Charity Newsletter – Autumn 2010
Issue 17

Since our last newsletter the new coalition government has held an emergency budget and announced the results of the Comprehensive Spending Review. The austerity measures, which include significant welfare reform, will leave gaps that the charity sector will need to fill. This will be difficult due to the much publicised public spending cuts, with many charities facing financial uncertainty from April 2011. This, combined with potentially increased demand for services, means that challenging times lie ahead for the sector.

Mark Williams
Charity Manager

ROBINSON REED LAYTON
CHARTERED ACCOUNTANTS and CHARTERED TAX ADVISERS

Funding

Comprehensive Spending Review

On 20 October 2010 the government announced that it plans to spend £470m over four years to build the capacity of the voluntary sector to deliver the 'Big Society'. Included within this amount is a £100m transition fund, which will be aimed at charities with income between £50k and £10m that have low levels of reserves and who are vulnerable due to budget cuts.

It is not known which organisations will be distributing these funds currently, but they are likely to include Big Lottery Fund and the Community Development Fund (which will cease to be a quango). The majority of the income should be available in the 2010/11 and 2011/12 financial years.

Additionally from this £470m funding, a National Citizen Service will be established along with a Community First Fund which will support local charities.

With the cuts in public spending there should be opportunities for charities to deliver services previously provided by government departments.

Significant changes are likely to be required at the Charity Commission with its annual funding dropping each year from £29.3m in 2010/11 to £21.3m by 2014/15.

Quango cull

The government announced on 14 October 2010 that a number of organisations would be scrapped. These include Capacitybuilders, Commission for the Compact and the Office for Civil Society Advisory Body.

Capacitybuilding work is under review and a further announcement on how this will be delivered will be made in the future.

The Community Development Foundation, which manages funding programmes such as the Grassroots Grants, will become a social enterprise.

Regulation

Charitable incorporated organisation (CIO)

Unfortunately there was insufficient time for this legislation to pass through parliament prior to the general election. However it is now unlikely that the CIO will be available until at least Spring 2011.

The general consensus is that trustees of unincorporated charities wishing to incorporate should not wait until the CIO is in place, but instead register as a charitable company, and transfer to a CIO at a later date.

Fund-raising – public collections

The regulation of public collections will be updated under the Charities Act 2006. This will involve organisers applying for certificates which last for up to 5 years, and also applying to local authorities for a permit to collect in the area they wish to operate. The new system has yet to be implemented.

Equality Act

The Equality Bill received royal assent in April 2010 and much of this came into force on 1 October 2010.

Some of the areas covered include:

Gender – pay discrimination, a range of measures will be put in place to target this
Disability – can no longer ask invasive questions in connection with health or disability prior to the job offer stage. Questions can only be asked after to identify if changes to work environment are required
Age – unlawful to discriminate on grounds of age without justification

Concerns have been raised over part of the Equality Act that deals with the ability of a charity to limit the group of people who it helps, as many charities are set up to help particular groups in society.

The Charity Commission has published some initial guidance concerning the charity exemption, which is available on their website. Further detailed information will be published towards the end of the year.

Public benefit test update

The Charity Commission is focusing on sports charities in its next round of public benefit assessments. The assessments will review whether each charity has charitable purposes and operates for the public benefit.

In July 2009 the Commission concluded that the public benefit requirement had not been met for two of the care homes and two of the independent schools assessed. In July of this year further reports published by the Commission concluded that these charities had now addressed the Charity Commission findings and have plans in place to meet the public benefit requirement.

The findings of the assessment of four arts charities were published in July 2010. All four charities passed the public benefit test.

The Charity Commission has recently announced that it will no longer carry out similar assessments on private hospitals and other health charities due to funding constraints.

Accounting

Charity SORP update

Many of us were expecting a new charity statement of recommended practice (SORP) in 2010 based on past history (previous SORP's having been introduced in 1995, 2000 and 2005). However it is now not likely that an updated SORP, along with a public benefit accounting standard based on international financial reporting, will be available until at least 2012.

Tax update

HMRC online filing

Incorporated charities that need to file corporation tax returns will need to do so in iXBRL format from April 2011. How charities can file accounts in iXBRL, which are prepared using a number of software packages, is still to be resolved.

If you have any concerns please contact us.

The Budget - increase in personal allowances

From April 2011 the personal allowance is being increased by £1,000. This is likely to take a significant number of people out of tax entirely. This will mean the amount of gift aid that can be reclaimed on donations could drop.

Gift aid reform

A gift aid reform consultation was launched by the Labour government earlier in the year. The consultation has continued under the new government and if the report is completed in time, the recommendations may be included in the 2011 Finance Act.

