

Charity Finance Update

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Content



- Charity Accounting – SORP Update
- Prepare for Making Tax Digital
- The Regulator
- Charities and Trading - refresher
- Other developments



Charity SORP Update

Bulletin 2

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Charity SORP Update



SORPs have been developed for:

- general charities
- special case charities
 - charities which are registered housing associations, which will use the SORP for registered social housing providers;
 - charities which are further education or higher education institutions, which will use the SORP for further and higher education;
- investment fund charities (common investment funds, there is presently no provision for common deposit funds in Northern Ireland), which will use the SORP for financial statements of UK authorised funds.

Charity SORP Update



Update bulletin sets out amendments to text of Charity SORP issued July 2014:

- Required as a result of amendments to FRS 102
- Reporting periods beginning on or after 01/01/2019

Charity SORP Update



Update bulletin sets out amendments to text of Charity SORP issued July 2014 - Clarifying Amendments

- Module 3: Accounting standards, policies concepts and principles – clarifies the existing requirement to provide comparative information
- Module 5- Recognition of income – clarifies when payments by subs to charitable parents that qualify for gift aid should be accrued in the parent charity accounts

Charity SORP Update



Update bulletin sets out amendments to text of Charity SORP issued July 2014:

- Module 10: Balance Sheet – removing the undue cost or effort exemption from depreciating assets comprising 2 or more major components which have substantially different economic lives
- Module 13: Events after the reporting period- clarifying when payments by subs to charitable parent that qualify for gift aid are adjusting events

Charity SORP Update



Update bulletin sets out amendments to text of Charity SORP issued July 2014: Significant amendments

- Module 10: Balance Sheet
 - permitting charities that rent investment property to another group entity to measure the investment property at either cost (less depreciation etc.) or at fair value
 - removing the undue cost or effort exemption for the investment component of mixed property to require measurement at fair value
 - removing the disclosure of stocks recognised as an expense

Charity SORP Update



Update bulletin sets out amendments to text of Charity SORP issued July 2014: Significant amendments

- Module 14 : Statement of cash flows
 - Requires charities to prepare a reconciliation of net debt as a note to the statement of cash flows
- Module 27: Charity mergers
 - Including the transfer of activities to a sub undertaking as an example of a reconstruction that should be accounted for as a merger

Making Tax Digital (MTD)



- Requires VAT registered businesses with taxable turnover $>$ VAT registration threshold to keep records in digital form
- Keep an eye on taxable turnover
- Application Programming Interface - API
- Some exemptions

Making Tax Digital (MTD)



- Charities given an extra 6 months to comply
- Now have until October 2019
- Can join pilot scheme from Spring 2019
- However, incorporated charities still have to comply from April 2019

Making Tax Digital (MTD)



- Deferral applies to:-
 - Trusts
 - Unincorporated not for profit organisations
 - VAT divisions and VAT groups
 - Local authorities
 - Public corporations
 - Traders based overseas
 - Those required to make payments on account
 - Annual accounting scheme users

CCNI – Getting annual reporting right



CCNI Thematic Report

- April 2017/February 2018 – 3,378 charities due to file accounts and reports
- 81% filed on time, 10% late and 9% (302) in default, 30 of those for more than 6 months
- Publication of a regularly updated list
- First statutory inquiry into charity in default

CCNI – Compliance checks on reports and accounts



CCNI check if the charity has submitted

- For the correct financial year
- A trustees annual report
- An external scrutiny report
- The correct financial statements in the correct format
- Be careful with personal data

CCNI - Consultation



Consultation open: proposed action for charities that have failed basic compliance checks

- In 2017/18 CCNI conducted checks on 53 charities
- One in three failed
- CCNI propose indicating on the register whether they have been subject to a check and note if **Failed**

Charities and Trading



Tax Treatment of Charities



- Considerable advantages
 - Trading profits
 - Sale of donated goods
 - Trading subsidiaries
- HMRC v CCNI

Tax Treatment of Charities



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What does trading mean?



- No short answer
 - number & frequency of transactions
 - nature of goods or services sold
 - intention of the charity in acquiring the goods
 - whether goods are capable of being used and enjoyed by the charity
 - nature and mechanics of the sales
 - presence or absence of a profit motive

What does trading not mean?



- The following activities are not generally regarded as trading:
 - sale or letting of goods donated
 - sale of investments
 - sale of assets which charity uses for charitable purposes
 - letting of land & buildings where no services are provided to the user

Types of trading activity



- Primary purpose trading
- Ancillary trading
- Non-primary purpose trading – that does not involve significant risk to the resources of the charity

Primary Purpose Trading



- **Typical examples include**

- Provision of educational services by a charitable school or college in return for course fees.
- Sale of goods manufactured by disabled people who are beneficiaries of a charity for the disabled.
- Holding of an art exhibition by a charitable art gallery
- Sale of tickets for a theatrical production staged by a theatre charity.
- Provision of residential accommodation by a residential care charity in return for payment.

Ancillary Trading



- **Typical examples**

- Sale of food and drink in a restaurant or bar by a theatre charity to members of an audience.
- The sale of stationery or text books by a college to its students

Non Primary Purpose Trading



Trading intended to raise funds for the charity, as distinct from trading which in itself furthers the charity's objects.

Charities may engage in such trading only where no significant risk is involved.

-e g sale of Christmas cards to raise funds for a charity

Other matters of interest



October Budget

- Reducing admin for charities
- Non Primary Purpose Trading limits
- Increased limit for GASDS
- Update to Retail Gifts Scheme

Other matters of interest



- Guidance issued on charities connected with non-charitable organisations

Other matters of interest



Cost of temporary staff

- Court Of Appeal Ruling - Adecco
- Employers must pay VAT on the wages of temp staff and not just agency fees
- Reasoning – services supplied by Adecco as principal and not as agent

Other matters of interest



Cost of temporary staff court decision based on the following facts:

- No contract in place between the temps and the client
- Temps had contracts with Adecco which referred to temps services being supplied “through Adecco”
- Adecco passed control of temps to clients
- Adecco paid temps on its own behalf and not as agent
- Adecco did not “drop out of the picture” once it had introduced a temp

Other matters of interest



Cost of temporary staff - recommendations

- Review contracts to determine whether they will be impacted by the decision. It may be possible to restructure the arrangement to mitigate VAT.
- May be worth reviewing any partial exemption method used to ensure it is still fit for purpose
- Note some exemptions by concession e.g. nursing staff

Other matters of interest



Matters of Material Significance Reportable to UK charity regulators (EG 058)

- Auditors and Independent Examiners must report any matters of “material significance”
 - Dishonesty & fraud
 - Internal controls & governance
 - Money laundering & criminal activity
 - Support of terrorism
 - Risks to charity’s beneficiaries
 - Breaches of law of the charity’s trusts
 - Breach of an order or direction made by the regulator
 - Modified audit opinion or qualified IE report
 - Conflicts of interest & related party transactions

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- Partner in charge of Audit & Assurance Department
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- Over 25 years experience within the sector
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Useful Websites



- NICVA www.NICVA.org
- NI Charities Commission www.charitycommissionni.org.uk
- Scottish Charity Regulator www.oscr.org.uk
- Charity Commission for England & Wales www.charity-commission.gov.uk
- Moore Stephens www.moorestephens.co.uk
- SORP www.charitycorp.org

