pem.

March 2023.

Charities & Non-profit newsletter

HMRC charity recognition

Registration

Neither incorporating a charity with Companies House, nor registering a charity with the Charity Commission means the charity is automatically registered with HMRC.

Whilst the incorporation of a new company does often trigger a corporation tax Unique Tax Reference (UTR) number to be issued to the new company (as HMRC receive notifications from Companies House) this does not mean that HMRC have acknowledged that the entity is a charity for tax purposes and issued the relevant charity tax reference.

Registering as a charity with HMRC is a separate process and is important for several reasons. The benefits of registering a charity with HMRC include:

- Being able to take advantage of the Gift Aid scheme and other giving schemes such that repayments of UK income tax can be claimed on donations;
- Claiming charity tax reliefs and exemptions in the UK; and
- Being able to file tax returns on a rotational basis (normally every 3-5 years) rather than annually (at HMRC's discretion).

How to register

Registration used to be undertaken by a paper form ChA1 but can now be completed online. The process is similar for registering with the Charity Commission (England & Wales), Office of the Scottish Charity Regulator (OSCR) (Scotland) or Charity Commission for Northern Ireland (CCNI) (Northern Ireland) which most new charities must also complete.

To register, the following information is required:

- bank account details and financial accounts
- officials' details, including dates of birth and National Insurance numbers
- registration number if you've registered your charity with a regulator
- charitable objectives (sometimes called purposes)
- governing document (sometimes called a rulebook) - this explains how your charity is run
- Government Gateway user ID and password - you can create an account when you register your charity's details

Given the charity's own government gateway ID is required, this process is something we recommend the charity complete itself, rather than being dealt with by an agent.

Once registered, the charity will receive a charity tax reference number ("a HMRC Charities reference") starting with two letters followed by up to five numbers (e.g. QQ123456A). As noted above, this is not the same as a corporation tax UTR number.

Keeping registration details updated

Once a charity has been registered as such with HMRC, it is important the charity's details are kept up to date.

Any changes that need to be made can be made either by using the form ChV1 and posting this to HMRC, or by using the online service available through the Government Gateway, accessed with the same user ID and password created during the initial registration process.Examples of changes which would need to be communicated to HMRC include changes to:

- contact details such as addresses
- authorised officials
- nominees, such as tax agents
- bank account details

If details aren't kept up to date, important notices such as requests to file a tax return may be missed and penalties incurred. Likewise, if the right people aren't authorised to speak to HMRC on behalf of the charity, this can cause delays and errors in tax filings and claims.

Rachel Blunt
Assistant Manager, Business Tax

e. rblunt@pem.co.uk

Cost of living crisis update: energy & other reliefs

In our January newsletter we reported that the Charity Commission had issued guidance on the cost of living crisis. This guidance was updated mid-January 2023 for the latest in managing fuel costs and the reliefs available for charities.

The current **Energy Bills Relief Scheme** comes to an end in March 2023. It supports businesses, public sector and voluntary sector organisations by providing a discount on wholesale gas and electricity prices. The government has announced that this will be replaced by a new **Energy Bills Discount Scheme (EBDS)** lasting from April 2023 to April 2024 for eligible non-domestic consumers.

The government has been clear that the schemes are time limited and the EBDS is intended to strike a balance between supporting businesses over the next 12 months and limiting taxpayers' exposure to volatile energy markets, with a cap set at £5.5 billion based on estimates volumes. As with the original scheme, suppliers will automatically apply reductions to the bills of all eligible non-domestic customers.

The Charity Commission also recommend that charities check whether they are paying the correct rate of VAT on their fuel. **VAT for charities What qualifies for VAT** relief sets out what qualifies for reduced and zero rates.

Rob Plumbly
Director, VAT

e. rplumbly@pem.co.uk

Consultation on social media guidance

The Charity Commission has drafted guidance on the use of social media and the oversight expected by trustees. The guidance imposes no new duties on trustees, it rather aims to help trustees negotiate the balance between promoting the charity and protecting it from harm as well as managing the corporate and personal interactions through social media.

Paul Latham, director of communications and policy at the Charity Commission said

“Whilst it is reasonable for trustees to delegate day-to-day operation of social media, as with other matters, we want to ensure they feel empowered to take charge of their charity’s approach by adopting a suitable social media policy, and know what to consider should issues arise.”