Many had hoped that the gift aid return process would be moved online in the near future. However HMRC have suggested that this is not currently a priority.

Gift aid transitional relief will cease on 5 April 2011. No announcement has yet been made concerning any extension despite various groups lobbying the government to extend this relief.

Volunteers and expenses

Many volunteers are entitled to claim expenses but do not wish to do so. It is worth remembering that if a volunteer does claim expenses, they can then make a donation of an equivalent amount back to the charity with the charity benefiting from gift aid (provided the volunteer is a tax payer).

The expenses must be paid to the volunteer. A volunteer cannot merely 'waive' the payment.

VAT

With many charities either not being registered for VAT, or unable to reclaim VAT in full, the increase in the rate of VAT from 17.5% to 20% from 4 January 2011 will leave many charities worse off. Any charity that is considering a significant purchase that will incur considerable VAT may wish to bring this expenditure forward where possible to benefit from the lower VAT rate.

It has been estimated that the VAT increase will cost the sector £150m.

HMRC powers

The 2010 Finance Act has introduced some changes to the tax system for charities. One significant change is the way in which new charities will need to apply for tax exemption.

In the past HMRC has accepted that a registered charity will be exempt from tax, subject to certain exclusions. A newly registered charity will now need to apply for such tax exemption, and a form, which is available from the HMRC website, requires a charity to state how it operates to benefit the public.

There is also a new 'fit and proper' requirement for charity 'managers', which effectively means the trustees and officials who control the day to day activities of the charity.

Other news

Charities and cheques

Our last newsletter mentioned that the Payments Council plans to phase out cheques by 2018. A series of workshops were held in July and September to consult with those who use cheques, including the charity sector.

The Council has recognised the concerns raised particularly by charities and has stated that they will consult with the sector in arriving at an alternative method for making and receiving payments. They have confirmed that cheques will not be phased out unless a satisfactory alternative is in place.

We await further information, however many of our clients remain concerned about how this will affect the more vulnerable members of society.

Charity Commission online

The Charity Commission plans to withdraw paper forms for annual returns and updates from January 2011. Additionally new charity registrations will be dealt with solely online from April 2011. Currently 70% of charity applications are made online.

Charity Commission guidance

The Charity Commission has recently released the following guidance:

- Charities and risk management (CC26)
- Financial difficulties and insolvency (CC12)
- Charities and reserves (CC19)
- Internal financial controls (CC8)

These publications are available on the Charity Commission website. The internal financial control guidance discusses the ways in which electronic banking can be controlled and authorised.

New trustees

It has been reported that only one in four charities run induction training for trustees. The Charity Commission has produced two useful documents entitled 'The Essential Trustee: What you need to know' and 'The Essential Trustee: An Introduction' which are available on its website.

It is important that new trustees are introduced to the charity's workings, and provided with information such as the annual accounts, details of past trustee meetings and the charity's rules. It is important to remember that a charity needs to confirm their trustee induction policy in the annual report.

Pensions

Charity employers with no existing pension arrangements for their staff will need to consider the impact that the 2012 pension regulations will have on their organisation. Employers will be required to enrol staff aged between 22 and state pension age into a pension arrangement unless the member of staff opts out. This is likely to be introduced in 2012 for large employers, with other employers having to comply over a phased period to 2015.

Those employers with pension arrangements already in place will need to check that their schemes meet the new requirements. Charities will need to budget for this additional expense.

Round up

- The Gambling Industry Statistics 2008/2009 reports that the proceeds from not for profit lotteries increased from £127m in 2003/2004 to £175m in 2008/2009.
- The Charity Commission report 'A Breath of Fresh Air' states that only 0.5% of trustees are aged 18 to 24, and two thirds of trustees are aged over 50.
- In the past charities have been sent a copy of 'Charity Commission News' in hard copy. This newsletter is no longer printed and will only be available on the Charity Commission website. Therefore charities need to register for email updates in order that the Commission can advise when a new issue has been published.

Charity contacts

Telephone: 01872 276116

Name		E-mail
Graham Boulton	*Partner*	graham.boulton@rrl-truro.co.uk
Mark Williams	*Manager*	mark.williams@rrl-truro.co.uk
Tracy Lewis	*Audit Senior*	tracy.lewis@rrl-truro.co.uk
Simon Reed	*Audit Senior*	simon.reed@rrl-truro.co.uk
Graham Ratcliffe	*Senior*	graham.ratcliffe@rrl-truro.co.uk
Richard Robinson	*Consultant*	richard.robinson@rrl-truro.co.uk

ROBINSON
REED
LAYTON

CHARTERED
ACCOUNTANTS
and
CHARTERED
TAX ADVISERS

If you do not have internet access but would like a copy of any documents referred to in this newsletter please contact one of the charity team