Charity Insight

March 2019

Hawsons Chartered Accountants

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Introduction

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Welcome to our Charity Newsletter

Welcome to our first charity newsletter of 2019. As I write this we are leaving the cold winter months behind and attention turns toward spring followed eagerly by the summer holidays!

The economic thought process at the moment seems to be one of 'carry on regardless'. But it's impossible not to pay attention to the large shadow cast by the never ending Brexit 'negotiations' . We are now only weeks away from the UK's exit and still seem no clearer on what sort of exit deal the UK will get. No doubt it will all take shape at the eleventh hour!

We hope you enjoy our first newsletter of 2019 and as always, please do get in touch if you would like 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, everchanging 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

Tips for applying for a loan

It is essential when a charity applies for a loan that they are fully aware of the process and requirements needed for the loan to be accepted. As many charities rely on loans as a way to expand the services they provide, it is important to have a solid business plan to show to lenders so they can see how the loan will improve the charity's offering.

When formulating the business plan, it is important to include the following information:

- What the charity does
- What the charity wants to achieve with the loan
- The charity's intended social impact
- The management and governance structures
- The cash flow forecast.

Charities need to be sure to have a clear plan of how they will repay the loan including how the business plan will work with any unexpected occurrences. Sensitivity analysis can always be very helpful in this regard.

However, before starting the process of applying for a loan, it is helpful for charities to engage with lenders first. This is because they can gain a range of important information to ensure the loan is applied for in the correct manner. Lenders may be able to help the charity identify any problems with the loan application and how best to solve these problems in advance. This will help the charity to be prepared before proceeding with the application.

Once the loan agreement has been drawn up, it is vital that the charity thoroughly understand what it entails. This includes understanding the terms and conditions of the loan and having a clear plan of how they will adhere to these. Always be mindful of any covenants (financial and non-financial) that may be put in place.

One of the main issues that charities face when applying for a loan is expecting the process to be quick. It could take up to 6 months for lenders to get the relevant credit information and documents approved.

It is also important for charities not to withhold information from lenders as this could delay the process more. To make sure the charity secures the right lender and loan for their needs, it is vital that they are completely open with the details they share. Charities should never be scared of getting some legal and or financial advice before applying for a loan.

Charity sector ill prepared for a no-deal Brexit

A survey conducted by the Charity Finance Group (CFG) has highlighted that Charities are ill prepared for the possibility of there being a no-deal Brexit.

The UK is currently due to exit the European Union on 29 March 2019, however more than a third of respondents to the CFG survey said that they had not made any preparations for the eventuality of a no-deal Brexit.

The full results of the survey showed that:

- 38% had not made any preparations for the possibility of a no deal Brexit.
- 44% had only made limited preparations.
- Only 4% said they were fully prepared for a no-deal Brexit.

The CFG survey also touched on the fact that the charity sector are not fully aware of what a no-deal Brexit would mean for their charities. Only 8% of respondents claimed to be fully aware of the implications of the UK leaving the European Union without a deal. This result is almost certainly the reason why so many charities have yet to prepare for a no-deal Brexit.

When questioned as to what the charity sector's biggest concern surrounding a no-deal Brexit was, most respondents of the CFG survey claimed it to be a 'lack of certainty'.

Caron Bradshaw, chief executive of CFG, said: "It is not surprising, but is worrying, that charities are ill-prepared for a no-deal exit. The level of uncertainty has made organisational planning in this respect incredibly difficult. This level of unprecedented uncertainty, volatility and predicted economic disruption, coupled with the non-tariff considerations, from workers' rights to regulatory complexity, present too great a risk to the UK and thus to civil society. So, we call on all parties to prioritise the most vulnerable in our society and do everything within their power to prevent a no-deal Brexit."

Changes to Gift Aid

The limit for small donations will rise from £20 to £30 under the new Gift Aid and Small Donations Scheme (GASDS).

