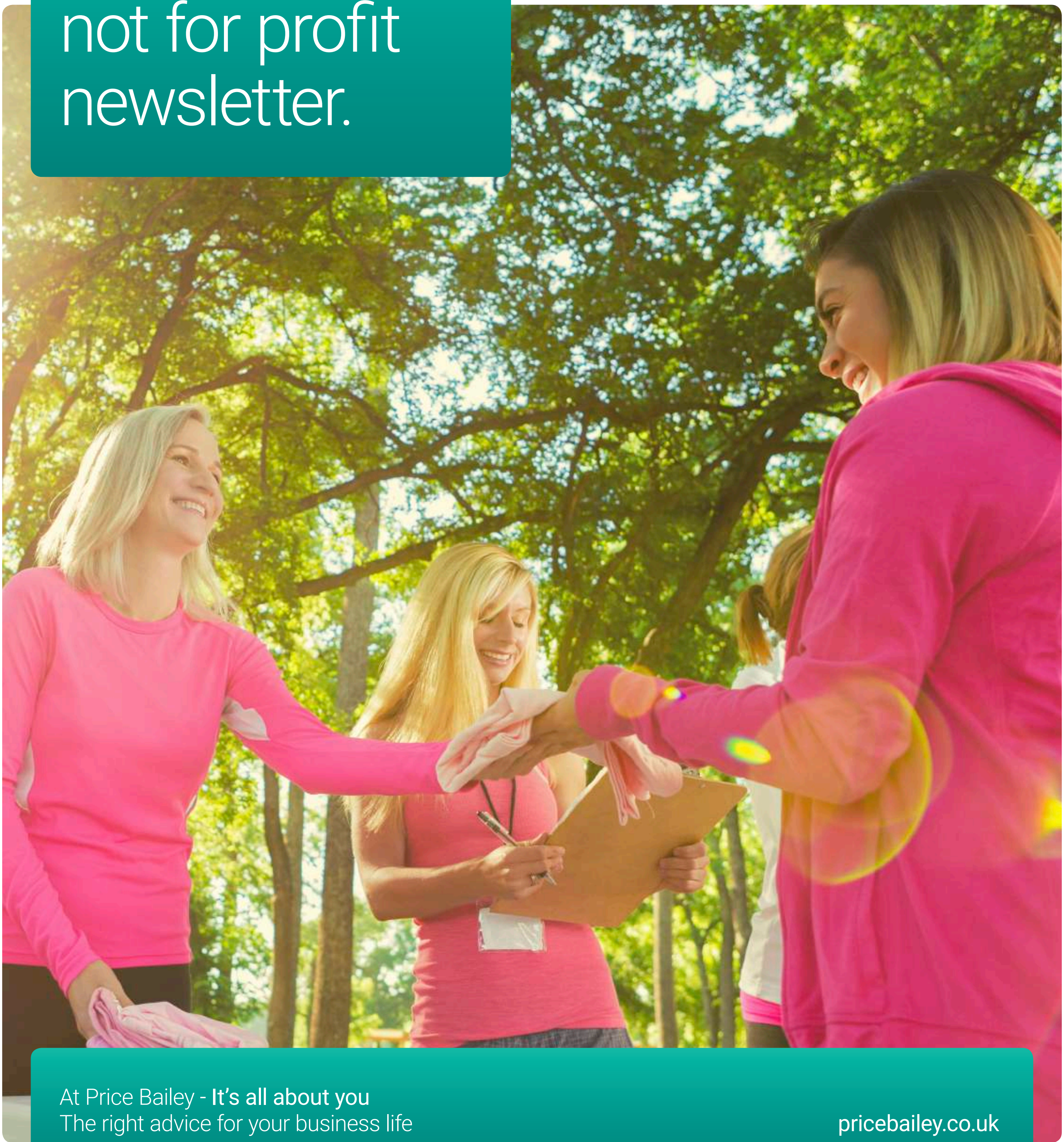
Price Bailey
CHARTERED ACCOUNTANTS

Charity Times

Charities and not for profit newsletter.



At Price Bailey - **It's all about you**
The right advice for your business life

pricebailey.co.uk

Welcome

Welcome to the Spring issue of the Price Bailey Charity Newsletter. In this newsletter we explore recent regulatory changes, an update on the Budget as well as topical issues, such as fraud. We hope that you find our newsletter informative and would welcome any feedback you may have.

