BHP
Chartered Accountants

Charities Update

Autumn 2014

In this issue we look at

- The new SORPs
- Charity Commission 2014 Annual Return
- Further digitalisation ahead for HMRC
- VAT Case Law Update
- Social Investment Tax Relief
- BHP Charity Conference

Editor's welcome

Welcome to the autumn edition of our Charities Update. As anticipated the new SORP has been issued but perhaps more surprisingly the decision was made to issue two, and I take a look at the key differences between them. We examine HMRC's latest plans for further digitalising paper forms used by charities and look at the Charity Commission's 2014 Annual Return. Simon Buchan provides an update on the latest tribunal cases relevant to charities and we are pleased to announce details of our annual Charity Conference, taking place on 21 October.

I hope you will find the topical issues covered by the articles in this newsletter interesting. As ever if there are issues that you would like us to cover in future newsletters please do let me know.

For further information please contact Jane Marshall jane.marshall@bhp.co.uk

The New SORPs

The new charity SORPs have now been issued. Jane Marshall looks at the key differences between them.

After a detailed consultation process the decision was made to issue two new charity SORPs, FRSSE SORP (FRSSE) and FRS 102 SORP (FRS 102). Any charity can apply FRS 102 SORP whereas only charities (including non-company charities) that would qualify as a small company or fall within a small group had they been incorporated in company law, may apply FRSSE SORP. So what are the main differences between the two?

Trustees' Annual Report
The requirements under both SORPs are identical. Both require larger charities (ie those subject to statutory audit under charity law) to disclose more information.

Statement of Financial Activities (SOFA)
The basic structure of the SOFA is the same. There is a new requirement under both SORPs to show the comparatives for each column in the SOFA. These can be shown either on the face of the SOFA or in the notes. This will certainly facilitate a more meaningful comparison between financial years.

There are a number of key differences.

For charities reporting under FRS 102 gains and losses on investment assets are shown before striking the total for net income/expenditure.

The FRSSE requires separate disclosure of exceptional items whereas FRS 102 requires separate disclosure of material items. FRS 102 has an additional category of extraordinary items which are shown after the net income/expenditure line.

FRSSE requires the cost of a fundamental reorganisation or restructuring that has a material effect on the nature or focus of the charity to be disclosed whereas FRS 102 requires the separate disclosure of discontinued operations by a separate column in the SOFA.

Other primary statements
The balance sheet format is common to both SORPs.

The cash flow is optional under the FRSSE but mandatory under FRS 102.

Both SORPs take the same approach to fund accounting.

Accounting standards, policies, concepts and principals
Both SORPs require the trustees to assess going concern but FRS 102 specifies that the review covers at least 12 months from the date the accounts are approved. This will be welcome news to auditors!

The FRSSE takes a different view to determining accounting policies than FRS 102 with the users of the FRSSE 'having regard' to FRS 102 as 'current practice'.

In general FRS 102 requires more disclosures than FRSSE.

Recognition of income
Both SORPs have the same criteria for income recognition with the definition of entitlement, measurement and probable (receipt is more likely than not) essentially the same. The introduction of the definition 'probable' is a change from SORP 2005 and may mean that some income is recognised earlier than it would have previously been.

Donated goods, facilities and services including volunteers
Both SORPs adopt the same approach to the recognition and measurement of donated goods, facilities and services. Neither SORP permits the valuation of 'general volunteers'.

With regard to donated tangible fixed

Continued on page 2

Continued from page 1

assets there are slight differences between the measurement criteria but in many instances the figures will end up being the same.

Recognition of expenditure
Both SORPs require the discounting of liabilities and provisions for the time value of money where settlement is delayed for more than 12 months but the suggested discount rate differs between the SORPs.

FRS 102 includes a section on the treatment of employee benefits which is not in FRSSE. FRS 102 requires accrual to be made for paid annual holiday pay and paid sick leave (where material) whereas FRSSE does not.

Disclosure of trustee and staff remuneration, related party and other transactions
FRS 102 requires a number of additional disclosures:

- the aggregate value of unconditional donations by trustees
- the charity's contributions to a pension fund for the benefit of employees
- terms and conditions of transactions with, and details of any guarantee given or received from related parties
- more information in relation to termination payments
- the total amount of employee benefits received by key management personnel.

Accounting for financial assets and liabilities
The FRS 102 SORP differentiates between basic and other financial instruments and has very detailed and lengthy disclosures compared to the FRSSE SORP.

Write down/impairment of fixed assets
Although the two SORPs use different terminology the measurement outcome is likely to be the same. Both require the assessment of carrying value against recoverable amount where circumstances indicate this is necessary.

Where a present value is to be calculated it is likely that the discount rate will be higher under FRS 102 than under FRSSE, when reference is made to the rate at which the charity could borrow, resulting in a lower present value when reporting under FRS 102.

Charities established under company law
The requirement to include a strategic report is only a requirement of medium and large companies and is therefore only a requirement of the FRS 102 SORP. Also the reference to a 'fair value reserve' is omitted from the FRSSE.