A social media policy is a key element of the guidance and tool for charity trustees going forward. Trustees using social media are reminded to:

- adopt a social media policy so that you have internal controls in place that are appropriate, proportionate and are clear to everyone at the charity using social media
- ensure you use social media only to help you achieve your charity’s purpose (what your charity was set up to do) and in a way that is in your charity’s best interests
- comply with relevant laws and regulations
- any campaigning or political activity that you do on social media complies with the rules on political activity and campaigning
- ensure your processes help you keep people safe online. Read the “Operating online” section of our guidance on safeguarding

As the world continues to grow digitally it is important that charities are ready to use modern media to reach a new generation of donors, volunteers and beneficiaries.

The draft guidance sets out six key stages to help charities 'stay safe on-line'; the first of which is creating and agreeing a social media policy. To create a policy trustees need to understand how they use social media and how they want to use social media to engage with charity stakeholders.

Trustees should understand how that fits with the charity's purpose be it delivery of charitable objectives or fundraising. Trustees need to understand what they expect from staff and volunteers, and themselves. And then, perhaps most importantly what to do if things go wrong i.e. who the key contacts are and how any unwelcome media attention is going to be managed.

The second element is about managing the risks, including understanding the laws and regulations around posts from copywrite to defamation, privacy to GDPR. The charity must have a plan to identify problematic content and then how they would seek to deal with problematic content.

The charity also need to understand how they are going to engage on controversial topics and how they may or may not be involved in campaigning or political activity.

The guidance reminds trustees that any fundraising through social media is expected to comply with the Fundraising Code of Practice and all charities are expected to comply with the Code and duties as set out in Charity fundraising: a guide to trustee duties (CC20).

The last stage of the guidance is about staying safe on-line which has been a topic in previous newsletters. The 'Small Charity Guide' and 'Social Media and how to use it safely' guide produced by the National Cyber Security Centre cover various aspects of cyber security and can support trustees and charities.

The consultation closes at 5pm on Tuesday 14th March, with the final guidance due to be published in the summer.

Following this guidance, trustees may wish to review existing social media policies or set aside time in their schedule to develop a policy addressing the risks around social media.

Annual Return for 2023

The Charity Commission has published Charity Annual return 2023: question guide which highlights the questions charities will need to answer in 2023. The updated Annual Return will apply to charities' financial years ending on or after 1st January 2023.

This continues the stated intent of the prior year changes and continues to allow the Charity Commission to build a more detailed picture of the risks to individual charities and the overall sector.

This will not change the questions asked for the 2022 Annual Return. This link sets out changes and highlights what information will be collected and not published and the new information that will be published. Trustees should review the list to make sure that they are able to capture the information that may be required.

New questions for which answers will be published include the value of central government and local authority grants received, an analysis of the charity's income streams and employees by type (permanent or fixed term contracts or self-employed) (where there are more than two employees). Information will continue to be collected on the sources of income, including how income from outside the United Kingdom is received. Spending outside the UK using a method other than the regulated banking system will also be captured.

There will be new questions on whether the charity holds policies on a variety of topics including safeguarding, conflicts management and internal financial risk management. This list includes social media policy and procedures which is the subject of a separate consultation discussed above. Charities will also be asked to detail which DBS check they have obtained, along with a question around whether they work with children or adults at risk.

Many of the questions, including for example an analysis of grants between individuals, other charities and other organisations which are not charities, including identifying grant recipients that are related parties, are already visible in the financial statements but will now also need to be included in the annual return.

Pay & equalities

The ACEVO pay and equalities survey produced with CAF was published in October 2022 and considered data collected in April and May 2022. The survey can be purchased but the published highlights show that the median salary for charity leaders was £56,000.

The survey noted that the gender divide had increased over the past year with male respondents median salary being £60,000 and female respondents being £53,500. The survey also noted that additional flexibility was being offered to charity leaders and that following pay-cuts or freezes during the pandemic most charity leaders were now being offered a pay rise.

The survey also reported that progress to accelerate the diversity of leadership must be a priority for the sector, with responses to the 2022 survey indicating that just 7% were from Black, Asian and Minoritised Ethnic backgrounds, in line with previous years.

In addition, respondents indicated that access to personal development has been steadily decreasing since 2018, from 60% to 50% this year; 37% of respondents reported having no regular appraisal of their performance, the highest percentage yet.

The SORP requires that the arrangements for setting the pay and remuneration of the charity's key management personnel and any benchmarks, parameters or criteria used in setting their pay should be included in the annual report. Trustees and remuneration committee's should consider annually how their charities are assessing and rewarding the performance of key management.

VAT & tax

We are grateful to the Charity Finance Group for inviting our Head of VAT, Robert Plumbly, to speak at its VAT and Tax Conference last month.

Robert's session covered updates on the latest developments in VAT case law and regulations and how they might apply to charities. Topics included HMRC's revised approach when determining whether an activity is a business activity for VAT purposes, a round-up of recent cases and Making Tax Digital for VAT.

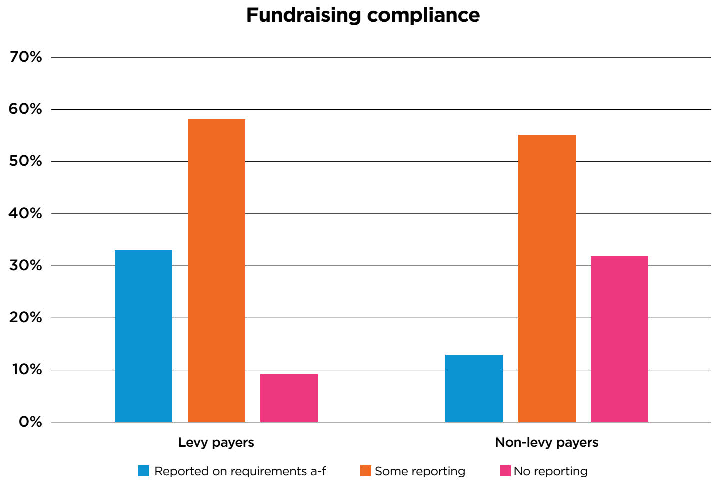
Compliance with fundraising regulation

The Fundraising Regulator has published new research and updated guidance to support compliance with the fundraising reporting requirements in the Charities (Protection and Social Investment) Act 2016 (the Act). This guidance follows up on previous research conducted in June 2020 and April 2019, although there has been some change in the methodology so that the results are not directly comparable.

The Act requires charities in England and Wales with an income of over £1 million to provide statements on specific areas of their fundraising in their annual report. The report in July 2022 compared the annual reports of 198 charities with an income of over £1 million to provide a benchmark for the charity sector, highlight good practice, and identify areas for improvement in the reporting of fundraising activity.

The review sampled 157 reports from charities voluntarily paying the fundraising levy and 41 levy refusers. The report found that the sample charities which did not pay the levy were less likely to meet the requirements in comparison to levy-paying charities.

Charities with an income of below £1 million do not have a legal duty to meet these fundraising reporting requirements. However, the Fundraising Regulator and the Charity Commission consider it good practice for all charities to consider the requirements of the Act. This promotes openness and transparency and gives assurance to the reader that key issues, such as protecting vulnerable people, are being addressed.



The table below shows the levels of compliance with the six different reporting requirements of the Act of the charities sampled, split between those who paid the fundraising levy and those who did not.

	Compliance	
Requirement	**Levy paying**	**Non-levy paying**
(a) The approach taken by the charity to activities by the charity or by any person on behalf of the charity for the purpose of fund-raising, and in particular whether a professional fundraiser or commercial participator carried on any of those activities;	86%	66%
(b) Whether the charity or any person acting on behalf of the charity was subject to an undertaking to be bound by any voluntary scheme for regulating fund-raising, or any voluntary standard of fund-raising, in respect of activities on behalf of the charity, and, if so, what scheme or standard;	80%	49%
(c) Any failure to comply with a scheme or standard mentioned under paragraph (b);	0%	5%
(d) Whether the charity monitored activities carried on by any person on behalf of the charity for the purpose of fund-raising, and, if so, how it did so;	40%	21%
(e) The number of complaints received by the charity or a person acting on its behalf about activities by the charity or by a person on behalf of the charity for the purpose of fund-raising;	69%	56%
(f) What the charity has done to protect vulnerable people and other members of the public from: (a) Unreasonable intrusion on a person's privacy; (b) Unreasonably persistent approaches for the purpose of soliciting or otherwise procuring money or other property on behalf of the charity; (c) Placing undue pressure on a person to give money or other property.	48%	22%

Financial Reporting Standard (FRS 102) consultation

The SORP committee published in January 2022 their aims and principles for drafting the next edition of the Charities Statement of Recommended Practice for those reporting under FRS 102 (Charities SORP).

The four aims are:

1. To address the needs of the main users of a charity's annual report and financial statements who do not have the power to require specific information of a charity.
2. To comply with Financial Reporting Council (FRC) requirements that SORPs should be developed in line with current FRC standards and best practice.
3. To promote consistency across the charity sector by recommending a preferred treatment, approach or methodology.
4. To keep recommendations relevant to the socioeconomic context in which charities operate by retaining the advice of an expert SORP Committee, convening a SORP engagement process and by holding consultation exercises on areas for changes to the SORP.

In December 2022, the Financial Reporting Council (FRC) published its consultation on changes to FRS 102 and it is expected that the update of the charities SORP will follow.

The FRC state that in developing Financial Reporting Exposure Draft 82 (FRED 82), they have considered changes to IFRS Accounting Standards, the IASB's proposed changes in developing the third edition of the IFRS for SMEs Accounting Standard, stakeholder feedback in response to the FRC's 2021 request for views, and other developments in corporate reporting.

As a result of the amendments set out in FRED 82, FRS 102 will reflect up-to-date IFRS-based solutions, providing high-quality and clear financial reporting to users. This will include more transparent reporting of lease obligations, as well as a clear five-step model for determining the recognition of revenue from all contracts with customers.

The proposals have been designed to be proportionate to the size and complexity of the entities applying the standards.

The proposed effective date of the amendments set out in the FRED is 1 January 2025. Comments on FRED 82, including the consultation stage impact assessment, are requested by 30 April 2023.

Key documents are available on the FRC website and are attached below:

FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review

FRED 82 – at a glance

Nikki Loan
Partner, Charities & Non-profit

e. nloan@pem.co.uk

Kreston Charity Report

PEM are proud to be part of Kreston Global, a network of independent accounting firms with a presence in over 120 countries worldwide. We are delighted to be able to share with you the Kreston Charities Report for 2023.

With Britain in the midst of a cost of living crisis and a bleak economic outlook, charities are feeling the pinch. Whether it's a decrease in funding as donors grapple with their own soaring costs, an increase in demand or recruitment challenges, charities face an uncertain future. All of this comes not long after the monumental impact of the Covid-19 pandemic.

The Kreston UK Charity Group works with more than 2,000 charities of various sizes offering a range of services across the UK and this survey sheds important insight into the experiences of a wide range of charities across the UK.

In particular, the results demonstrate the impact that the cost of living crisis is having on the charity sector: A large majority of the charities surveyed have seen costs rise over the past 12 months due to soaring energy bills and inflation. Recruitment is also a real concern, with 64% of charities saying that it has become more challenging to both recruit and retain staff.

Elsewhere in the report, 82% of charities said their beneficiaries are more affected by mental health now than they were before the pandemic, and 72% have increased the provision of mental health support for staff/volunteers.

But there are more fundamental issues which the survey explores, including a lack of diversity, particularly at senior level. This is a major worry for the charities we surveyed, with 72% saying they are concerned about a lack of diversity among their Board of Trustees.

Charities are, on the whole, well equipped to deal with cyber security, and environmental issues are increasingly important, with half of the charities saying they are addressing climate concerns despite them not being part of their objectives.

Kreston Global member firm, Duncan & Toplis are hosting a webinar on 22 March 10am-11:30am which will look at the insights derived from the newly released report, including financial matters, technology and cyber security concerns, as well as workplace considerations including diversity, recruitment, and pay.

To view the full Kreston Charity Report 2023, please click here.

Kelly Bretherick
kbretherick@pem.co.uk

Nikki Loan
nloan@pem.co.uk

Michael Hewett
mhewett@pem.co.uk

Kathryn Hebden
khebden@pem.co.uk

Gemma Baratte
gbaratte@pem.co.uk

Judith Pederzolli
jpederzolli@pem.co.uk

Kate Millard
cmillard@pem.co.uk

Robert Plumbly
rplumbly@pem.co.uk

PEM
Salisbury House
Station Road
Cambridge CB1 2LA

t. 01223 728222
e. pem@pem.co.uk

pem.co.uk

KRESTON GLOBAL