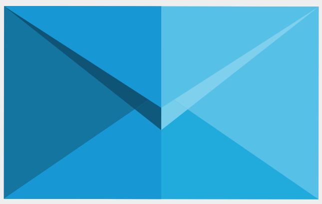
Contents:

Forthcoming event:

Join us at our upcoming event on grant applications – successful grant strategies. Have you ever wondered how you can improve your chances of success when making grant applications? As funding services are more than ever becoming more limited and fiercely competitive, you need to ensure your efforts are rewarded. We can give you the inside track on how the committee review your application and make their final decision. We will give you practical tips to stand out from the crowd, avoid common mistakes and make your processes more successful.

Dates & locations

- Tuesday 10 May, Price Bailey's City Office, London, Evening Seminar
- Thursday 19 May, Price Bailey's Cambridge Office, Cambridge, Evening Seminar
- Tuesday 24 May, Price Bailey's City Office, London, Evening Seminar
- Friday 10 June, Sprowston Manor, Norwich, Breakfast Seminar



For more information visit pricebailey.co.uk/events.

Are you susceptible to fraud?

This article was written by **Richard Vass**, Partner.

If you have any questions regarding
this subject, please contact.

richard.vass@pricebailey.co.uk
+44 (0)20 7382 7415
pricebailey.co.uk

Sadly the answer for all organisations is "yes" and charitable organisations are potentially more vulnerable than most.

The not for profit sector is often characterised by an environment of trust that makes it particularly susceptible to fraud. Perhaps there is an excessive level of control held by a founder, substantial donor or key executive or there may be limited resources to allocate to financial and internal controls or maybe there is a turnover of volunteers working in the organisation that are privy to confidential information. These and other factors make not for profit organisations a target for the unscrupulous.

It is difficult to put a monetary value on the cost of fraud in the charity sector but it is estimated to cost in excess of £1.6bn a year. This measure shows the scale of financial risk faced. Equally important however is the reputational damage a serious fraud can have on an organisation and the impact it can have on the management team, staff, volunteers and beneficiaries.

Trustees have a legal duty to protect charity funds and assets so that they can be applied for charitable purposes. To meet these responsibilities trustees need to ensure that they have appropriate internal and financial controls to protect against fraud and help ensure all funds can be accounted for and used to meet the aim of the charity. The Charity Commission provides guidance to trustees on financial internal controls (www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8) which form a key element in the defence against fraud but, equally important, in establishing awareness of the risk of fraud within the organisation, promoting ethical behaviour and encouraging all staff and volunteers to report concerns if they arise.

The very nature of fraud means that it can be difficult to spot and as organisations rely more heavily on new technology detecting fraud is now even harder, placing more organisations at risk. Effective internal controls will catch most frauds but vigilance by all is needed to stop fraud occurring in the first place.

A key first step to address fraud is to assess your risk at all levels to identify where you are most vulnerable. Once this is done you can establish appropriate controls to address the weaknesses you have identified. These need to be effectively communicated to all parties as a fraud resistant organisation relies on everyone to play a role.

Perhaps it's best illustrated with an example of a fraud that has caught out a number of organisations in recent months. This has become known as the "CEO fraud." As a firm we have been targeted and are aware that many of our clients have been targeted as well.

Emails, that bypass spam filters and most anti-virus software, have been sent out to financial controllers and other key management personal purporting to come from a more senior member of the management team requesting urgent transfer of funds to named accounts.

These emails are often very sophisticated using information publicly available to make them as convincing as possible. Staff maybe less likely to question instructions that appear to have come from on high, and it's this psychological manipulation – often accompanied by a sense of urgency – that has been a major factor in the fraud success. Our own controls rebutted these attacks but we know others were less fortunate. Will your procedures protect you in similar circumstances?

At Price Bailey we have experience of helping businesses and not for profit organisations combat fraud and set up suitable financial and environmental controls. If you have any questions arising from reading this article or wish to discuss the fraud framework in your organisation please get in touch.

Dispensations

This article was written by **Paul Fox**, Senior Manager.

If you have any questions regarding this subject, please contact.

paul.fox@pricebailey.co.uk
+44 (0)20 7382 7416
pricebailey.co.uk

P11D Dispensation

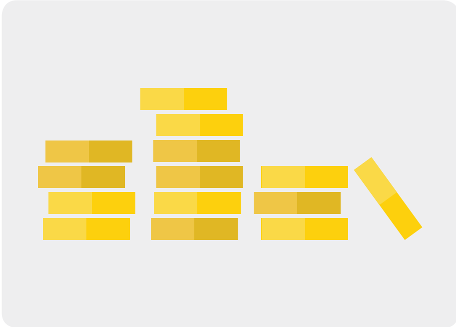
The provision of benefits and the reimbursement of expenses to employees are as common as paying salaries these days, and we're all well used to completing P11D forms come the end of the tax year. And many of us will have dispensation agreements in place whereby certain agreed expenses and benefits do not need to be reported and will not be subject to tax and NIC deductions.