Retirement benefits/retirement and post-employment benefits
The underlying methods and principles for the treatment of defined contribution pension schemes (DCS) and defined benefit pension schemes (DBPS) are very similar although FRS 102 offers some simplifications to the method of making calculations for DBPS.

Where a charity is participating in a multi-employer DBPS and it has been asked to make additional contributions, but its share of any actuarial pension liability cannot be identified, the FRSSE SORP permits a charity to continue with the existing policy (contributions due in the year) whereas FRS 102 SORP requires the present value of any additional repayments due to past service to be recognised as a liability.

In terms of disclosures for DCS and DBPS, FRS 102 requires more detailed disclosures than FRSSE.

Accounting for social investments
The approach is largely the same in both SORPs.

The main area of difference is when measuring a social investment made in ordinary or preference shares. FRSSE requires recognition at cost or market value whereas FRS 102 requires recognition at fair value, an approximation to fair value, or if fair value cannot be estimated reliably cost less impairment. Valuations are likely to be the same under both SORPs where shares are traded or there are recent transactions, and where the market value/fair value is not available.

Accounting for groups and the preparation of consolidated accounts
The key point here (as it is for associates and joint ventures) is to adhere to 'current practice'. So the accounting is likely to be the same for both SORPs. The main difference for charities applying the FRS 102 SORP is more detailed disclosure.

Other modules
The approach under both SORPs is the same for the following modules:
- allocating costs by activity in the SOFA
- post balance sheet events/events after the end of the reporting period
- presentation and disclosure of grant-making activities
- accounting for funds received as agent or custodian trustee
- total return (investments)
- accounting for charities pooling investments
- overview of charity combinations
- branches, linked or connected charities and joint arrangements
- charities as subsidiaries
- charity mergers.

Detailed information about both SORPs is available from the Charity Commission website www.charitycommission.gov.uk

For further information please contact Jane Marshall jane.marshall@bhp.co.uk

Charity Commission 2014 Annual Return

Sarah Smith takes a look at the Charity Commission's 2014 Annual Return

The annual return is a means of collecting and subsequently publishing data about your charity. The Charity Commission advises that over 6 million people use the website's search facility to find charities' details each year. This allows potential funders, donors and volunteers to obtain information about your charity such as:

- what the objects of the charity are
- how the charity meets its goals
- where it operates
- details of its income and expenditure.

If the charity has income of over £10,000 it must complete an annual return within 10 months of the end of the financial period. Failure to submit this information on time will result in the annual return being marked as overdue on the Charity Commission's website. This shows that the charity is not keeping up to date with its filing requirements and is one of the indicators that may deter potential funders, donors and volunteers.

The annual return has recently been under review by the Charity Commission and has been updated for 2014 with further consultations ongoing for 2015. The 2014 changes bring in seven new questions that charities need to complete:

- if the charity has a trading subsidiary
- if the charity pays its trustees
- if the charity has specific written policies including for investments, risk management, safeguarding, conflicts of interest and complaints handling
- if the charity raises funds from the public
- if the charity is regulated or registered with certain regulators other than the Charity Commission
- how the charity awards grants.

The final question allows the charity to provide additional information about its achievements.

In addition to the information provided by your charity in the annual return the Commission will also now include details that they already hold consisting of:

- if the charity is insolvent or in administration or,
- if the charity is subject to enforcement action for non-submission of accounts
- if the charity accounts have been qualified by an auditor or independent examiner.

Full guidance notes on the completion of the new annual return can be found on the Charity Commission website www.charitycommission.gov.uk

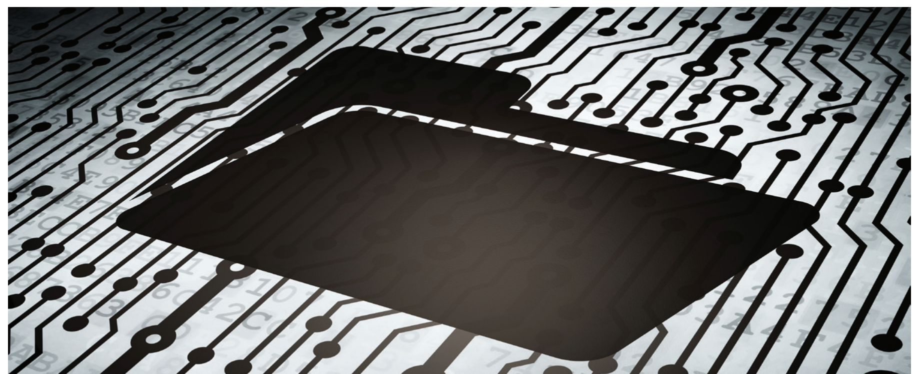
Readers may be interested to know that the Commission launched an eight-week consultation in June into proposals to collect more information on charities in their annual returns, including suggestions that all charities with incomes over £50,000 would have to declare all money they spent on campaigning, and all money received from the public purse. There has been widespread opposition to this from various sector bodies including NCVO, ACEVO and CFG. So it is a case of watch this space.

