Charity Insight

Autumn 2018

Hawsons Chartered Accountants

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Introduction

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Simon

Welcome to our Charity newsletter

Welcome to our final newsletter of 2018. The long nights are drawing in and Christmas is right around the corner. Before we know it we will be well and truly into the Christmas party season indulging in the usual excesses it inevitably brings.

Overall it appears as though the UK economy is holding up fairly well with a steady expansion throughout the year. However Brexit uncertainty seems rife and there are hints of tougher times on the horizon. Not a week passes by that there aren't new forecasts or estimates predicting wildly different outcomes depending on the type of deal struck with the EU. Where it will all end up, only time will tell so in the meantime, to all our clients and contacts, have an enjoyable festive season and a prosperous New Year!

We hope you enjoy our final newsletter of 2018 and, as always, please do get in touch if you would like any further information.

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

Five objectives to help charities meet a higher standard of conduct.

The Charity Commission has revealed its new five-year plan that highlights a shift in its focus to operate more collaboratively but to also demand higher standards of behaviour from the charity sector.

Baroness Stowell, said: *"I truly believe that unless all of us involved in charity take steps now to promote what is special about charity, and to meet legitimate public expectations of charity, then we risk being complicit in its decline*".

She added: *"All of us recognise our collective responsibility as custodians of what it means to be a charity in the eyes of the public. We must fulfil our responsibility for making the changes needed".*

Research shows that the public wants to see charities being held, and holding themselves, to the highest standard of charitable behaviour.

1) Holding charities to account

Charities need to do more than just comply with the minimum legal standard of behaviour. The commission stated that they will use their position to strongly encourage charities to act in the way that the public expects of them.

2) Dealing with wrongdoings and harm

The way in which the charity commission plan to deal with wrongdoings is to make greater use of technology in order to speed up the process of investigation. They also pledge to make sure no complaint is ignored even where no action is taken, complaints will be incorporated into its data trend analysis.

3) Informing public choice

The commission has stated that it intends on making the data it collects on charities more open to viewing. It currently publishes this data through the annual return and its online register but accepts that these publications are not easy to access.

4) Giving charities the understanding and tools they need to succeed

The commission has agreed to provide more targeted guidance to charities and to focus this guidance on areas that have a higher risk. The commission understands that the guidance given currently is aimed at all charities together and needs to become more personal to suit the needs of the individual charity.

5) Keeping charity relevant for today's world

The commission have pledged to lead discussions on how charities can succeed in a changing world. This means working with the government on charity matters based on data and experience to help support a stronger charity sector.

In order to fulfil this 5-step strategy, the commission states that it will need to work in partnership with others. It also said that this strategy will require a change in the way that they work and charity commissions employees should think differently about the way in which they carry out their rule making to ensure the commission is fulfilling its purpose.

Charity investment returns have halved in the past year- survey reveals.

Newton Investment Management's fifth annual Charity Investment survey showed that charity investment returns have halved in the past year, however, withdrawal rates have risen to 'unsustainable' highs.

The survey was completed by 97 different charities with a combined asset value of £11.7 billion. It sought the views of the charity sector on their expectations for asset class returns, ethical considerations within investments, board composition and their views on how political events will impact portfolios.

4.2%

The survey has shown that charities have an average total return of 4.2% over the 12 month period to 31 March 2018, significantly lower than the 10.9% obtained during the preceding 12 month period.

50%

50% of charities surveyed claim to expect returns of 6% or less in the future (compared with 38% in 2017).

26%

Only 26% of charities believe that Brexit will not affect their portfolios. Also, over 80% of those who do think it will have an impact believe it will negatively affect both their capital and their income.

4%

In the 2018 survey, there has been an increase in the number of charities taking a withdrawal of 5% or more to spend on their charitable activities. This has therefore increased the average withdrawal rate from 3% in 2017 to 4% in 2018. With the sustainable withdrawal rate placed at 3.4%, it appears that many charities have dipped into their investment assets to help fund their ongoing activities.

71%

71 % of charities (compared with 62% in 2017) stated that ESG (environmental, social and governance) factors were important to them when considering the management of their investment portfolio. The majority of charities also believe that engaging with companies on ESG issues has some positive impact on company behaviours. However surprisingly, 59% of charities felt that ESG engagement was likely to have a negative effect on investment performance.

