BHP Chartered Accountants

Third Sector Update

Spring 2017

In this issue we look at

- Common Reporting Standard update
- Changes to charity fundraising rules
- Gift Aid
- Investing in your staff

Editor's welcome

2016 was the year when the Charity Commission issued lots of new guidance. In response, I believe to a lack of public trust in charities, high profile charity collapses and fundraising practices. Keeping up to date with the guidance is a challenge for those working in the sector and for charity trustees.

As we look forward to 2017 guidance from HMRC on international tax transparency, which I suspect was never intended to have an impact on our sector, is causing a headache for endowed charitable trusts. On the positive side changes to the role of intermediaries and gift aid as well as a simplification of the Gift Aid Small Donations Scheme are welcome news. All charities must ensure that they seek to maximise this most valuable relief.

It does, however, give us plenty to cover in the spring edition of our newsletter!

I am delighted to introduce readers to Rachel Hannan from our consulting team who has contributed an insightful article on people – surely the sector's biggest asset.

As ever if there are any topics you would like covering in future newsletters do get in touch.

Jane Marshall
jane.marshall@bhp.co.uk

Common Reporting Standard update

The first reporting deadline is fast approaching, Rachelle Rowbottom provides a reminder of the rules.

In the summer 2016 edition of this newsletter I provided an overview of the rules, and by now, some of you will have been asked by your banks or investment managers to provide a self-certification of your charity's entity classification. Charities are classed as "Active Non-Financial Entities" for this purpose.

Since the summer, HMRC have provided specific guidance for charities to help them through the complex rules.

As a reminder, the Common Reporting Standard (CRS) is the new international tax transparency legislation that aims to prevent tax evasion. The CRS provides for the automatic exchange of financial accounts information between participating jurisdictions. In the UK, the information is gathered by HMRC.

The regulations require UK Financial Institutions to undertake due diligence checks and obtain details of the tax residency of its account holders via self-certifications. If the account holder is tax resident in a jurisdiction that has signed up to the CRS, the account holder is a Reportable Person and the account is reportable.

There are a number of different sub-categories within the definition of a Financial Institution and some charities will find that they fall within the Investment Entity classification.

This will be the case where the charity is managed by a Financial Institution on a discretionary basis and more than 50% of its income is received from investments eg. interest, dividends, royalties and annuity income.

This is likely to be particularly relevant to endowed charities, and, where applicable, the charity would need to consider if they have Financial Accounts which must be reported to HMRC. Financial Accounts include the issue of equity interests, bonds and other debt instruments which is unlikely to be relevant to the vast majority of charities. However, for charities established as trusts, it will also, quite alarmingly, include grant beneficiaries.

Where the Financial Accounts are held by other UK charities, publicly available information can be used to confirm that they are so registered and self-certifications are then not required. This is because UK registered charities are automatically treated as UK tax resident.

Nil returns are not required, which means that where all Financial Accounts are held by UK tax residents, no report needs to be made to HMRC.

Charities that fall within the definition of a Financial Institution need to ensure that they have gathered the required information in order to make any necessary reports to HMRC by the deadline. The first report for 1 January to 31 December 2016 needs to be submitted online to HMRC by 31 May 2017.

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

Changes to charity fundraising rules

New rules for charity fundraising started on 1 November 2016, Jane Marshall looks at the implications these new rules have for charities.

The new rules affect the Trustees' Annual Reports of larger charities that fundraise from the public, as well as the contents of the agreements that must be in place when professional fundraisers or other businesses ('commercial participators') raise money for charities.

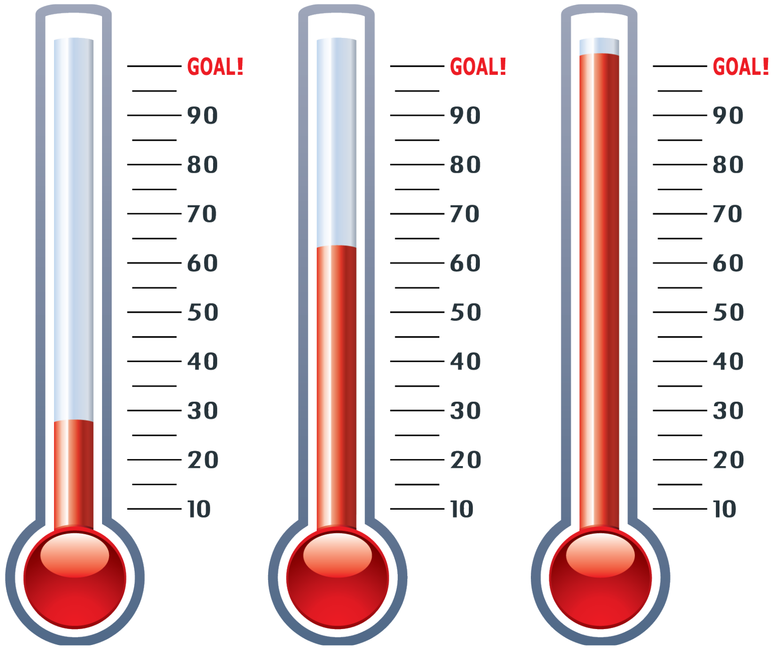
The changes are introduced by the fundraising sections of the Charities (Protection and Social Investment) Act 2016. They will help charities to demonstrate their commitment to protecting donors and the public, including vulnerable people, from poor fundraising practices. The new law will also help to ensure that fundraising standards form part of the agreements between charities and any commercial participators or professional fundraisers with whom they work.

