



# Charities & Non-profit newsletter.

May 2025

**pem.**  
150 YEARS



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# Consultation on financial thresholds.

The consultation, [Consultation on financial thresholds in charity law - GOV.UK](#), was published on the 3 April 2025 by the Department for Culture, Media & Sport (DCMS) and seeks views on a number of financial thresholds to balance appropriate regulation whilst seeking to reduce the administrative burden on smaller charities. PEM contribute to consultation responses so please do respond individually but if there are any matters of concern you would like to raise with us, please do reach out.

practice (SORP) for charities accounting under FRS 102; the consultations are not linked. Decisions around the thresholds may have an impact on the requirements of the SORP, therefore we would encourage charities to respond to both consultations highlighting the connections.

The proposed options are broadly to keep the thresholds the same, apply an inflationary increase, or apply an increase which is less than inflation, that is something between the two.

This consultation is running concurrently with the consultation on the statement of recommended

The consultation covers 21 thresholds of which some have been set out below.

Aspect	Current Threshold	Proposed Options
Registration Thresholds	Gross income: £5,000	Maintain at £5,000 or increase to £10,000
Annual Return Requirement	Income over £10,000	Maintain at £10,000 or increase to £20,000
Submission of Annual Reports and Accounts	Income over £25,000	Maintain at £25,000 or increase to £40,000 or partially increase to £30,000
Independent Examination of Accounts	Income over £25,000	Maintain at £25,000 or increase to £40,000 or partially increase to £30,000
Accruals accounts (ie the threshold below which receipts and payments accounts can be prepared)	Income over £250,000	Maintain at £250,000 or increase to £400,000 or partially increase to £300,000
Qualification requirements for Independent Examiners	Income over £250,000	Maintain at £250,000 or increase to £400,000 or partially increase to £300,000
Audit threshold income	Income over £1,000,000	Maintain at £1,000,000 or increase to £1,500,000 or partially increase to £1,200,000
Audit threshold assets	Gross assets £3,260,000	Maintain at £3,260,000 or increase to £5,000,000 or partially increase to £4,000,000

Thresholds Amended by the Charities Act 2022 relating to:

- gifts
- failed appeals
- ex gratia payments
- release of permanent endowment.

Are to remain unchanged.

In many cases the consultation highlights the status quo or the limited increase as the DCMS recommended option. Charities are often in the public focus and considered to be of public interest: as a result there is a special independent examination regime as well as an audit threshold which is currently lower than the company audit threshold by a factor of 10.

This consultation is the first opportunity in a number of years to make a change. The registration threshold was set in 1995 and many of the thresholds were last changed in 2009.

In addition, changes in accounting driven by the latest changes to the Financial Reporting Standard in the UK (FRS 102) may mean that small charities with leases will see a dramatic change in their gross assets as leased assets are recognised on balance sheet. This may mean that more charities fall within the audit threshold currently based on income of

over £250,000 and assets of over £3,260,000.

The threshold consultation still does not address what happens to charities who year-on-year move between the thresholds, perhaps due to legacy receipts or the lumpy recognition of grant income. For a company, the legislation sets out a two year rule which means that one-off changes would not necessarily impact the reporting requirements. Perhaps a similar provision could be made for charities.

Whilst there is an on-going importance to balance responsible accounting and reporting with the administration costs, it is important that charities have their say in the discussion based on what it means to them.

## Next steps

Respondents are invited to complete the online survey or send responses by email or post by 12 June 2025. The government aims to publish a summary of the consultation responses and an implementation plan within 12 weeks.

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# Consultation on the Statement of Recommended Practice.



**The new Exposure Draft Statement of Recommended Practice: Accounting and Reporting by Charities (SORP 2026) tops some 300 pages. It was launched on 28 March 2025 and will run for 12 weeks and introduces among other changes an additional charity tier, more required reporting on reserves and reporting on impact and sustainability for the biggest charities. Many of the changes are however driven by the changes made by the Financial Reporting Council (FRC) to the Financial Reporting Standard (FRS 102), in particular in relation to lease accounting and revenue contract accounting and the SORP includes additional guidance to charities on those areas.**

As with the threshold consultation it is important that charities express their views and we would encourage everyone to respond to the consultation. This article sets out some areas of discussion around

the consultation. Your opinions count and will be considered by the SORP Committee as part of the consultation response, so whether you agree or disagree, please respond to the consultation.