In the 2018 Autumn Budget, the government announced that they plan to increase the maximum cash donation or donations through contactless payments from £20 to £30. This then aligns the Gift Aid and Small Donation Scheme with the maximum limit for using contactless payments.

Current Law

From 6 April 2013, eligible charities were able to claim top ups on small cash payments they received with a value of £20 or less without needing to obtain a Gift Aid declaration.

Since 6 April 2016, the largest amount of small cash donation a charity could claim top-up payments for in a tax year under the Gift Aid and Small Donation Scheme rose from £5,000 to £8,000.

New law

The new law will come into effect from the 6 April 2019. It is intended to help reduce the administrative burden for charities and donors wanting to claim tax relief on small cash or contactless donations.

Robert Jenrick, exchequer secretary to the Treasury, said: *"Some 80 per cent of the organisations that currently participate in the scheme claim well below the £8,000 overall limit that we have set in the past, so we estimate that 20,000 organisations will benefit from greater top-up donations as a result of the draft order. The draft order's change to the donation limit will benefit the good causes to which the donations have been pledged. I commend it to the committee."*

Spring Statement: Impact on the Charity Sector

In this year's Spring Statement, Chancellor Phillip Hammond refrained from making any major tax and spending decisions. This came as a disappointment for many charities whom had hoped for additional funding.

However, areas that would be of interest for the charity sector included the announcement of a review into the operation of insurance premium tax and calls for evidence on the use of Social Investment Tax Relief (SITR). Improvements to the VAT partial exemption regime and the capital goods scheme were also discussed in the Spring Statement.

The statement included an update on the Transforming Cities Fund, the £60 million of investment in 10 cities across England originally announced at the 2017 Budget. There was also mention of the Borderlands Growth Deal where up to £260 million was promised for this innovative deal to strengthen the deep ties that bind these communities within the United Kingdom. On top of the £102 million announced recently for the Carlisle Southern Link Road from the Housing Infrastructure Fund, this means up to £362 million of UK government investment into the Borderlands area.

Richard Sagar, policy manager at Charity Finance Group (CFG), stated that the calls for evidence into the simplification of the VAT partial exemption regime and capital goods scheme were welcomed by the charity sector as many charities do find them too complex.

He said: "We have long called for charities to be exempt from insurance premium tax, so if the operational review allows this to occur, we fully support it. However, it was disappointing that the chancellor failed to divulge the overall spending envelope for the upcoming spending review, as significant cuts to local government have seen charities and their beneficiaries struggle.

Top 10 Errors at VAT Inspections

VAT inspections used to be a fairly regular occurrence for VAT registered business owners and were often viewed as a terrifying and potentially costly experience. Whilst the regularity of VAT inspections has decreased significantly over the past 5 to 10 years, due to a more targeted and risk based approach by HMRC, the experience remains one that most businesses dread. However, this shouldn't be the case provided the business has made every effort to be VAT compliant and has maintained its financial records in line with legislative requirements.

Having said this, even the most diligent business operator can make a mistake in their accounting records which might result in a VAT officer issuing an assessment for under paid or over claimed VAT following a routine VAT inspection. The most common errors which might result in an assessment are outlined here, though this list is not exhaustive!

1. VAT on fuel

Many businesses reclaim VAT on fuel purchased by directors or partners and employees of the business, but make the mistake of not restricting the VAT claimed to fuel used exclusively for business purposes. HMRC allow VAT to be claimed on fuel used by the business, but will expect to see detailed mileage records to support these claims or, where this is too onerous to maintain, expect the business to pay a corresponding scale charge as output tax, to account for the private use element of the fuel purchased.

2. VAT on Motor Cars

Similar to the treatment of fuel, HMRC will disallow VAT recovery on the purchase of a car for use in the business, unless it can be demonstrated that the car is used exclusively for business purposes e.g. a driving school car or a taxi. In some cases, a business may purchase a car as a pool car, for use by all employees. VAT can only be reclaimed where it can be demonstrated that the strict conditions around pool cars are met, primarily that the car remains at the business premises overnight and is not allocated to one individual.