Jeremy Wells, senior client director of charities and institution at Newton Investment Management, said: "*Over the last five years we have noted a steady rise in charities' desire to see their ethical criteria applied to investments held in pooled funds as well as those held directly. The charities surveyed clearly showed that it is important to take ESG factors into account when investing, and to engage to change company behaviours.*"

He continued: *"When asked what they felt was the best approach to dealing with companies that score 'badly' on ESG criteria, by far the most prevalent response was to engage with or pressure a company to change its behaviour, a response that was almost three times more popular than to exclude the company from an investment portfolio."*

The full survey results can be found at:

https://www.newtonim.co.uk/uk-charities/thought-leadership/webcasts/charity-investment-survey/

The Future of Audit?

It has been a difficult few months for the auditing industry – and in particular for the national firms that audit large listed companies and other 'Public Interest Entities'. After the high profile collapses of BHS and Carillion, amongst others – where the question of blame was put at the door of the auditors by the press – last week parliament's Business, Energy and Industrial Strategy (BEIS) committee launched an inquiry into what it called the 'broken audit market'.

The BEIS committee's inquiry is the fourth ongoing review into the audit sector or its stakeholders along with the Competition and Market Authority's review of the audit market, the independent review of the FRC (the auditors' regulator) led by Sir John Kingman and Project Flora, a government-backed review into the future of the audit industry.

The outcome of these reviews is not yet known – but one thing that we can say with certainty is that the future audit market will look different to the one that exists today.

So, what does this all mean for firms like Hawsons? The partners here see the potential future disruption as an opportunity.

Medium sized firms like ours are agile and have the ability to adapt quickly to the changing world around us. Our partners have a wider skill set than that typically found in 'Big Four' partners, who tend to specialise in a service stream and have more time to spend with our clients, meaning that we can develop deeper working relationships. David Grunberg, founding partner of Grunberg & Co, said in his recent article in Accountancy magazine 'A commonly heard remark from clients who leave the Big Four is that they felt a stronger bond being created with the partner and the team they joined at the new firm'.

This wider skillset and closer relationships mean that we really understand our clients' expectations and can adapt and innovate to meet those expectations. Innovation has been important for us – evidenced by our partnerships with Xero and Quickbooks for online accounting and our 'Making Tax Digital' workshops – and will continue to be as the market and clients' expectations change. Innovation is also important in the world of audit – making sure that we combine tried and tested methods with new technology to deliver efficient yet robust and effective audits.

Clients also expect us to be able to offer international expertise. Through our membership of HLB – the 12th largest global network of accounting firms – we have access to 25,000 professionals in over 150 countries. In any country that our clients want to do business in, we can provide guidance and expertise through the network. We currently do a great deal of work with the HLB network, so the service is seamless and the service level is similar to that offered by the Big Four networks.

The future of the audit market is unknown, but with our agility, close client relationships, ability to innovate and international network, Hawsons is well placed to be able to take advantage of any opportunities that arise.

Autumn Budget: The Impact On Charities

Chancellor Phillip Hammond delivered his 2018 Autumn Budget on the 29th October 2018. There were several announcements that relate to the charity sector, especially with regard to reducing the admin burden that charities are currently facing.

Firstly, there has been an increase in the upper limit of the small trading exemption for charities, allowing charities to engage in some small-scale trading without incurring tax on the profits. This will increase the thresholds from £5,000 to £8,000 where turnover is less than £20,000 and from £50,000 to £80,000 where the turnover is more than £200,000. These limits only apply to trading that does not relate to the charities' main purposes. This will help some charities to continue trading as a charity without the need to set up a separate trading subsidiary; reducing admin and running costs. The increase in these limits are to ensure that charities are able to maintain effective delivery of their charitable aims.

There has also been an increase in the upper limit of the Gift Aid small donations scheme from £20 to £30 from April 2019. Charities can now accept smaller donations without the need to obtain a Gift Aid declaration. This increase has been made in order to be in line with the maximum amount that can be paid on a contactless card. The result of this increase will help reduce the administrative impact of small collections by relaxing the requirement to issue letters annually to donors. Charity shops that use Retail Gift Aid will now be able to send letters to donors every three years rather than every year when their donations have raised less than £20 a year.

