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Charity and Not for Profit update

There have been recent legislative and administrative changes that will affect charities and non-profit organisations.

Compliance

Charity Commission Annual Return – more changes

The Charity Commission have updated their annual return format for 2015. It now includes additional questions which require an answer namely:

- In the reporting period, how much income did the charity receive from:
  - Contracts from central or local government to deliver services.
  - Grants from central or local government?
- Does your charity have a policy on paying its staff?
- Has your charity reviewed its financial controls during the reporting period.

So it is important that this information is to hand.

Audit threshold

The Cabinet Office is considering whether to increase the financial thresholds used to determine whether a charity's accounts must be audited.

The government are proposing increasing the thresholds so that charity accounts must be audited if the charity has:

- An annual income of £1 million; or
- Assets worth more than £3.26million and an annual income of more than £500,000.

The recommendations also include increasing the threshold for charities preparing group accounts from income of £500,000 to £1 million.

The Cabinet Office opened a consultation into this recommendation, which closed on 27 January 2015. They are currently reviewing the responses from the consultation and will publish the outcome soon

If accepted, the changes would become effective on 6 April 2015.

Accounts

FRS 102 and FRSSE SORPS

Following the publication of the two new SORPs (Statement of Recommended Practice), the Charity Commission have produced proforma examples of accounts which have been prepared under FRS 102 (Financial Reporting Standard) and the FRSSE 2015 (Financial Reporting Standard for Smaller Entities). Illustrative examples of accounts have been prepared for the following situations:

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- Company Limited by Guarantee preparing consolidated accounts under FRS 102
- Unincorporated trust preparing accounts under FRS 102
- Unincorporated trust preparing accounts under FRSSE 2015

The illustrative examples of accounts can be downloaded for free from the SORP micro-site at charitysorp.org, along with copies of the two new SORPs and useful help sheets.

Which SORP

The new SORPs will come into effect at the same time as FRS 102, for accounting periods beginning on or after 1 January 2015; and will replace SORP 2005.

All charities preparing their accounts on an accruals basis will need to decide which SORP to follow.

Although the changes take effect for accounting periods commencing on or after 1 January 2015, there is a transitional period from 1 January 2014 to ensure comparative financial information conforms to the new standard. Therefore, charities should already be thinking about how these new SORPs will impact them. Obviously we can help!

The future of the FRSSE

The new FRSSE SORP is likely to have a short shelf life.

The Financial Reporting Council (FRC) is proposing a revised version of FRS 102, to become effective from 1 January 2016, which would incorporate reduced presentation and disclosure requirements for smaller entities. This would probably lead to the withdrawal of the FRSSE 2015 and the new FRSSE SORP.

It is, therefore, likely that all charities will be required to follow the FRS 102, or a revised version of, for accounting periods beginning on or after 1 January 2016.

The FRSSE can be adopted by entities that meet the definition of a small company as defined by Companies legislation. In other words, entities that meet two out of three of the following conditions:

- Turnover not more than £6.5 million
- Balance sheet total not more than £3.26 million
- Number of employees not more than 50

The entity must also have met these conditions and qualified as small in the preceding year.

Opportunities

Social Investment Tax relief (SITR)

The 2014 Budget announced a range of income and capital gains tax reliefs which would be introduced for investment by individuals in qualifying social enterprises.

The purpose of the SITR scheme is to help charities and social enterprises attract funding through debt and equity finance from individual investors. A social enterprise is a commercial business that helps people or communities (i.e. community interest companies, community benefit societies, charities or social impact bonds).

The social enterprise must either be carrying on the qualifying trade for which the money was raised or be preparing to carry out that trade with the trade commencing within two years of the investment. A qualifying trade is a trade which is carried out on a commercial basis with a view to making a profit. Most trades would qualify, but a trade doesn't qualify if it consists wholly or substantially of excluded activities. Examples of activities that are excluded are property development, road freight transport and financial activities.

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SITR applies for investments made on or after 6 April 2014. The minimum period of investment is 3 years.

These reliefs will be broadly similar to reliefs under the Enterprise Investment Scheme, and include:

- An income tax credit of 30% of the amount invested.
- Deferral of a Capital Gains Tax charge if the profits are reinvested into a Social Enterprise
- After 3 years, SITR-qualifying investments that have gained in value can be sold or given away without paying Capital Gains Tax

There are a number of conditions that both the social enterprise and the investor must meet for the investor to claim – and keep – the relief.

Please contact us for further advice on this relief.

Full details are available in this HMRC guide.

Charitable incorporated organisations

The Charity Commission will accept applications for new or unincorporated charities to register as Charitable Incorporated Organisations (CIOs). A CIO must register to be a charity regardless of its level of income.

Plans are in place to enable a charitable company to convert to a CIO directly, but the Office for Civil Society needs to prepare the necessary regulations before this can happen.

A recent search of the Charity Commission Register shows that Charities have been taking up this new opportunity, with just under 3,400 Charitable Organisations having been registered with the Charity Commission so far.

The purpose of the CIO is to combine the advantages of having a corporate structure (e.g. reduced risk of personal liability) without the burden of dual regulation (the Charities Act and Companies Act). They will be subject to the Charities Act and the Charities Commission only.

However, the Charity Commission does not maintain a public register of charges of CIOs property. Therefore, charities intending to borrow money will need to consider whether this is the best structure for them.

Specific advice should be obtained before taking action, or refraining from taking action, in relation to the above.

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