For further information please contact Sarah Smith
sarah.smith@bhp.co.uk

Further digitalisation ahead for HMRC

Rachelle Rowbottom explains HMRC's latest plans for digitalising the existing paper forms used by charities

HMRC undertook a research project earlier this year to review the current process in relation to paper forms completed by charities. This included a review of how the system was used by charities, together with an analysis of the issues faced when completing the forms. The aim of the project was to ensure that the new digital process meets the needs of charities.



The forms affected include the ChA1 form, which is used to register with HMRC as a charity for tax purposes, and enables Gift Aid and tax deducted at source to be claimed. The Charities Variation form (ChV1) will also become digital. As a reminder, this form should be used to notify HMRC of a change to the contact details or bank account of the charity, or a change in the details of the Authorised Official or Responsible Persons.

HMRC are currently developing the new digital service in relation to the ChA1 and charities can help to test the service by completing the ChA1 information online, see http://www.hmrc.gov.uk/charities/charity-registration.htm for more information. We understand that the move to the digital process is currently planned for later this year.

For further information please contact Rachelle Rowbottom
rachelle.rowbottom@bhp.co.uk

VAT update

Simon Buchan reviews a recent case concerning the VAT cost sharing exemption

The First –Tier Tax Tribunal (FTT) has had an early opportunity to consider a case concerning the VAT cost sharing exemption.

The appellant in this case was the West of Scotland Colleges Partnership (WOSCOP) an organisation that applied for grant funding from the EU and elsewhere on behalf of its member organisations, who comprise of colleges of further and higher education. WOSCOP had charged VAT on the services provided to its members and was seeking a refund from HMRC because it considered that it qualified to be treated as a cost sharing group (CSG).

There seems to have been no disagreement that WOSCOP was capable of being treated as a CSG for the purposes of the exemption, notwithstanding the fact that it has been in existence prior to the introduction of the exemption into UK VAT legislation. The issue was whether they could fulfil the relevant conditions of the exemption.

What this case highlights is the stringent conditions that must be met to qualify for exemption. In particular WOSCOP failed to persuade the FTT that they had met the "exact reimbursement" test. HMRC persuaded the FTT that there was not enough evidence to show that the members were being charged for their share of the cost of the services provided by WOSCOP and that all that was happening was that the costs were being recharged equally to all members, no matter what level of service they received from WOSCOP.

The FTT found in favour of HMRC on this occasion - commenting that the test WOSCOP was required to meet was a high one and that the term "exact reimbursement" which appears in both UK and EU legislation indicates that a measure of precision is required. In addition HMRC guidance requires a clear audit trail as to how the recharges made to the members were calculated and this was missing in this case.

Part of the problem for WOSCOP was that they were formed prior to the introduction of the cost sharing exemption in the UK and therefore they could not know what the evidential requirements were likely to be. Presumably, in future they will amend their procedures to comply with the conditions so that they can benefit from the exemption on an ongoing basis.

The message for any charities and not for profit organisations contemplating the formation of a CSG is that the conditions of the exemption are quite strict and that careful planning is required to ensure that the conditions are met and that there are no unexpected VAT charges.

For further information please contact Simon Buchan simon.buchan@bhp.co.uk

Expert advice for charities from BHP

BHP is pleased to announce that it is holding its seventh Charity Conference on Tuesday 21 October 2014 at Sheffield United Football Club, Bramall Lane, Sheffield.

This year's varied programme will provide an update on several important issues affecting charities including:

- the Charity SORP
- an update on VAT & Tax issues for the sector
- charities as a vehicle for fraud
- CIOs: update and accounting issues, and Hodgson Review next steps
- conflicts of interest

The free conference is open to all charities and will run from 9.00am to approximately 4pm. If you would like to book a place please contact Louise Bright, Marketing Manager at louise.bright@bhp.co.uk or call 0114 266 7171.

Social Investment Tax Relief

Rachelle Rowbottom provides an update

The Finance Act 2014 received Royal Assent on 17 July 2014 and introduced the Social Investment Tax Relief into law.

The rules are effective for qualifying investments made into qualifying social enterprises from 6 April 2014 onwards, as explained in our Spring 2014 update. However, Royal Assent was required to enable qualifying social enterprises to submit a Compliance Statement form to HMRC under the rules. This requires details of the social enterprise, the investors and the type of investment made. HMRC then check the information supplied to ensure that the conditions of the scheme are fulfilled. If they are satisfied with the information provided they will confirm that a Compliance Certificate can be provided to each investor, enabling them to claim the relief.

Social enterprises also now have the option of applying to HMRC for a preliminary opinion regarding whether the enterprise and the proposed investment will qualify using what is called the advance assurance procedure.

Providing all of the criteria are fulfilled, the scheme offers private investors 30% tax relief based on the amount invested.

A further consultation was published in July which discusses options for enlarging the scheme, together with the possibility of an indirect investment option similar to the VCT scheme for commercial enterprises.

For further information please contact Rachelle Rowbottom rachelle.rowbottom@bhp.co.uk

Registered to carry on audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales