Charity Insight

AUTUMN 2017 HAWSONS CHARTERED ACCOUNTANTS

In this issue:

Introduction

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Welcome to our Autumn 2017 charity newsletter.

As the days become shorter and the evenings draw in, we are left in little doubt that winter is just around the corner.

More significantly is that Christmas is rapidly approaching and we will soon be saying farewell to 2017.

I think it is fair to say that it has been an eventful year. We had a new president inaugurated across the North Atlantic along with a snap general election resulting in a loss of the Conservative majority. On top of all this, the Brexit negotiations continue to ebb and flow in the background. Finally, and perhaps most significantly in the short term, we have just seen the first rise in interest rates in over a decade.

You may have noticed a change in presentation and format of this newsletter which we hope will resonate with our readers. We hope you enjoy our final newsletter of 2017, and as always, please get in touch if you would like any further information.

Simon

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 sectors. 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

Could a Merger Save Your Charity?

Despite evidence that mergers can have a wide range of benefits in the not-for-profit sector, it seems to be an option that charities are shying away from.

There are 167,000 registered charities in England and Wales – and this figure doesn't include charities with a turnover of less that £5,000, as they don't need to register. There has been a stark reduction in charity funding over the past 5 years. This has ultimately resulted in multiple charities working towards the same cause but competing for the same pot of money.

In 2015-2016, there were 54 mergers from a population of 160,000. That represents 0.07% of registered charities, and even as funding gets tighter, this figure is down on the previous year. To compound this, last year there was a net increase in the number of charities being registered – perhaps it is time for organisations to look to work with, and enhance, the work of existing charities. This would potentially be more valuable to beneficiaries than a new charity with similar charitable objectives starting from scratch.

Additionally, there are multiple positives to charity mergers. Firstly, they can increase the efficiency of a charitable organisation. In the case of two, very similar charities, they often fund the same research projects, and in rare occasions, have trustees in common. Merging can streamline not-for-profits, you halve the number of offices and databases required, but double the resources and amount of work you can fund. You can also help pool collective trustee knowledge.

Merging can also aid fundraising. New forms of fundraising can be considered, because it's much easier to forge new funding relationships when a charity is not duplicating the work of other organisations. Potential donors are often more willing to support one charity and one cause wholly, instead of splitting their donations between two different organisations that are working towards a similar goal.

GIVEN THE POSITIVES OF MERGING, WHY DO VERY FEW NOT-FOR-PROFITS CHOOSE THIS AS AN OPTION?

To start, mergers tend to be more productive and have more positive outcomes when they are conducted from a position of financial strength, after a clear strategy has been planned out. However, it tends to be an option that is ignored up until the final moments of financial difficulty. A merger prearranged well before any financial trouble arises puts both parties in a far more robust position when considering problems such as partnership and succession.

Of course, as with any massive change to infrastructure, there will probably be people who lose their jobs, or will at least have to alter their way of working.

However, as charities, it is important that not only internal infrastructure is secure, but also that beneficiaries are put first and therefore that money is spent in as efficient a way as possible.

Another cause of hesitancy when considering a merger is that they can be, financially speaking, agonisingly difficult to pull off. Pension liabilities and the cost of merging are two red flags that immediately spring to mind, especially for smaller charities. The cost of merging is fairly fixed, regardless of the size of the charity. Smaller charities can find this unaffordable, and can become lost in mergers with much larger organisations.

In all cases, but most notably in those of small charities, it is advisable to seek external advice when considering the future of your charity – and well before any issues begin to rear their heads. In order to provide the best possible services for beneficiaries, charities should work from the inside out.

Simon Bladen, Hawsons Charity expert commented: "I think it is fair to say that mergers can be something of a taboo among charities.

However in many cases, where they are managed and carried out diligently, they can be of great benefit to the public, and can reduce the amount of duplication and unnecessary competition within the sector."

Join us on Social Media & have your say

Trustees...Be Warned!

The Charity Commission used newly granted powers for the first time in mid-August to issue an official warning to the Trustees of a national charity.

The matters picked up on by the Commission in their warning to the National Hereditary Breast Cancer Helpline highlight a number of areas that can get overlooked by charities.

They should make sure that their financial resources are properly controlled, and that there is clear collective accountability exercised by Trustees in their decision-making process.

The Charity Commission did issue an action plan to the Trustees following an earlier review, but found that they had fallen short in complying with all of its terms, resulting in the official warning.

The areas highlighted in the warning were:

- making unauthorised payments to a connected person;

- entering into an informal loan agreement with a connected person;

- improperly delegating the administration and management of the charity;

- failing to keep proper minutes and other records of decision making;

- failing to properly implement and manage financial controls.

The Charity Commission identified that the charity had made unauthorised payments to a former chair of trustees.

This was seen to be both a breach of the charity's governing document and in contravention of the legal duty that a trustee must not receive any benefit from the charity unless it is properly authorised and clearly in the charity's interests.

From a financial control viewpoint, the trustee in receipt of the payment was believed to be the only authorised signatory on the charity's bank account.

It was reported that the charity had received interest free loans from a trustee, with no formal loan agreement having been put in place or a schedule of how that loan was going to be repaid.

The former chair of trustees did resign from the board, but continued to run the charity's operations and receive payments.

A lack of regular, minuted Trustee meetings was also observed by the Charity Commission, and whilst following the initial review, meetings had been held, there was a lack of evidence that the Trustees were making collective decisions about the running of the charity.

The investigation also highlighted that the charity's financial model seen as was unsustainable with a number of its shops operating at a loss.

What can be learned?

1. The Charity Commission takes matters of financial control and probity seriously. In addition, they are also concerned that charities should be able to demonstrate good and robust governance procedures. All payments should be appropriately authorised and be within the powers of the charity to make.

2. Trustees need to ensure that financial models are sustainable and that these can be monitored regularly through the charity's accounting records. Where a charity has trading operations, they need to generate income and not be detracting from the charity's funds.

3. Trustees also need to beware of the dominant individual and ensure that key decisions are taken collectively and not by one individual. Evidence should exist to demonstrate this. Trustee meetings need to be regular, effective, and minuted.

4. The Charity Commission first became involved with the charity as it was randomly selected from a number of charities whose accounts indicated that they may be in financial difficulty. Regular dialogue between a charity and its auditors/accountants can help in avoiding these situations before they run out of control, and before the need for regulatory involvement.

Paul Wormald, Partner at Hawsons Doncaster office, commented:

"This unprecedented official warning from the Commission to the Trustees of the Charity concerned shows that the regulator is prepared to make use of its new powers and take trustees to task where they believe legislation and guidelines have not been complied with.

The need for trustees to demonstrate that they are exercising effective stewardship over charity funds is vital to maintain and improve the public's trust in charities.

Matters such as having proper financial controls in place and having access to good quality financial information are imperative to demonstrate this, as are having regular Trustees' meetings where the actions of a charity's executive management can be brought to account."

How healthy is your charity? Take our charity health check, or book a free consultation.

HMRC updates Gift Aid small donations scheme (GASDS)

HMRC has revised guidelines on the Gift Aid small donations scheme (GASDS). These revisions now enable a charity, or a Community Amateur Sports Club (CASC), to claim 25% on cash donations of £20 or less, or contactless card donations of £20 or less, both collected on or after the 6th of April 2017.

What makes this different to the main Gift Aid scheme is you don't need a Gift Aid declaration to claim it. From 6th April 2016, you can claim up to £2,000 in a tax year or £1,250 for earlier years.

WHO CAN CLAIM?

Your charity, or CASC, must have claimed Gift Aid in the same tax year that you want to claim GASDS, without getting a penalty in the last 2 years, and in at least 2 of the last 4 years (without a 2-year gap between claims, but only if you're claiming on donations made before the 6th of April 2017).

WHAT CAN BE CLAIMED?