There are 2 new requirements.

The first requirement applies where a charity, registered or unregistered, uses a professional fundraiser or commercial participator to raise funds. Broadly, it says that the compulsory written agreements between charities and these third parties must include extra information covering:

- the scheme for regulating fundraising or recognised fundraising standards that will apply to the professional fundraiser or commercial participator in carrying out the agreement;
- how the professional fundraiser or commercial participator will protect the public, including vulnerable people, from unreasonably intrusive or persistent fundraising approaches and undue pressure to donate; and
- how charities will monitor the professional fundraiser or commercial participator's compliance with these requirements.

The second requirement applies to all auditable charities that raise funds from the public. They must provide the following information in their Trustees' Annual Report for financial years beginning on or after 1 November 2016:



- the fundraising approach taken by the charity, or by anyone acting on its behalf, and whether a professional fundraiser or commercial participator carried out any fundraising activities;
- details of any fundraising standards or scheme for fundraising regulation that the charity has voluntarily subscribed to;
- details of any fundraising standards or scheme for fundraising regulation that any person acting on behalf of the charity has voluntarily subscribed to;
- details of any failure by the charity, or by any person acting on its behalf, to comply with fundraising standards or scheme for fundraising regulation that the charity or the person acting on its behalf has voluntarily subscribed to;
- whether the charity monitored the fundraising activities of any person acting on its behalf and, if so, how it did so;
- the number of complaints received by the charity, or by a person acting on its behalf for the purposes of fundraising, about fundraising activity; and
- what the charity has done to protect vulnerable people and other members of the public from behaviour which:
- is an unreasonable intrusion on a person's privacy;
- is unreasonably persistent; or
- places undue pressure on a person to give money or other property.

Your charity may be affected by either or both of the new requirements.

You can find out how your charity is affected by the new provisions, and when compliance with them is required, by reading the frequently asked questions, developed jointly by the Charity Commission and the Fundraising Regulator. **https://www.fundraisingregulator.org.uk/information-registration-for-fundraisers/charities-act-faqs/**

You can also look at **Charity fundraising: a guide to trustee duties (CC20)** and **Charity reporting and accounting the essentials November 2016 (CC15d)**, published by the Charity Commission which have been updated to reflect the new requirements.

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

Specialist advisors to the charity and not for profit sector

GASDS - changes are coming

The Gift Aid Small Donation Scheme (GASDS) will be more accessible for newly established and smaller charities, with effect from 6 April 2017.

As a reminder, the GASDS allows charities to claim Gift Aid style top up payments on small cash (up until now! – see below) donations of £20 or less.

Eligibility criteria – current position

The eligibility criteria that have been in place since the commencement of the scheme require that, in order for a claim to be made, the charity must have been in existence for two complete tax years.

A charity must also have claimed Gift Aid:
- in the same tax year;
- in at least two of the previous four tax years (and without a two-year gap between the claims); and
- without incurring a penalty in the last two tax years.

In addition, there is a 10:1 matching rule which means that the claim under the GASDS cannot be more than ten times the Gift Aid claim for the year.

Eligibility criteria – new rules with effect from 6 April 2017

Charities will no longer have to wait until two years after they were first established in order to make a claim. In addition, the Gift Aid history requirement whereby charities must have claimed Gift Aid in two of the last four tax years is also removed.

This is great news because it means that smaller and newer charities will be able to benefit from the scheme much sooner.

Other changes

The scheme is being extended to include donations made by contactless payment technology.

The community building rules are being amended so that donations received within the local authority area of the community building will be included.

However, going forwards it will only be possible to claim under the main allowance or the community building allowance, not both.

Gift Aid - the role of intermediaries

With effect from 6 April 2017, intermediaries will be able to play a greater role in the Gift Aid process. Up until now, donors have had to provide Gift Aid declarations each time they make a donation, even though they may make donations through the same intermediary channel on a regular basis.

Going forward, intermediaries that collect donations for charities will be able to obtain one authority from a donor which then allows the intermediary to provide Gift Aid declarations (on behalf of the donor) to all charities that the donor gives to in the tax year. This will be particularly useful for online giving platforms for example.

The new process is entirely optional for both the donor and the intermediary. Indeed, the intermediary can continue to operate as they do now, by asking the donor to complete a Gift Aid declaration for each donation that they make.

