noted above. Brexit therefore brings potentially huge financial implications for many charitable organisations. In the short term, as many individuals consider when and how they may be affected by the UK's exit from the European Union, charities could see fewer donations. A strong and stable economy is essential for both individuals and businesses feeling able to donate or gift to charity. Those charities that rely heavily on public support through cash appeals and discretionary donations will be hit the hardest, and may have to look to additional income streams. In the long term, much will depend on the terms the UK is able to negotiate post-exit.

EU and government funding

A large number of UK charities and not-for-profit organisations have received substantial EU funding over the last few years. The most recent figures show that the UK charity sector received over £200m from the EU in 2014. 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 this given the uncertainty over public finances. Instead, there are major concerns that charities could face further funding cuts from local councils on the back of the Brexit vote. The Chancellor, George Osborne, had said (prior to the result) that the government may need to cut public spending and increase taxes in an emergency Budget if the UK voted to leave the European Union. Whether this comes to pass remains to be seen – the government could of course increase charity sector funding. Charities will be cautious about the prospects of an emergency Budget as no significant funding commitments have been given to the charity sector in recent months, even when the 2015 Autumn Statement and the 2016 Budget both presented opportunities for the government to pledge its support.

The potential positives…

Brexit has created an air of uncertainty and no one really knows what's coming next or what it could all mean in the long term. There are still many unanswered questions about Brexit but, on a more positive note, an exit from the European Union could lead to a reduction in legislative burden for the charity sector. The charity sector is affected by a range of EU legislation which, in theory, would no longer apply when the UK leaves the EU. A reduction in legislative burden would be a benefit to the sector, giving organisations more time and resources to support their beneficiaries. Additionally, there could be some positive tax implications for the charities. The EU has certainly had a significant influence on the UK tax system, perhaps most notably with regard to VAT. Following Brexit, the UK will be free to decide which goods or services are eligible for reduced rates or exemptions. Much of this, however, will depend on the terms that the government is able to negotiate post-exit.

Action points for charities

Trustees have overall responsibility for how a charity is run, including how its finances are managed, and the key action point for many trustees will be to review current fundraising strategies and income streams. Trustees therefore need to make sure that they understand what funding is in place to enable the charity to meets its objectives in the short, medium and long term. They also need to make the arrangements to enable a 'plan b' to be put in place if funding streams do dry up, be that individual donations or government funding. If your charity currently receives EU funding, then you need to start planning now for how you will replace that revenue.

New Gift Aid declaration wording for donors

The Gift Aid scheme is now 25 years old and is worth a great deal to the charity sector. In its first year charities benefited from £10 million of tax savings but, with substantial increases, the savings were worth nearly £1.2 billion in 2014/15.

However, HMRC is concerned it might be paying Gift Aid to charities where a donor has not paid tax and, as a result, has changed the Gift Aid declaration wording that charities should use. This change to Gift Aid declaration wording came into force on 6 April 2016, but this article is a worthwhile reminder for charities and Gift Aid donors about the new rules.

Changes to the Gift Aid declaration wording

In April 2016, the new Gift Aid declaration rules came into force. The declaration is the means by which the taxpayer agrees that the donation comes within the scheme and allows the tax reliefs to flow through to the charity and the taxpayer.

The length of the HMRC model Gift Aid declaration wording is something that charities have complained about, stating it was too long and confusing for donors. As part of these changes the wording has been simplified and shortened.

However, in doing so, the new Gift Aid declaration rules clarified that if an individual has not paid sufficient tax to cover the tax reclaimable by the charity on the donation, the individual is responsible for paying the difference to HMRC.

What charities need to do

The new Gift Aid declaration rules should have been in use from the 6 April 2016.

However, if an individual has signed an old style declaration form which covers multiple donations, there is no need for that individual to make a new declaration. Additionally, if a charity holds stocks of printed materials that were ordered and printed before 21 October 2015, that stock can continue to be used. A declaration by a donor can alternatively be made verbally or online (e.g. via a website). All charities that make Gift Aid claims should update the wording and layout of all printed, web, text or other declarations.

Whichever format is used; charities need to ensure the updated format is used.

What donors need to do

Some donors may need to revoke their Gift Aid declarations.

Individuals who expect to pay little or no tax in 2016/17 need to be aware of the dangers of signing new declarations as well as the effects of having signed declaration forms which cover multiple donations. The standard wording on many declarations state 'I want to Gift Aid my donation of £_____ and any donations *I make in the future or have made in the past 4 years'*.

Note the italicised words. Due to various changes in the personal tax regime in recent years – in particular the increases in the personal allowance and the introduction of a £1,000 savings allowance in 2016/17, there are many more individuals who will not be paying income tax in 2016/17. So, for example, if a non-taxpaying individual makes £80 of donations to a charity this tax year, the charity will claim £20 and the individual has a £20 liability to HMRC.

Such individuals need to get in touch with the charities to cancel the Gift Aid declarations. Cancellation will not affect Gift Aid donations already made but any further donations will not qualify. There are also many higher or additional rate taxpayers who have signed declarations but have not claimed the difference between the rate they pay and basic rate on their donations. It is quite straightforward to do this, either through a self assessment tax return or by asking HMRC to amend their tax code.

For more information and guidance on the changes to Gift Aid please do get in touch.

The apprenticeship levy for large charities

In April 2017 the way the government funds apprenticeships in England is changing, with the introduction of the new apprenticeship levy. The government first announced the new apprenticeship levy in the 2015 Autumn Statement, but has since provided details on how the levy will work. This is a new law which includes charities and is an extremely important issue for large charities in the UK.

How will the apprenticeship levy work?

Starting 1 April 2017, the apprenticeship levy will be set at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against the levy, so only employers with a wage bill in excess of £3m will be affected. All employers operating in the UK with a wage bill of over £3m will therefore need to pay the new 0.5% levy, regardless of whether or not apprentices are employed. It is expected that 2% of UK companies will have to pay the levy.

What is the levy allowance?

As mentioned above, all employers will receive a £15,000 apprenticeship levy allowance. This allowance will operate on a monthly basis (£1,250 a month) and will accumulate throughout the year. Your allowance can also be carried forward if it is not fully used in one month so, for example, if your levy charge in month A is £800 you will not pay the levy and your allowance in month B will be £1,700. If your levy charge in month C is £800 you will again not pay the levy and your allowance in month C will be £2,150, and so on.

What about connected companies and groups?

Based on the additional details the government has now published, there appear to be wider consequences for connected companies and groups than initially expected. The government has confirmed that: "where a group of employers are connected they will only be able to use one £15,000 allowance" to offset against the levy. The group can elect which of the connected companies receives the £15,000 allowance. This is similar to the employment allowance connected persons' rule.

The government has also announced that it intends to introduce an amendment to the Finance Bill 2016 to the £15,000 levy allowance for connected companies. The amendment will mean that if a company is part of a group of connected employers, the group must decide what proportion of the levy allowance each employer in the group will be entitled to. This decision to split the allowance must be taken at the beginning of the tax year and will be fixed for that tax year.

It was initially drafted that the allowance could not be split between connected companies, meaning that many smaller groups would have had to pay the 0.5% levy. This amendment is therefore a positive announcement for smaller groups. Larger groups of connected companies, however, will still likely be caught by the apprenticeship levy….even those connected companies that have paybills below £3m when the group total paybill exceeds £3m.

How we can help

As you can see, the new apprenticeship levy brings some detailed and complex rulings, particularly for connected companies and could have wider consequences than originally thought. Whilst the apprenticeship levy will not start until 2017 and the draft legislation is subject to change (the government's guidance says further details on the apprenticeship levy will be released in June, October and December this year) we recommend that all organisations begin to examine if and how the new rules will affect them now. The team at Hawsons can guide you as you consider the impact that the new apprenticeship levy may have on your business. Our experienced employment tax specialists and an in-house payroll team can assist your business with preparing for the new levy, including preparing your payroll system, dealing with associated payroll administration, financial modelling and advising you on way of potentially mitigating the impact of the new costs. For more information, please do get in touch with your local office specialist.

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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Find out more about how Hawsons can help your charity.

Please call your local office or visit:

www.hawsons.co.uk/charities

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