PEM also contribute to consultation responses so please do respond individually but if there are any matters of concern you would like to raise with us, please do reach out.

## Some areas of change

### Tiering System for Charities

SORP 2026 introduces a tiering system designed to accommodate the diverse sizes of charities within the sector. This system specifies distinct reporting requirements for charities based on their gross income.

Some can prepare receipts and payments accounts based on a separate limit (see the threshold consultation). Consider all requirements for Tier 1. Can prepare accruals accounts either by natural categories or an activity basis.

Consider all requirements for Tier 1 and Tier 2. Prepare accounts on an activity basis.

Consider all requirements for Tiers 1, 2 and Tier 3. Prepare accounts on an activity basis.

**Tier 1** Gross income of less than £500,000 (€500,000)

**Tier 2** Gross income between £500,000 (€500,000) and £15 million (€15 million).

**Tier 3** Gross income over £15 million (€15 million).

Charities must meet the requirements of their respective tiers, ensuring that their reporting is aligned with the complexity and financial scale of their operations. This tiering system aims to improve the relevance, comparability, and understandability of financial and non-financial reporting by charities, thus enhancing accountability and transparency. However, there are a number of challenges. The lack of alignment of the tier 1 threshold with the audit threshold (either the current threshold, proposed

threshold, or the Scottish threshold which is soon to be raised to £1 million) will add another level of complexity to the accounting requirements for small charities. The thresholds for the tiers are only based on income and therefore a tier 1 charity may fall within the audit requirements due to the level of assets which may create confusion over the reporting required.

Equally a charity which is small in relation to the

companies act thresholds may still have to provide a cash flow as it is only the income threshold which is considered in section 14 of the proposed SORP, relating to charity cash-flows.

### The Trustees report

The Trustees' reporting requirements are set out in the three tiers and the requirements are cumulative.

The exposure draft continues to differentiate between mandatory 'must' requirements and 'should' disclosures which are encouraged.

The structure of the trustees' report remains similar, the most significant changes for tier 1 charities will be the mandatory reporting around reserves, with more detail required than previously, and the need to set out their plans for future periods.

In addition, the requirement to report on the nature and scale of volunteers' activities in the trustees' report is now a 'must' disclosure for all.

For tier 2 charities, there is increased focus on impact reporting and for tier 3 charities there is an additional requirement to report on sustainability, as the report must provide a summary of how the charity is responding to and managing environmental, governance and social matters. Disclosures are encouraged for smaller charities.

### Reserves

All charities currently must disclose any policy they have for holding reserves and for larger charities, the current SORP sets out a number of steps a larger charity should take to explain its reserves amounts and purposes.

The proposed SORP effectively translates the previous 'should' steps into 'must' steps for all charities, not just tier 2 and above. The exposure draft still mandates that charities must include a comprehensive financial review in their annual report, detailing the reserves policy. This includes the rationale for holding reserves, specifying the amount held, and explaining why they are maintained.

If trustees decide that holding reserves is unnecessary, this decision must be disclosed along with the reasons.

However, all charities must now also explain any discrepancy between the amount of reserves held and the policy, including steps to align reserves with future plans. The amount of reserves should reconcile with the accounts, and any material amounts designated or committed must be identified, including the expected timing of their expenditure. If there are material uncertainties about the charity's ability to continue as a going concern, these must be disclosed and linked with reserves considerations.

### Achievements and impact reporting

Both current and revised SORPs state for all charities that the report must contain a summary of the main achievements of the charity. The proposed SORP also includes some prompt questions to assist tier 1 charities with this, stating that trustees must provide answers to the following questions:

- in what way has the charity's work made a difference to the circumstances of its beneficiaries?
- has the charity's work provided any wider benefits to society as a whole?

Noting that use of infographics, statistics, beneficiary and volunteer testimonials may help communicate this information to users, focussing the reporting on the outcomes and impact of the activities.

For tier 2 the report 'must' explain the impact the charity is making and must consider the long-term effect of its activities on individual beneficiaries and on society as a whole. The report 'should' also include a summary of measures or indicators used to assess performance, outputs achieved, and outcomes or impacts in the context of the charity's aims. Significant factors affecting the achievement of objectives, such as relationships with stakeholders, should be commented on.