Another common error is where 100% of the VAT charged on cars leased for business use is recovered as input tax. Only 50% of the VAT charged on cars leased for business use is recoverable; this is often stated on the supplier's invoice but may still be overlooked by business users.

3. Not charging VAT on non-standard supplies

Businesses are usually good at charging VAT correctly on their core business supplies. However, as soon as something slightly out of the ordinary, or less regular, occurs then these supplies can often be overlooked. In many cases businesses might believe VAT does not apply. Examples included inter-company management charges, supplies made to staff, barter transactions (where no money changes hands) and recharges of costs to third parties.

4. Receipt of reverse charge services

Today's business place is often worldwide, with UK businesses receiving supplies of services from suppliers based overseas. More often than not, invoices received from overseas businesses will not include a charge to UK VAT.

Subject to limited exceptions, this is correct and UK VAT should instead be accounted for on the value of those supplies by the UK business recipient of the services under the reverse charge procedure.

Many businesses make the mistake of thinking that because no VAT was charged on the supply, this should be treated as a zero rated purchase. However, the output tax that would be due, had the supply be received from a UK supplier, should be declared by the recipient on the same VAT return as the corresponding input tax would be claimed. For many businesses this accounting procedure will have no net impact on their VAT return, but for businesses that are partially exempt, correctly recording receipt of reverse charge services can result in an input tax restriction.

5. Recovering VAT on entertainment

HMRC have always looked closely at business entertainment to ensure that input tax is not claimed in relation to this expense. Many businesses do not appreciate that taking a client, or potential client, to lunch is considered business entertaining, with many arguing that it is simply a marketing opportunity. However, any form of entertainment remains blocked from input tax recovery and some business owners continue to be caught out.

6. Aged Creditors

Many businesses are familiar with the bad debt rules as they apply to output tax paid to HMRC i.e. where output tax has been accounted for on a supply made and no payment received from the customer after 6 months, the business can claim back this output tax from HMRC on the basis that the supply has become a bad debt. However, the majority fail to consider the flip side of this rule which requires the business to repay input tax to HMRC that has been recovered on invoices received from suppliers, but where payment to the supplier remains outstanding after 6 months.

7. Import VAT

Import VAT can be recovered by businesses subject to receipt of official documentation from HMRC to evidence the import, known as the C79 certificate, which is normally received approximately 3 weeks after the month end in which the goods were received in the UK. Many businesses make the mistake of reclaiming import VAT on receipt of invoices from shipping agents, which is only a VAT invoice for the purpose of the agents' own charges and not the import VAT.

8. Failing to account for VAT on deposits

Often businesses will take deposits from customers when accepting an order for goods or services, but fail to account for VAT on these payments until the balancing payment has been received. This is incorrect, as receipt of payment, in full or in part, creates a tax point for VAT purposes and VAT is due at the date payment is received, unless this is preceded by the issue of a tax invoice.

9. Reclaiming input tax without supporting invoices

In order to recover VAT incurred on expenses, a VAT registered business is required to retain evidence to support the expenditure in the form of a valid VAT invoice. Where no such evidence is retained, HMRC can refuse to refund the VAT claimed, or clawback VAT where it has already been claimed on a past VAT return. Where a business has mislaid a VAT invoice prior to a VAT inspection and cannot obtain a copy, in some instances HMRC may accept alternative evidence to support an input tax claim, such as bank statements showing the payments made to a supplier. However, HMRC prefer to see a VAT invoice and therefore businesses should ensure their record keeping processes are robust and complete.

10. VAT claimed on non-vatable items

Finally, once registered for VAT many businesses make the mistake of assuming that VAT is chargeable on everything and therefore assume that all business expenses include VAT. A common mistake is therefore recovery of VAT on air fares, train fares and taxis. Passenger transport is zero rated as are most taxi fares that will be incurred, though in some cases taxi fares will be subject to VAT, where invoices are received from a taxi firm.

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?	☐

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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.