Charities may wonder whether the new rules put them at a greater financial risk because of the possibility that declarations may be received in relation to individuals that do not pay sufficient tax. The answer to this is NO. The intermediary must tell the donor that if they pay less Income Tax and Capital Gains Tax in the tax year than the amount of Gift Aid reclaimed by charities on their donations, it is the donor that will have to pay the difference. As part of the process, intermediaries must also provide an option for the donors to cancel the authorisation at any time.

It will be interesting to see how many intermediaries apply the new rules and whether there is any impact on the level of donations that are Gift Aided.

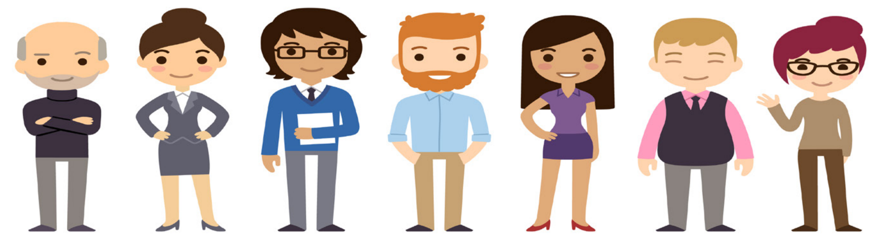
For further information please contact Rachelle Rowbottom rachelle.rowbottom@bhp.co.uk

BREAKING NEWS!

Sector fears that the Government's review of Business Rates may impact on the current favourable position of charities appear justified following the decision of Medway Council to introduce a 20% business rate charge for charity shops and charity run café's.

We understand that several other councils are considering introducing a similar charge. We will continue to update you when we have more information.

People - the charity sector's greatest asset



It's unlikely the view that people are an organisation's greatest asset will come as a surprise, arguably even more so for the charity sector. Your people and teams are the magic ingredient that get your objectives and mission off the page and into the real world, delivering positive results for the causes and people you support.

For most charities however, in a world of diminishing resources, ever increasing complexity, demand and competing priorities, it can be difficult to prioritise and justify spend on investing as much as you would like in the development, recognition and wellbeing of your people. The irony of course being that an engaged, motivated and high performing employee will deliver much more than one who isn't, and will usually repay any investment in their development and engagement many times over in terms of increased output. There are some eye watering statistics showing the impact of engagement on productivity, and most sources have the UK languishing near the bottom of productivity league tables, second lowest of the G7 nations for example. Given this impacts significantly on what we can deliver, the case for increasing employee engagement is clear. Put another way, other analysis (Kenexa), indicates that were the UK to move its engagement levels to the middle of the top quartile, such as that reported in the Netherlands, this would be associated with a £25.8bn increase in GDP.

So, what does this have to do with charities? Whilst GDP might seem a term more relevant to other sectors, it nonetheless illustrates the difference increased engagement can make to 'output' – and in the case of the third sector, output equals support given and lives improved. Over the last few years the CIPD's outlook surveys have reported that on average only just over a third of UK employees nationally across sectors are 'engaged'. Imagine the positive impact on lives through increased service delivery, fundraising and innovation if all employees were fully engaged? Ambitious no doubt, but the charity sector has a natural advantage in terms of engaging employees, given the compelling and meaningful nature of the work. Let's face it, if people are in it just for the pay, they aren't likely to work in the third sector.

Engagement, at its heart, is a genuinely two-way process between employer and employee, with 4 key strands; strategic narrative, engaging managers, employee voice and integrity. In summary therefore to engage its greatest asset an organisation must; 1) Provide an authentic and compelling vision that people can believe in and buy into. 2) Have Managers who focus on their teams and give them scope to operate, but treat them with respect and as individuals. 3) Encourage and stimulate authentic employee feedback that is listened to all levels and which can help shape, contribute and challenge what the organisation is doing. 4) Demonstrate a level of integrity that means the values on the wall and on the website can be seen in everyday behaviours.

Whilst there are no shortcuts to achieving high levels of engagement, there are some things that can make a real difference fairly quickly if done right.

- Tap into the reason people wanted to work for you in the first place, involve them in the further development of your vision and priorities and show how what they do contributes to the overall positive impact your charity makes.
- Make sure your Managers have the skills to really 'manage'. A great boss makes a huge difference, so make sure people have the confidence and training they need to delegate well, set clear targets, hold people to account, recognise and celebrate high performance and encourage innovation and ideas.
- Communicate – and listen. Make sure your teams speak to each other, as well as keeping them up to date on high level priorities and successes. Above all ask, don't assume, how employees think things could be improved, both for them and the people your charity supports.
- Get the right people on board at the outset. Approach each new appointment as an opportunity to sell yourselves and your work. Ask yourself if you would want to apply, given the way the job is presented? Treat people with respect, keep them updated and turn all the applicants into ambassadors for your charity, not just the one that's appointed.

If you want to learn more about how BHP Consulting can help you get the best from your people, please get in touch.

For further information please contact Rachel Hannan
rachel.hannan@bhp.co.uk