

Charity Insight

February / 2020

HAWSONS CHARTERED ACCOUNTANTS



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Introduction

Welcome to our charity newsletter



Simon Bladen
Partner, Sheffield
slb@hawsons.co.uk
0114 266 7141



Welcome to our first charity newsletter of 2020. As I write this on a cold frosty morning in February we have passed the Brexit deadline and enter a transition period. Who knows what impact this will have on the charity sector and the wider economy, uncharted territory for sure. Perhaps not unexpectedly, this uncertainty is causing some trepidation, in this sector and our first couple of articles in this issue take a look at this.

As always we hope you enjoy our latest newsletter and please do get in touch if you would like any further information.

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.

What does charity finance have in store for 2020

Like most sectors across the UK, the charity sector is going to face a variety of challenges in 2020. At this moment in time a large majority of the problems are arising on the financial side. However, it's not just a finance problem as many believe that charities need to see large scale changes in the rules surrounding benefits, housing social care, employment, and taxation.

Funding

Many different types of funding for charities have been hit in the last few years. Partly down to fundraising which has seen a slight decline. However, another problem has been down to the local authorities that have been hit by budget cuts which have been passed onto charities. This is a difficult position for charities who may be struggling to adequately fund themselves with sustainable revenue streams. A lot of the recent news has suggested that charities do not spend enough money 'on the cause'. In fact, the opposite is often true. Many charity financial issues have happened because they seem to invest much of their money into the front line and don't invest enough in the backline such as management and systems. Charities need to strike a balance to ensure they fully service their charitable objectives whilst also maintaining a stable and sustainable base.

Recruitment

This has become more complicated since the announcement of the National Living Wage increase due in April. Recent research suggests at the moment the charity sector pays 25% of its staff less than the Real Living Wage. Recruiting and retaining staff is also a real problem for the charity sector as many charities struggle to invest in training. They often need to recruit from outside the sector to get the skilled workers they need which brings additional cost.

Conclusion

The charity sector could be facing a difficult year ahead, with the National Living Wage increases in April and recent funding cuts it is certainly not going to make life any easier for them. Where charities are reliant on external funding that is under threat of reduction, they should consider how to maximise self generating income streams to continue the valuable work they do. The charity sector is an integral and irreplaceable part of the UK service offering. The fine work of the sector must never be taken for granted but needs to strike a financial balance between local authority funding and sustainable self-generated income.

Charities fear fall in donations over the next couple of years

A recent Charity Bank report suggests around 80% of charities are worried about a fall in donations over the next two years. There are more alarming statistics in the report, 82% of respondents did not expect to maintain the same level of donations in the next two years and 85% of respondents are expecting increased demand for their services over the next two years.

The information in this report was collect via an online survey of 182 charity leaders, after a series of seminars hosted by Charity Bank.

Two-thirds of respondents said that they expected Government policy to cause problems for the sector. Brexit still seems to be a significant challenge, but only 46% stated that they are unclear of what the impact will be on the sector.

Free online support for small charities

However, it is not all bad news. There is now an online toolkit which offers small charities free support. The Charity Excellence Framework has a free online toolkit which can help small charities improve and streamline their organisation. They have recently upgraded their toolkit to help charities with an annual income of below £10,000. This is to assist them with issues including dealing with HMRC and accessing government resources.

With charities fearing a reduction in donations over the next couple of years it is important that they consider all methods of generating sustainable income streams. It is also important to regularly check the charity tax page on HMRC's website to keep up with the latest Government policy regarding charities.



Fundraising regulator publishes new guidance to help charities with fundraising reporting requirements

On the 15th of January the fundraising regulator released new guidance to help charities with fundraising reporting requirements. This is because a recent analysis of 106 charity annual reports filed with the fundraising regulator has shown that only 40% of reports filed met the standards under the fundraising reporting requirements in the Charities (Protection and Social Investment) Act 2016.

The purpose of these requirements is to help charities demonstrate that they are totally committed and focused on protecting donors and the public.

It is recommended that all charities should follow this [guidance](#) published by the Fundraising Regulator.

You should also follow the [Charity Commission's CC20 guidance on HMRC's website](#). Trustees need to ensure that their charity's fundraising meets the standards set out in the code. The recommended way to demonstrate that you have done so is to report and register with the Fundraising Regulator.

Chair of the Fundraising Regulator, Lord Toby Harris commented: "Although our review has highlighted a low level of compliance with The Charities Act 2016 in terms of fundraising statements, we recognise that this is the first year of reporting in this manner. We are committed to working with charities, especially those with lower fundraising budgets, to promote better practice in reporting and the importance of providing a comprehensive statement."

Access the [full article here](#).



Charity Commission investigates after accountants report

Yet another Charity has hit the headlines for alleged mismanagement. This time a Devon based charity has been reported by their accountant to the Charity Commission following an Independent Examination for failure to keep proper accounting records.

Keeping proper accounting records is a legal requirement for charities and failure to do so can lead to severe punishments; recent cases have seen charities being struck off, their bank accounts frozen and the entire Board of Trustees being replaced.

In this particular case the charity dealt mainly in cash and had no documentation to evidence where the £55,505 of donations received had originated from and insufficient documentation for some cash expenditure.

The Charity Commission continues to investigate this case but in another recent case made their position very clear. Amy Spiller, head of investigations team at the Charity Commission, said: 'Trustees are under an obligation to act in the best interests of their charity –by handling donations with care and stewarding funds towards the good cause they serve.'

This incident yet again highlights the importance of good record keeping and having strong financial controls in place in the charity sector.

This comes as the National Council for Voluntary Organisations issues a warning about cyber security and controls around IT systems. Due to cost burdens some charitable organisations use older software which may be more susceptible to cyber-attack.

Furthermore, email fraud is become more sophisticated, meaning that robust controls around authorisation of banking payments are more important than ever before. Action Fraud reported that there were 1,057 reports of fraud totalling £7.85m in the year to March 2019 that specifically affected charitable organisations.

The measures suggested by the NCVO include:

- Updating software regularly
 - Strong password policies
 - Having up to date malware protection
 - Staff training
-

Charities and VAT

It is wrong to assume that Charities get special VAT treatment, however they do benefit from VAT relief on the purchase of some goods and services.

They can also get a VAT exemption on income from fundraising events as long as certain conditions are met (VATA1994, Sch 9, Group 12).

Purchases that can qualify for VAT exemption:

- Rental charges – If a landlord has Opted to Tax (OTT) a commercial building he should charge VAT on the rentals. However, if a charity uses the building for a “relevant charitable purpose”, the charity can certify its use of the building to the landlord, which has the effect of overriding the OTT
- Advertising charges – HMRC, in its public notice 701/58, states that a supply of advertising to a charity registered with The Charity Commission is zero-rated
- Fuel charges – Supplies to a charity of gas and electricity are subject to the VAT lower rate of 5% as long as the fuel is used on non-business use (i.e. on its charitable purposes)

Fundraising income exemption

VAT is exempt when money is raised by a charity for a fundraising purpose. This exemption also applies to trading subsidiaries that are owned by the charity.

PLEASE NOTE that the above reliefs/exemptions come with specific conditions so please contact Hawsons before application of these rules, as Charities should be wary of HMRC penalties.

We may also be able to claim VAT going back four years if you have inadvertently paid VAT on eligible purchases or exempt fundraising events.



Get in touch...

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**Sheffield
partner**

0114 266 7141



**Doncaster
partner**

01302 367 262



**Northampton
Partner**

01604 645 600



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