For tier 3 charities, a review of material fundraising activities against objectives and the effect of related expenditure is required. There is no indication in the exposure draft that impact reporting produced separately to the financial statements can be linked (as is the case for sustainability reporting), therefore impact reporting included will need to be sufficient to tell the story without relying on links to other publications.

### Sustainability reporting

Charities are encouraged to address how they are responding to and managing environmental, governance, and social matters. For tier 3 charities, this is mandatory. Reporting could include details of key performance indicators related to climate risks and opportunities, as well as governance and social issues like board diversity and business ethics. If the charity is already reporting on these matters outside the annual report, a link may be provided.

Charitable companies (those who are classified as large companies) which fall within the scope of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) 2018 Regulations (Streamlined Energy and Carbon Reporting regulations, (SECR)) must provide the disclosures required under these regulations.

### Legacies

For tiers 2 and 3 there is a new requirement to report on legacies in the financial section of the report, this is designed to improve the understanding of legacy disclosures. However, where accounting policies are clear and material judgments and estimates explained in the notes to the financial statements, it may be that these disclosures are repetitive.

The Trustees' report is the main area of change driven by the SORP Committee, and perhaps the area where consultation responses can have the most significant influence.

## Presentation and financial accounting

### Natural presentation

The tone of the extant SORP could be read as encouraging all charities to activity account, with what could be seen as an aside that smaller charities may adopt a different approach. The exposure draft makes an alternative presentation clearer including an example of a natural classification presentation. This effectively exempts smaller charities from having to allocate support costs and may mean that statutory accounts are more reflective of a charity's management reporting.

On the one hand this presentation may mean that it becomes harder to assess activities, as the full cost of the charitable activities undertaken may not be so clear to the reader or the trustees, or comparable with other charities. However, the variation in support cost allocation methods may mean that this was already difficult and a natural classification presentation may be potentially more understandable to a lay trustee. For charities who believe that their income is likely to fluctuate between the tier 1 and tier 2 levels there may be issues of year-on-year comparability, so they may not be able to take advantage of this clarity.

As noted in the article on the Department of Media Culture and Sport threshold consultation there is no current proposal for a two year view of threshold changes.

### Accounting changes

One of the main changes in FRS 102 is the recognition and accounting for income. The principles of FRS 102 are set out in section 5 of the SORP.

### Recognition of income, including legacies, grants and contract income

The changes in FRS 102 are around the recognition of contract income, there are no specific changes for non-exchange transactions. Therefore, one of the most important judgments is around whether a transaction is an exchange for consideration, or whether there is no direct provision of equal value in exchange.

These judgments are likely to be most sensitive around memberships and identifying performance-related grants and contracts. Accruals accounting for grants is still not permitted under the exposure draft and a designated reserve is suggested as a way of accounting for capital grants and therefore identifying and separating the depreciation charge in relation to grant funded assets from other

unrestricted expenditure. The treatment of legacies is relatively unchanged.

For all of these elements it may be useful if more examples were provided of how the recommended treatment is applied.

### Lease accounting

Section 10B sets out the new lease accounting requirements in line with the revisions to FRS 102. The section on lease accounting is broken down by key elements and decisions, and has its own index to aid navigation, some examples are given.

As with revenue the initially challenging judgment may be around the identification of a lease for consideration and a non-exchange transaction.

The exposure draft states in its defined terms related to leases:

Peppercorn arrangements - in this SORP such arrangements are considered to have the legal form of a lease, but with nil or nominal consideration and are unlikely to meet the FRS 102 definition of a lease but are considered therefore to be a form of non-exchange transaction.

There is little further definition on what nominal consideration may be in this case and whether that may be relative to the lease or the charity or some other measure. For some charities this may be a key consideration in determining the treatment of a lease. The SORP is clear that a lease may be 'under-value' due to specific circumstances around the building, its condition, or specialised nature which mean that though low it may reflect market value. If it is determined that the lease is a donation, the charity then needs to determine how to value the donation, be it an operating cost or an asset. These judgments are going to be difficult for trustees without professional valuation advice.

If an arrangement is identified as a commercial lease then the charity will need to determine a discount rate. There is a hierarchy of rates that the charity should try to obtain starting with the rate implicit

in the lease, then the incremental borrowing rate, followed by an obtainable borrowing rate and finally a rate of interest that the charity could otherwise obtain on deposits. This judgment is likely to have a material impact on the valuations included in the financial statements and will form part of the judgments and estimates disclosure.