There was also an announcement of specific funding for charities. Phillip Hammond announced that there will be a £10 million donation to support army veterans who require mental health treatment. This donation will be made to acknowledge the 100-year anniversary of the Armistice. Also, further funding of £15 million will be given to charities in order to aid in the distribution of surplus foods.

Simon Bladen, Partner at Hawsons, had this to say:

"Overall I don't think there was a huge amount in the Budget for charities to get excited about. The uncertainty caused by Brexit still seems to be holding back some measures that many charities so desperately need. The fact remains that at present charities are doing fantastic work bridging the gaps caused by national cuts in services."

For a full summary of the 2018 Autumn Budget, visit
https://www.hawsons.co.uk/autumn-budget-2018/

Lords call for a delay to Making Tax Digital for VAT until 2020

The House of Lords Economic Affairs Committee have issued a scathing report on HMRC's Making Tax Digital ("MTD") for VAT program. The committee have voiced disappointment that on many issues raised by the committee in their 2017 report HMRC had taken "no meaningful action". The MTD for VAT program is due to be introduced in April 2019.

The 2017 report had suggested that the tax gap claimed by HMRC was "guesswork", the proposed timetable was "too tight" and that HMRC had underestimated the difficulties and costs faced by the "considerable number of people with limited digital skills or inadequate broadband access".

The tax gap

The committee found issue with the government's estimates that MTD will result in an increase in tax revenue of just over £1bn by 2020-23. They believe the benefits are overstated and highlighted that "reducing errors could reduce tax revenue as well as increase it".

The costs for taxpayers

Businesses using older software "face the cost of upgrading purely to meet MTD requirements". The committee criticised HMRC for believing that businesses would realise administrative savings that would outweigh any costs incurred in the transition to MTD. HMRC believe the average transition cost will be £109. However, this figure has been challenged by witnesses who appeared before the committee who suggested the average cost could be anywhere between £300 and £2,000.

The timetable

The committee said that HMRC "is alone in its confidence that all one million businesses will be ready for MTD for VAT in April 2019". They believe HMRC have "underestimated the time for research, planning, training and system changes that some businesses will need".

The committee continue to allege that HMRC are more motivated by the possibility of increased revenue for the government instead of the need for greater efficiency. The report suggests that the government should defer the introduction of mandatory MTD by a minimum of one year but encourage businesses to join voluntarily. They believe that HMRC should wait until at least April 2022 before they roll out MTD to any other taxes.

Communicating with businesses

The committee found that HMRC had communicated primarily with software providers, agent representative bodies and agents. They accuse HMRC of neglecting to inform taxpayers "until they were invited to join the pilot". Last month HMRC informed the committee that it was 'significantly increasing its communications activity" but the committee felt that with just five months until the introduction it was "too late to begin an effective communications campaign".

The pilot

Although HMRC extended their pilot to 600,000 businesses in October 2018, the committee said "there is too little time before 1 April 2019 to make up lost ground and respond to implementation issues identified by taxpayers". There will be "no pause to allow the lessons learned in the pilot to be evaluated, particularly from the perspective of taxpayer readiness, and changes made before it is mandatory for most taxpayers". They highlighted that the reliability and performance of "HMRC's systems are still unproven at scale".

Deferred for some

The committee criticised the deferral extended by HMRC on the grounds that it was given mainly to other public sector bodies and a selection of small organisations with the most complicated tax affairs rather than "to the smaller businesses for whom implementation will be most burdensome and who have the fewest resources to devote to implementation".

Reaction

An HMRC spokesperson responded to this report, saying: "We are disappointed that the committee's report does not reflect HMRC's wide and significant engagement on MTD over the last three years, nor the changes made as a result for small businesses."

Craig Walker, Senior Tax Manager at Hawsons commented "Despite this scathing report, HMRC have given no indication that the introduction of MTD for VAT will be delayed and therefore businesses should ensure they are ready for the new regime".

The full report can be read here:

https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/229/229.pdf

How can Hawsons help?

We can help you to review your current VAT record keeping arrangements and identify the changes that will be necessary to comply with the requirements of MTD.
If you wish to discuss the implications of MTD for you and your business, please get in touch with your usual Hawsons contact.

You are welcome to attend one of our FREE workshops that are running every month by signing up here: https://www.hawsons.co.uk/making-tax-digital-workshops/

Your Local Specialists....

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

Due to the new General Data Protection Act (GDPR), that came 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 even more up to date with everything that we're up to here at Hawsons.

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