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charitiesgroup news

LEADING ADVISERS IN THE CHARITIES SECTOR

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HMRC: when a grant is not a grant

A VAT tribunal has ruled that some payments a charity receives from public sector organisations are contracts rather than grants, and therefore VAT must be paid. The Charity Tax Group (CTG) says that the distinction between contracts and grants is not clearly defined. However, examination of the tribunal case does add some clarity.

Kent based registered charity Hope in the Community paid VAT on funding it received via several public sector grants. The charity applied to HMRC for two repayments totalling £43,000, but the appeal was rejected. Hope in the Community took the case to the VAT tribunal, but the tribunal ruled that there was not enough evidence to prove that the payments were grants and not contracts. Charities are not required to pay VAT on grants, but must pay VAT on contracts.

Hope in the Community is an umbrella organisation that supports religious and voluntary sector community groups. While charities benefit from a range of tax incentives, such as Gift Aid, they do pay tax when they spend money that has been donated to them. According to the CTG, which represents the sector on tax issues, the present UK tax system costs charities more than £1.145 billion per year in irrecoverable VAT. The tax system currently treats charities as 'final customers', which the CTG says they are not.

Peter Jenkins, who advises the CTG on VAT issues, told Third Sector magazine that the tribunal case brought by Hope in the Community was not strong enough. He said that the difference between a grant and a contract is defined for VAT purposes by whether or not a body supplies goods or services in exchange for a consideration. 'This is a very complex area where you need to think carefully if you are a charity,' said Mr Jenkins. 'In this case it seems that the charity was providing clearly defined services, so there is evidence to support HMRC's view that this was a contract.' Mr Jenkins added that it was a very difficult case to win, since the burden of proof was placed on the charity.

The Hope in the Community Case demonstrates that funding received by a charity to carry out its own project is likely to be categorised as a grant, while funding received by a charity to carry out another organisation's project – even if that project is in line with the charity's aims and objectives – is likely to be categorised as a contract.
http://snipurl.com/259uahi

UK200Group charities

charities face 'generation time bomb'

Young people are not as generous as older people when it comes to charitable giving, according to a new report. People born between 1965 and 1999 (known as Generation X and Y) do not give as much to charity as those born between 1925 and 1966 (inter-war 'Silent Generation' and post-war 'Baby Boomers'). Charities face a donation deficit in coming years as older, reliable givers pass away, unless young people increase their generosity. The Charities Aid Foundation (CAF) is calling for urgent action to reverse this 'generation time bomb'.

The report, carried out on behalf of the CAF by Professor Sarah Smith at the University of Bristol, found that the gap between donations made by the over 60s and the under 30s has increased over the past 30 years. The over 60s are more than twice as likely to donate to charity than the under 30s. More than half of all charitable donations now come from the over 60s, compared to just over a third 30 years ago.

CAF chief executive John Low said: "*The generosity of Britain's older generation continues to be remarkable – and many charities today depend heavily on their support. The worrying fact is that people from Generation X and Generation Y are simply not giving to the same extent. We fear that charities will face a damaging donation deficit when people of the older generations pass away. That would severely hit the funding of charities and their ability to deliver vital services on which so many people rely. This must be addressed now if charities are to survive and thrive.*"

Recommended action includes introducing charitable giving to the National Curriculum, encouraging young people to volunteer for charities and become trustees, and bringing Gift Aid into the digital age by creating an online registration scheme. http://snipurl.com/259uass

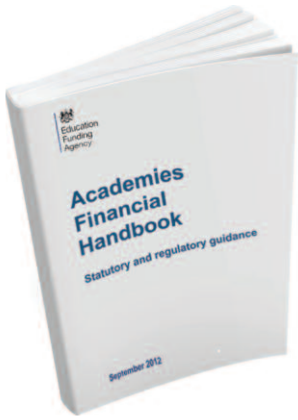
new financial handbook for academies

The Education Funding Agency (EFA) has published the Academies Financial Handbook, which provides guidance for academies on the financial controls and systems they should have in place in order to meet the required standards of public accountability. The handbook has been welcomed as a more concise publication than the 2006 edition and it contains several significant changes. The new handbook is available from the EFA website and was effective from September 2012.