However, it's worth keeping in mind that your GASDS claim can't be more than 10 times your gift aid claim. So, if you've received £100 of Gift Aid donations in a tax year, you can claim on £1,000 worth of donations through GASDS.

But, if your charity has a community building, such as a village or town hall, or a religious building, you might be able to claim more on donations that were collected either in your community building, or in the same council area as your community building, if you collected the donations on or after the 6th of April 2017.

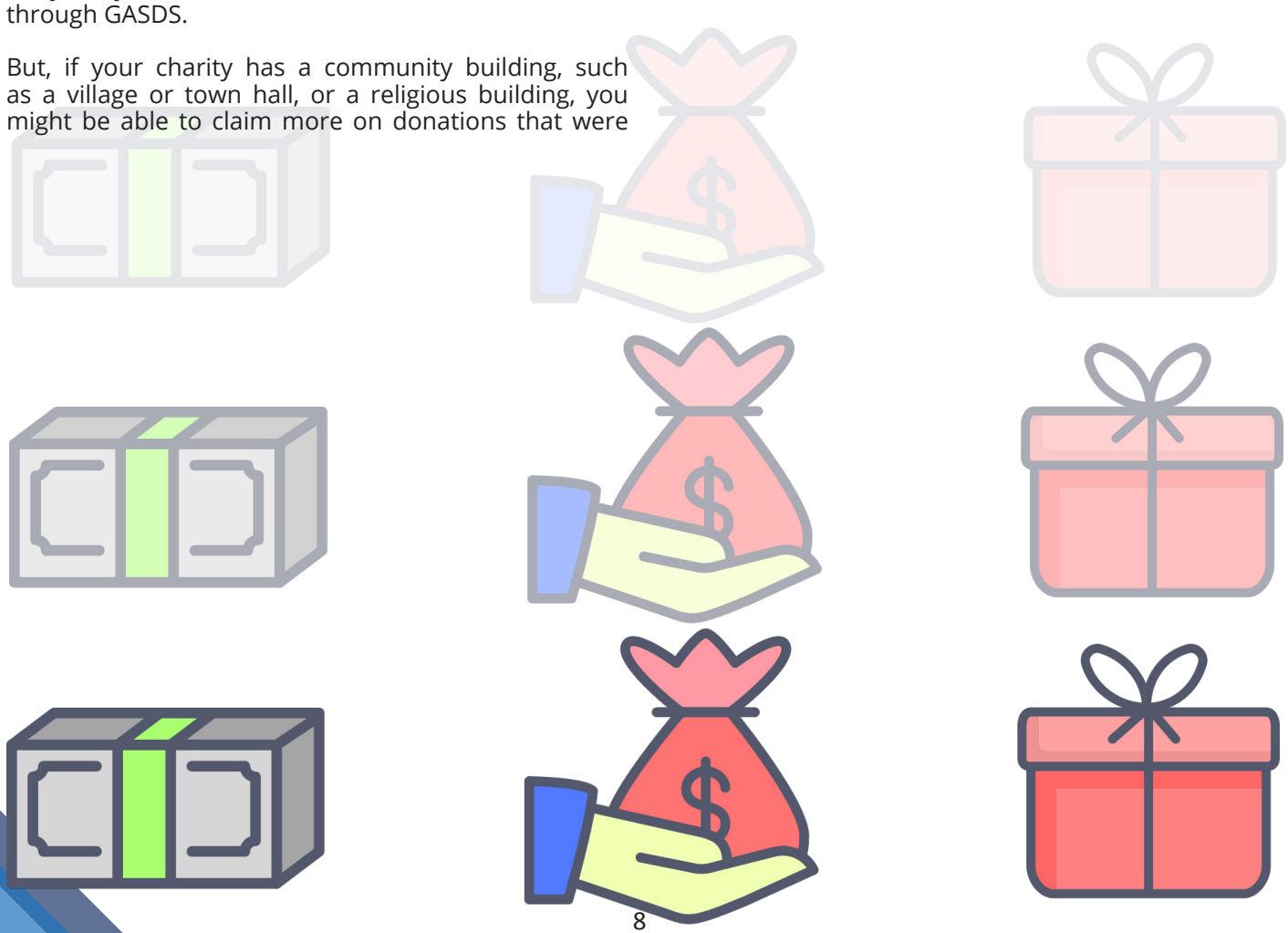
It's worth remembering that for somewhere to count as your community building, you need to have hosted at least 6 charity events there, and the events must have all been attended at least 10 people.