From 6 April 2016 however dispensations cease to exist, not just going forward but also those currently in place. Employers will no longer be able to apply to HMRC for a dispensation. In addition the £8,500 lower limit for the preparation of P11Ds is also going, bringing all employees in to the benefits regime.

Almost all expenses or benefits that might previously have been covered by a dispensation will, from 6 April 2016, be within an exemption and will not need to be reported on form P11D. They will be exempt from tax and NICs and if employees would have been entitled to tax relief in full for an expense then employers will not need to deduct tax or NICs from that expense payment, and won't need to report it to HMRC. This all sounds like great news and much less admin as well as potentially lower professional fees for assistance in the process.

But, don't celebrate too early, this doesn't spell the end for P11Ds, nor the employer's responsibility in relation to the provision of benefits; there are exceptions to every rules!

- Expenses and benefits will not be exempted if they are provided under a relevant salary sacrifice arrangement.
- Employers who pay any non-allowable expenses or provide non-exempt benefits will still need to put those through the payroll and deduct tax and NICs, or put them on form P11D as they would now.
- Benefits that are only partially exempted will need to be put through the payroll in full and employees will need to claim a deduction on the exempt part.



So no change if any of the above apply but employers beware, It now falls on you to decide whether in principle the amounts are allowable and also have a scheme in operation to assess the expenses that are incurred. Employers will only be able to omit expenses from P11Ds where they are content that they are allowable under the rules.

In addition the government will introduce Benchmark Scale Rates, which will be the maximum rate employers can pay their employees for qualifying subsistence costs without having to agree a rate with HMRC. Where, in the last 5 years, employers have been issued with a dispensation to pay employees at an agreed flat rate for travel and subsistence, instead of reimbursing actual costs incurred, they must have applied to HMRC prior to 6 April 2016 to request permission to continue using these agreed rates up to the 5th anniversary of the issue of the dispensation. Where employers do not want to use the benchmark rates and do not have an agreed rate in a current dispensation they can negotiate Bespoke Rates with HMRC in advance for a five year period.

Many may see this as merely 'streamlining administration'; in reality it is creating more of an onus on the employers to make sure they have treated the expenses correctly.

> This all sounds like great news and much less administration as well as potentially lower professional fees for assistance in the process.
>
> Paul Fox.

Which SORP to follow

This article was written by **Helena Wilkinson**, Head of Charities.

If you have any questions regarding this subject, please contact.

helena.wilkinson@pricebailey.co.uk
+44 (0)7921 353540
pricebailey.co.uk

Which SORP should you follow - FRSSE SORP or FRS 102 SORP?

A common question we are asked relates to charities who have a choice between using the FRSSE or FRS 102 SORP and which one should charities use? It has been confirmed that the FRSSE SORP will only be around for one year so is there much point in using it?

Below we look at why we think the answer is the FRS 102 SORP.

Trustees report

Firstly with regards to the Trustees Report, the requirements under both SORPs are virtually identical. This is actually the area that has the most change as a result of the new SORP requirement if you are considered a large charity. The definition of "large" under the current SORPs is whether you are subject to an audit (i.e. income over £1M or £500K in Scotland); or income over £250K and balance sheet greater than £3.26M (or £3.26M with accruals accounts prepared in Scotland).

However, beware as the new SORP Update Bulletin issued on 2 February which applies to accounting periods beginning on or after 1 January 2016, means large in future will be where your income is more than £500K in UK (or €500K in ROI). Hence large is not very large!

Therefore many more organisations, who thought they would be small, will be caught by the requirements of the increased narrative reporting in the Trustees Report in the future.

The changes which have been well publicised include the need to include the charity's principle risks and how they are mitigated and to include a remuneration policy. However other changes are easy such as the naming of the chief executive and senior management team compared to those which require more thought and are more time consuming. The requirement for the charity to explain its strategy, cover details of the significant activities undertaken and the criteria or measures used to assess the success of these activities, will take more thought. Then the achievements section which follows requires details of these activities against the objectives set. Hence much more focus on outcomes or impacts and seeking justification on your activities, demonstration of delivery and impact.

Finally the need to state the reserves policy, state the amount of these reserves and why they are held. You are encouraged to give a much fuller explanation of the various rationale behind each of these.

So you need to start thinking about your Trustees Report because regardless of which SORP you choose, if you are large, you will need to include more than in the past to draft the report.