Academies are charitable companies and public sector bodies, and are therefore subject to strict standards of accountability. They are required to appoint an accounting officer, who has a personal responsibility to ensure regularity, propriety and value for money. The accounting officer must ensure that money is spent for the purposes intended by Government, and handled honestly and without conflict of interest. The new handbook places an emphasis on the personal responsibility of the accounting officer for an academy's financial management.

The handbook sets out a framework, but academies are responsible for their own financial management systems. They must submit a budget to the EFA each academic year. If there is a deficit, the academy must submit a recovery plan. They must also prepare annual accounts for each academic year, and have them independently audited. Academies must complete self-assessments of their financial management systems and provide evidence. The EFA carries out occasional financial reviews at Academies to ensure that suitable financial management systems are in place.

The handbook highlights changes in audit committee arrangements and sets out requirements for dealing with non standard financial transactions. The changes implemented in the handbook aim to provide academies with increased autonomy in areas including carry forward limits on year end grant surplus, the authority to enter into liabilities, write off debts and make severance payments, and the disposal of redundant assets. http://snipurl.com/259ubbu



in brief..

Excepted charities deadline extended

Excepted charities have been given an extra 18 months in which to register with the Charity Commission.

Excepted charities, which typically include armed forces charitable funds, Scout and Guide groups, and funds connected to some Christian churches and chapels, are regulated by the Charity Commission, but have not been required to register with them until now. Charities can only be excepted if their annual income is below £100,000. Around 4,000 excepted charities have already registered with the Commission. Affected charities had been required to register by 1 October 2012, but they will now have until 31 March 2014.
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Charity Commission chief calls for better communication

Charities need to communicate better with the public, according to Charity Commission chief executive Sam Younger. Speaking at an event run by Charityworks, Mr Younger said that charities must make a better attempt to communicate the importance of their work in order to retain the trust of the public. Closer working practices between charities and the private sector could cloud the definition of a charity in the public's mind, as could recent accusations of political motivation. 'The real worry is that people would say: *"Why would I give money to a charity? How is it different from private business?"* said Mr Younger.
http://snipurl.com/259ubsj

Small Donations Scheme enters consultation period

A framework for the proposed Gift Aid Donations Scheme has been set out in draft regulations under the Small Charitable Donations Bill. The scheme is scheduled to be introduced from 6 April 2013. The draft regulations have been published for consultation. The Small Charitable Donations Bill, which will apply in England, will introduce annual match funding for small donations of under £20. The scheme is not a tax relief measure, and is governed by different rules from Gift Aid. HMRC estimates that charities could receive up to £100 million of funding via the scheme. The consultation period will close on 5 December 2012.
http://snipurl.com/259ubx1

Smaller charities spend more than they earn

The majority of small charities spend more than they bring in, according to the Scottish Council for Voluntary Organisations (SCVO).

While large charities are experiencing modest income growth, smaller charities are still waiting for turnover to return to 2009 levels and are bearing a disproportionate brunt of funding cuts. According to the SCVO, third sector income in 2011 was £4.5 billion, while expenditure was £4.3 billion. However, many smaller charities experienced a sharp drop in income, as did some larger organisations that lost contracts. Excluding credit unions and housing associations, charities' aggregate turnover in 2011 was £3.21 billion compared to £3.22 billion in 2009.
http://snipurl.com/259uc37

Online Gift Aid for April 2013

A system allowing charities to make online claims for Gift Aid could be up and running by April 2013. In a ministerial statement in September, economic secretary to the treasury Sajid Javid requested parliamentary approval for £250,000 to allow HMRC to set up the system. In addition to Gift Aid claims, charities will be able to file claims for the new Gift Aid Small Donations Scheme. Javid requested £150,000 of the £250,000 to be made available urgently so that work could begin immediately. In a statement, a spokesperson for the National Council for Voluntary Organisations welcomed the move, but said charities would need time to prepare for using the new system.
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Charities conduct impact reports to satisfy funders, report says

Over half of charities that measure the impact of their services do so to satisfy their funders, a report by think-tank New Philanthropy Capital (NPC) has revealed. Despite this, 25% of charities that did conduct an impact report said they saw an improvement in their services afterwards. Dan Corry, chief executive of NPC, said many charities conduct impact reports because they are "forced" to by funders, rather than seeing it as a means of attracting new funders. *"There is still a long way to go in getting charities to embrace impact measurement wholeheartedly, rather than seeing it as a burden,"* he said.
http://snipurl.com/25cdnzc

Small charities may not be eligible for Gift Aid Small Donations scheme

Many small charities will not be eligible for the Gift Aid Small Donations Scheme (GASDS) due to complex fraud prevention rules, the National Council for Voluntary Organisations (NCVO) has said.

The GASDS allows charities to claim Gift Aid like payments on cash donations of up to £5,000 a year without completing individual paperwork. However, fraud prevention measures mean eligible charities must have claimed Gift Aid in at least three of the previous seven years, and can only claim £2 for every £1 they collect under Gift Aid. Charlotte Ravenscroft of the NCVO called for these rules to be scrapped to allow all small charities claiming less that £1,000 of Gift Aid each year to benefit from the GASDS.
http://snipurl.com/25cdmou

Charity Commission – tough on late filed accounts

More than a third of charities that were late in filing their annual accounts in 2011 had prepared the documents ahead of time. A Charity Commission survey of 400 late filing charities found that 35% had signed their accounts before the deadline, but had neglected to file them on time. The Commission claimed that some charity trustees were 'too relaxed about their legal duties' and said it would toughen up its stance on late filing.

The Charity Commission is the independent regulator of charities of England and Wales, and is responsible for ensuring that charities are held to account. Charities are able to file their annual accounts online via the 'Manage your charity' section on the Commission's website. There are more than 160,000 main registered charities; this survey was based on a sample of 400 that had filed late. 86% of registered charities filed their accounts on time.

The survey showed that many late filers are repeat offenders, with around a quarter having filed late for all five previous financial years. Another quarter had never previously filed their annual accounts late. 39% of charities that filed late to the Commission had filed on time to Companies House. The Commission suggested that this may be due to the late filing penalties imposed by Companies House. In addition, the research showed no clear link between financial hardship and late filing, so charities did not necessarily file late because they were in financial difficulty.

The Charity Commission's chief executive, Sam Younger, said: *"My view is that these findings bolster the case for introducing penalties for charities that are late in filing their accounts with us. My ultimate hope is that we can tackle the habitual, avoidable defaulting this research has uncovered, and work towards making this level of defaulting a thing of the past."*
http://snipurl.com/259ubi8

small charities want better guidance

Smaller charities want the guidance they receive from organisations such as the Charity Commission to be more focussed and relevant to their needs. Current guidance is provided on a one-size-fits-all basis, regardless of the size of the charity, but smaller charities would like the guidance to be tailored to their needs. That is the finding of a peer review programme operated by the Institute of Chartered Accountants in England and Wales (ICAEW) and based on the responses of 25 charities with an income of less than £5 million.

The review found that only 28% of participants had strong controls to manage fraud and financial abuse, and only 32% had strong risk awareness and management controls.

The participating charities were aware of the guidance provided by the Charity Commission, but commented that the Commission's website was not particularly accessible to them. Many commented that the volume of guidance information provided was simply too large, and that some proportionality was needed relative to the size of individual charities. Suggestions included the introduction of modular guidance, so that charities could access required information based on their size, and the introduction of specific guidance for particular sectors.

Reviewers suggested that umbrella organisations could play a role in providing relevant information to charities operating in their areas. The review also found that the participating charities shared a key concern over funding. Reviewers found that mergers, collaborations or shared services could help charities deal with funding issues. There was also concern about the difficulties of attracting new trustees, particularly those with relevant skills. It was suggested that some trustees do not understand the financial reports they receive, and therefore more responsibility should be taken for financial reports by the board of trustees as a whole.
http://snipurl.com/259ub4e

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