Paul Wormald, a partner at Hawsons Chartered Accountants Doncaster office, who specialises in the Charity sector said:

"Any changes that enable charities to reclaim additional monies from the government in a time when finances are generally harder to come by have got to be welcomed.

The ability for charities to be able to reclaim up to £2,000 each year on small donations without the need to deal with time consuming paperwork should be welcomed by hard pressed charities, and hopefully this can be extended further in the future."

If your charity needs advice regarding GASDS, or any other matters, you can book a free consultation on our website.



How can VAT be Charitable?

Charities have always had challenges with Value Added Tax. There are, however, concessions Handsworth, Sheffield S13 9BZ available to charities which mean that some goods/services are not subjected to VAT, or are subjected to the lower rate of 5%.

1. RENT

If a landlord charges VAT at 20% (due to the land being Opted to Tax) and the charity uses the building for a relevant charitable purpose e.g. a shop that raises funds by selling donated goods, the charity can certify its use of the building, in writing, and the landlord can exempt the supply. If the building is used for both charitable purposes and non-business purposes then the rent needs to be apportioned.

2. ADVERTISING

The supply of advertising to a charity is zero rated for VAT. The zero rating covers advertisements on any subject, including staff recruitment, appeals for cash donations and volunteers. However, only advertising supplies to the charity can be zero rated, not the charity's other trading companies.

3. FUEL AND POWER

If a charity uses fuel and power for non-business activities (usually activities with no charge), this can be supplied at the lower rate of VAT at 5%. If this is over 60% of the total fuel and power usage, then all of the supply can be charged at 5%.

WHAT DOES THIS MEAN TO OUR CHARITY CLIENTS?

Any overcharges of VAT from suppliers can be corrected going back 4 years, as long as a credit note is received from the supplier.

DO CHARITIES PAY VAT ON FUNDRAISING INCOME?

Not necessarily. As long as the event is advertised as a fundraiser and there are 15 or less events at the same location in a financial year then the income can be treated as exempt from VAT. This exemption applies to charities and their wholly owned trading subsidiaries.

Hawsons New VAT Service

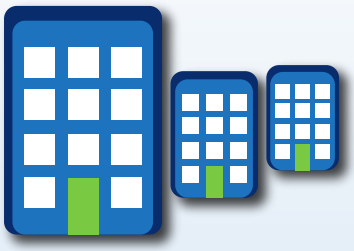
After 20 years of working in the VAT office, Tony has gained a wealth of knowledge of VAT processes, including VAT visits to customers, client education, VAT repayments and error corrections. Tony provides practical VAT advice to a wide range of clients in numerous business sectors and advises on matters 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.

Did you know...?

44 million people donate on a regular basis, giving an average of £16pm

Charities add more value (GVA) to the economy than arts or agriculture

£41.7bn is spent a year helping millions in the UK, and globally



The Charity sector is around the same size as Tescos and is larger than the automotive industry

Source: National Philanthropic Trust

Get in touch...

Your Local Specialists....

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Sign up to continue receiving updates from Hawsons...

Why do I need to sign up...again?

Due to the new General Data Protection Act (GDPR), that comes into force on the 25 of May 2018, we need confirmation that you are still happy to receive our updates, newsletters and events.

What do I need to do?

Just fill in your details to confirm that you still want to receive our updates, events and newsletters. It only takes a minute, and will mean you stay in touch with us: **http://www.hawsons.co.uk/newsletter/**

Anything else?

Not at all! Although....you can follow us on social media to stay up to date with everything that we're up to here at Hawsons.

HLB International