Financial statements

From an accounts perspective, the biggest difference between the two SORPs is the requirement for a statement of cash flow under FRS 102 SORP. The SORP Update Bulletin, referred to above, has clarified that only small charities (with income under £500K) will be exempted from a statement of cash flows for accounts commencing on or after 1 January 2016. If your income is below £500K, you can just adopt the changes in the Bulletin early for your current accounts and still not need do a cash flow (This only applies to charities registered in England and Wales. Those registered in Scotland or are cross border cannot adopt the Update Bulletin early). If you have income over £500K, you may as well just start now and follow the FRS 102 SORP as delaying by one year to go through the requirements of adopting two different SORPs really does not seem worthwhile.

> We therefore believe that for most organisations, the decision is to choose FRS 102 SORP
>
> **Helena Wilkinson**
> Head of Charities

There are other slight differences, such as the position of unrealised gains and losses on investments which form part of your income/expenditure for the year, however with the ability to include a new heading on the Statement of Financial Activities (SoFA) – something like 'net income before investment gains' then this is also not seen as a big issue.

Others differences include:

- Discontinued activities
- Restructuring or fundamental reorganisations have different treatments
- Internally generated databases can still be capitalised under FRSSE but not FRS102
- Inability to revalue intangible fixed assets under FRSSE
- Generally more additional disclosure requirements under FRS 102 SORP. However this benefit would need to be seen to outweigh the costs of having to understand and apply FRSSE SORP to change again one year later.

One exception to this view is where you have a multi-employer pension scheme and under the FRSEE SORP you have the potential to retain your charity's existing policy and not recognise the pension scheme deficit funding as a liability on the balance sheet.

We therefore believe that for most organisations (except those registered with OCSR), the decision is to choose FRS 102 SORP. Now, with the ability to adopt the SORP Update Bulletin early, there seems to be even less appetite and benefit in using the FRSSE SORP at all – unless perhaps you wish to delay recognition of a multi-employer pension scheme deficit.

PSC register for Charities
Please tell me something I don't know!

This article was written by **Paul Fox**, Senior Manager.

If you have any questions regarding
this subject, please contact.

paul.fox@pricebailey.co.uk
+44 (0)20 7382 7416
pricebailey.co.uk

A change is afoot which is set to overhaul the existing regime of Annual Returns to be submitted by companies, including incorporated charities, to Companies House. When completing the new "confirmation statement", which, from 30th June 2016, replaces the current Annual Return, corporates will also have to provide a new **People with Significant Control** ("PSC") register.

So what is a PSC? A PSC is any individual who exercises significant influence and control. This can take varying degrees, but the broad indicators can include:

- An individual directly or indirectly holding more than 25% of voting rights.
- Any individual that has the right directly or indirectly to appoint or remove the majority of the board of directors/trustees.
- The individual has the right to exercise significant influence and control over the operating activities.

This would therefore include those incorporated charities with three or fewer Trustees – each having more than 25% of the voting rights. But, bizarrely, those with four or more may not have to declare anything!

But who else could be caught? Those with the power to appoint Trustees perhaps? But how wide are their powers – could they remove Trustees too? More questions than answers at this stage.

Trading subsidiaries with Charity parents are likely to have to declare the Trustees of the parent as PSCs (subject to their level of control of the subsidiary), even if the Charity parent is itself unincorporated.

The introduction of the PSC register is part of the new legislation Small Business Enterprise and Employment Act 2015 which is aims to identify the ultimate beneficial owners of companies which have previously been concealed by other holding companies or foreign companies.

But how beneficial are these changes for the Charity sector? There is scepticism over the new statutory requirement. The government's overarching purpose of the new PSC register is to achieve transparency of company's ultimate ownership structure. However, nothing new is expected to be gleaned from charities. In the absence of beneficial owners, all information about the governance (Board of Trustees) of a charity can be easily found in the accounts, which are already on public record with the Charity Commission.

There has also been criticism of the expected unnecessary administrative pressures building with criminal sanctions imposed for the failure to submit PSC registers, similar to the existing rules for Annual Returns.

But it seems that the PSC is here to stay, whether or not eventually there will be provisions or exemptions for incorporated Charities is yet to be seen.

We will provide more information on how this new register will affect charities as and when it becomes available.

Announcements in the spring Budget 2016

This article was written by **Suzanne Goldsmith**, Charities Manager.

If you have any questions regarding this subject, please contact.

suzanne.goldsmith@pricebailey.co.uk
+44 (0)1223 507637
pricebailey.co.uk

On 16 March 2016 Chancellor George Osborne made his budget speech which, in his own words, was "a budget for the next generation". However, for charities this budget has reaffirmed previous legislation rather than announce too many new changes.

