

Charity Insight

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15th June 2022



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Simon Bladen Partner



Introduction

The UK economy continues to feel the effects of one global event after another resulting in sharply rising inflation and increasing economic uncertainty. The Covid-19 pandemic has in many ways taken a back seat to other pressing global events with the role of charities playing a vital role in society, perhaps now more than ever.

In this edition we look at the following areas:

- UK Charities Statement of Recommended Practice
- Proposed Rule Changes on Fundraising Announced
- Charity Commission Opens Online System for Annual Returns
- New VAT Penalties Coming from 1st January 2023

We hope you enjoy this edition of our charity newsletter. As ever, please contact us if you have any questions about the contents of the following articles.



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Charities Statement of Recommended Practice

A revised version of the Charities Statement of Recommended Practice (SORP) is set to be updated from 1 January 2024. This is less than two years away.

The charities SORP was first introduced in 2015 and updated in 2019 to clarify and reflect amendments and changes to FRS 102.

The development process

The Charities SORP development process was created to discuss recommendations in the governance review and was concluded in 2019. The review recommended that greater focus was needed on smaller charities and wider engagement was required with stakeholder groups when the Charities SORP was developed.

These recommendations were acted on in February 2020 as six stakeholder groups were created known as 'strands'. Since the strands were created, they have been liaising with UK charity regulators. Subsequently the SORP-making body known as the SMB and the Charities SORP Committee was formed.

The six strands are presented below:

- Trustees
- Smaller charities and independent examiners;
- Professional and technical (This includes qualified accountants who specialise in charities, mainly audit)
- Larger charities;

- Major funders, donors, government and public bodies;
- Academics, regulators and proxies for the public interest.

Once the six strands were formed the first order of business was to conduct an initial analysis of the changes to the Charities SORP. During this analysis by the strands seventeen topics were raised for deeper analysis and they invited the Charities SORP Committee to create proposals for change.

The topics chosen by the strands for in depth analysis include:

- A more tiered approach to concessions for charities of different sizes;
- Charity reserves;
- Accounting for donated goods and services;
- Grant accounting;
- Income recognition;
- Impact reporting;
- Sustainability reporting.

Continued overleaf



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Charities Statement of Recommended Practice (continued)

What now?

After in-depth analysis the Charities SORP committee will now begin work on drafting a consultation of the Charities SORP next edition throughout 2022. This consultation draft is planned to go to public consultation at the beginning of 2023.

The SMB's published their aims and principles for drafting the next edition of the Charities SORP (FRS 102) in January 2022. There were four main aims:

To address the needs of the main users of a charity's annual report and financial statements who do not have the power to require specific information from a charity.

To comply with Financial Reporting Council requirements that SORPs should be developed in line with current FRC standards and best practice.

To promote consistency across the charity sector by recommending a preferred treatment, approach or methodology.

To keep recommendations relevant to the socioeconomic context in which charities operate by

retaining the advice of an expert SORP Committee, convening a SORP engagement process and by holding consultation exercises on areas for changes to the SORP.

These four aims are designed in a way where the Charities SORP should meet the needs of people that prepare and use trustees' annual reports and financial statements.

This year the FRC is planning to publish an exposure draft of FRS 102 for public consultation following an initial call for input. Once the final changes to FRS 102 have been confirmed, they will need to be implemented in the final edition of the Charities SORP (FRS 102).

In response to the FRC's call for input, the Charities SMB provided some recommendations to the Charities SORP. These recommendations included a significant point ensuring that the same concessions available for commercial businesses are also available for charities.



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Proposed rule changes on fundraising announced

From this Autumn rules are changing which should make it easier for charities to access money donated in a fundraising campaign that did not reach or exceed its planned target. The Charities Act 2022 received royal assent in February and a plan has now been implemented by the government. The department for Digital, Culture, Media and Sport (DCMS) will complete a statutory review of the Act every 3-5 years following the grant of Royal Assent.

What measures are set to come into force?

Autumn 2022

In the autumn of 2022 changes are expected to be made in the following areas:

- Power to amend Royal Charters
- Ex gratia payments
- Remuneration to trustees for providing goods and services to their organisation

Future planned changes

Spring 2023

In the spring of 2023 changes are expected to be made

in the following areas:

- Permanent endowment
- Charity land
- Amendments of the Universities and College Estates Act 1925

Autumn 2023

In the autumn of 2023 changes are expected to be made in the following areas:

- Charity constitutions
- Powers relating to appointment of trustees
- Remuneration of charity trustees
- Charity mergers

The implementation of the changes will be led by the department for Digital, Culture, Media and Sport (DCMS) alongside the Charity Commission additional government departments will become involved when needed.

Charity Commission Opens Online System for Annual Returns

After a delay due to a technical issue the Charity Commission has now opened its online system for submitting annual returns. The system was originally scheduled to go live towards the end of April. But due to the delay it was not released until 5th of May.

What is a Charity Annual return?

A charity annual return is an online form that charities in England and Wales are required to submit by law to the Charity Commission each year. The return requires you to answer specific questions regarding your charity as well as including copies of the trustee annual report and financial statements (audited or independently examined) for larger charities. The aim of submitting an annual return to the Charity Commission is to provide them with a clear picture of the charity's financial position and activities throughout the year.

For smaller charities in particular this task can sometimes be time consuming. However, there are benefits to these requirements and you are given 10 months from the end of your financial year to file the annual return. The return must be completed online by logging into your Charity Commission account.

If you would like to find out more about preparing a charity annual return, please visit the government website here: <https://www.gov.uk/guidance/prepare-a-charity-annual-return>



New VAT Penalties 1 January 2023

What are the new VAT penalties?

From 1st January 2023 a new penalty-based points system will be introduced for all VAT returns that are submitted late or the payment is late. This new system will replace the current default Surcharge.

Nil or repayment returns that are received late will also receive penalty points and financial penalties.

HMRC to introduce 12-month soft landing period for new penalty system

HMRC has confirmed that there will be a soft-landing period of 12 months which means that they will not be charging a first late penalty in the first year, only if the outstanding amount is paid within 30 days of the normal due date – we recommend that our clients DO NOT get into the habit of using this soft-landing period as a means of benefitting cashflow and get into the habit of submitting returns and paying on time for every return.

Further guidance to be introduced in December 2022

Unhelpfully, HMRC has stated that further guidance will be issued in December 2022 which gives little time for businesses to assess/implement these new rules.

New rules are complicated – so don't get caught out!

What we know so far is that the new rules are complicated, so once again we recommend that all our clients submit their returns and payments on time:

- For each VAT return submitted late one penalty point will be received
- Once a threshold has been reached the business will receive a standard £200 penalty
- A further £200 penalty will be received for each subsequent late submission

A business can reset their penalty points back to zero by:

- Submitting returns on or before the due date
- Making sure all outstanding returns for the last 24 months have been received by HMRC

For late payment penalties the sooner the penalty is paid the LOWER the penalty rate will be.

Up to 15 days overdue – There will be no penalty if the VAT is paid in full or a payment plan is agreed with HMRC

Between 16-30 days overdue – The first penalty is 2% of the VAT owed at day 15 if the outstanding VAT is paid in full, or a payment plan is agreed, between days 16-30.

More than 31 days overdue – The first penalty is 2% of the VAT owed at day 15 plus 2% of the VAT owed at day 30. A second penalty will be calculated at a daily rate of 4% per year for the duration of the outstanding balance. This is calculated when the outstanding balance is paid in full or a payment plan is agreed.

Bank of England Webinar 2022

Overview

In the latest installment of this very popular annual webinar, we are delighted to announce that we will be joined by Paul Mount, from the Bank of England's Yorkshire & Humber Agency.

What will we be discussing?

As the UK economy lurches from the effects of one global event to another, Paul will be providing attendees with economic reflections from the past 12 months and updating us with the Bank of England's latest views on how these will continue to impact us throughout 2022 and beyond.

Topics of discussion will include:

- When will the economy recover from the pandemic?
- How has the conflict in Ukraine affected the economic landscape?
- What is the inflationary and interest rate outlook?
- Is Brexit still having an effect on our economic performance?

The talk will last around 30 minutes and there will be an opportunity for Q&A to quiz Paul on the Bank's latest views.

Event Details

Speakers: Pete Wilmer (Corporate Finance Partner) |
Paul Mount (Deputy Agent at the Bank of England)

Date: Wednesday 15th June 2022

Time: 9am -10am

[Register here](#)

Get in touch



Our charity specialists

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. Irrespective of your size we wish to support you to maximise the benefits you could achieve through our specialist professional advice.

Charities & not-for-profit organisations are currently facing extensive changes in their regulatory and legal framework. 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.



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