The most significant announcements concerned business rates. Some news that we have been waiting to hear is that the 80% business rates relief will remain for properties occupied by a charity and used for its charitable purposes (it does not apply to properties occupied by a charity's trading subsidiary). However, there is concern that other changes to business rates relief for small businesses may impact on the extra 20% discretionary relief currently available for charities. The small business rate relief threshold will increase permanently from £6,000 to £12,000 from 1 April 2017, with tapering on rateable values between £12,000 and £15,000. This could benefit charities with only one property or with those that have more than one property with very low rateable values.

Charity sector winners

There were some legislation changes in the 2016 Budget affecting specific types of organisations in the sector:

- **Museums and galleries** have been particular winners as the VAT refund scheme has been extended to benefit many smaller museums and galleries throughout the UK. Detailed guidance issued by the Department for Culture, Media and Sport (DCMS) details the requirements needed to apply for the scheme and the Government will introduce a new tax relief for museums and galleries from 1 April 2017. It will apply to temporary and touring exhibition costs and is likely to operate in the same way as Theatre and Orchestra Tax Reliefs.

- Talking of **Orchestra tax relief**, the government confirmed this relief will apply from 1 April 2016 and will work in a very similar way to the current Theatre Tax Relief scheme where eligible costs will be enhanced by 80% for tax relief. A tax repayment equal to 25% of the loss (or of the enhancement if lower) can then be claimed. Great news then for these specialist organisations, please talk to us if this affects you.

- The Government will provide £20 million across 2016/17 and 2017-18 to extend the First World War Centenary **cathedral repairs fund**. A review into sustaining England's churches and cathedrals will be set up to assess maintenance and repair pressures and examine how the sector can become more financially sustainable.

- The Government has committed £45 million of LIBOR fines over the next four years to support **military charities** and other good causes.

- The Government is also committing £12 million of funding from the "Tampon Tax" Fund to support a range of **good causes benefiting women**.

Broader tax changes will impact on charities

Other broader tax changes announced in the Budget will also impact on charities. For example, increases in the personal allowance which will go up to £11,000 in April 2016 and £11,500 in April 2017 will mean that more people falling below these thresholds will be unable to claim Gift Aid on their charitable donations. In addition the Government has announced that it will increase the higher rate threshold to £45,000 in 2017-18 and this will have implications for higher rate relief on Gift Aid.

Other immediate challenges arise from increases in the National Living Wage, which is up to £7.20 a hour from 1 April 2017 for workers aged 25 and above and is expected to reach £9 a hour by 2020 The Apprenticeship Levy, as announced at Autumn Statement and Spending Review 2015, will be introduced in April 2017 and the levy will be payable at a rate of 0.5% by employers with a paybill in excess of £3m. The Government will apply a 10% top-up to monthly funds entering apprenticeship levy payers' digital accounts in England from April 2017. On a more positive note, the Employment Allowance will increase from £2,000 to £3,000 from April 2016.

The Government will legislate so that a S455 tax charge is not applied to loans or advances made by close companies (e.g. trading subsidiaries of charities) to charity trustees for charitable purposes. This will apply to qualifying loans or advances that were made on or after 25 November 2015. However, this is only a partial solution to the problem in that it does not address the issue of loans made earlier, or indeed of loans made to charitable companies which may also fall within the legislation.

Other proposed changes to salary sacrifice arrangements may be the subject of upcoming consultations and a statutory exemption from income tax for qualifying trivial benefits-in-kind costing £50 or less. The exemption will remove the charge to Income Tax or Class 1A National Insurance contributions (NICs) with effect from 6 April 2016. A corresponding disregard for Class 1NICs will take effect later in the year.

Looking ahead

Finally some news we hadn't heard before – but perhaps those in the education sector had been expecting this amongst all the news of increased school hours was also the proposal that all state schools in the UK, both primary and secondary, become or be in the process of converting into academies by 2022. This will mean an increase in the number of exempt charities in the sector.

If any of the Budget announcements affect your organisation or you would like to know more, please contact us for further advice.

Contact Details

Helena Wilkinson
Head of Charities
helena.wilkinson@pricebailey.co.uk
+44 (0)7921 353540

Richard Vass
Partner
richard.vass@pricebailey.co.uk
+44 (0) 20 7382 7415

Daren Moore
Partner
daren.moore@pricebailey.co.uk
+44 (0) 1603 709330

Gary Miller
Partner
gary.miller@pricebailey.co.uk
+44 (0) 1279 712719

News flash on other updates

Spring 2016 edition from Charity Commission draws reference to their recent publications:

- Updated reserves guidance
- Managing in financial difficulties
- Draft guidance for funding non-charitable organisations.
  https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/516508/ccnews_issue53.pdf