### Social investments

Social investments are defined as investments made for both a financial return and to further the investing charity's purposes. These can take various forms such as loans, guarantees, or shares in private companies. The previous terminology of mixed motive and programme related investments has been combined to social investments. Prior year comparatives will need to be restated.

Charities making social investments must disclose their social investment policies and explain how these investments contribute to their charitable purposes.

Social investments measured at cost or amortized cost must be assessed for impairment at the end of each reporting period, and any impairment loss must be recognised immediately in the statement of financial activities through the gains and losses disclosure. This is a change from the extant SORP where impairments related to programme related investments would be made through charitable activities.

## Next steps

Consultation responses are requested by the 20 June 2025 and can be made online [Invitation To Comment - SORP](#). Respondents can answer all questions but are not required to. Charities can focus just on those questions that most closely impact their reporting or accounting.

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# Update.

HMRC have announced that the date from which all employers must payroll benefits in kind is deferred by a year to 6 April 2027. There will be more information to follow.

# Biodiversity Net Gain.

**Legislation on Biodiversity Net Gain (BNG) became mandatory in England for new planning applications made for major development from 12 February 2024, and small sites from 2 April 2024, although there are some exemptions from this. This article explains what BNG is and the potential, although currently uncertain, tax implications for those selling BNG credits.**

## What is BNG?

BNG is an approach to development and land management, that aims to leave the natural environment in a better state than it was before the activity took place.

## How does it work?

Those undertaking development work need to assess changes in biodiversity value (gains or losses) brought about by development or changes to land management.

This is measured using the “Biodiversity Metric”. A net gain of 10% is required and a biodiversity gain plan must be produced to show how this gain will be delivered.

Normal wildlife and habitat legal protections are not affected.

## How is the net gain achieved?

This can be achieved in three ways:

- on-site
- off-site
- via the statutory biodiversity credits scheme.

On-site is within the boundary of the project and off-site means land outside the boundary, regardless of the land ownership.

As well as the developer/land manager taking direct action to produce off-site gains, gains can also be achieved by buying Off-site Biodiversity Units. These units are created by another party who is creating a BNG by investing in habitat creation (“habitat banks”).

This habitat needs to be managed for a minimum of 30 years and the price of the credits will reflect the costs of doing this. The land is placed on a National Biodiversity Gain Sites Register.

## What are biodiversity credits?

If the gains cannot be achieved on or off site then, as a last resort, the developer or land manager will have the option to buy Statutory Biodiversity credits from the Government.

These are tradeable financial instruments. The Government will then invest the funds in habitat creation.

## How are sale of biodiversity units taxed?

It will be important for those selling the units to understand the VAT, capital gains tax and direct tax treatment of these receipts. HM Revenue & Customs and representatives from interested stakeholders are working together with the aim of providing clarity on the tax treatment of the sale of the units.

The sale will result in a large up front payment, so it needs to be determined whether this will be treated as a capital sum or, more likely, treated as income.

There is also the question of whether this will be spread over a 30 year period, for both tax and accounting purposes.

It is expected that HMRC will issue guidance on this in due course. Landowning charities are also keen to know whether the sale of the units will be subject to income/corporation tax as non-primary purpose trading income. This is another area being discussed with HMRC.

From the VAT side, the sale of units is a taxable supply and VAT is charged at 20%.

It will also be necessary to consider whether inheritance tax reliefs (agricultural or business) will still be available in respect of land which is put into a BNG scheme.

Hopefully guidance from HMRC will be forthcoming soon as the sale of units is already been undertaken by some landowners.

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# Dealing with Gift Aid on the death of a donor.

**HMRC has clarified when Gift Aid can be claimed when someone dies. This is relevant where bank accounts are not closed immediately when someone dies and so regular gifts from deceased persons continue after the date of death.**

HMRC confirmed that a Gift Aid declaration ceases to be valid upon the date of death because a person ceases to be an individual from the date of death as all assets become that of the estate, with any tax relief in the form of Inheritance Tax relief.

HMRC understand that charities continue to claim Gift Aid on donations in good faith until such time as they receive notification from the estate of the deceased.

There is an expectation that the charity would make an adjustment to refund the relevant Gift Aid to HMRC on any donations from the date of death once they have been informed of this.

This is slightly different from a person becoming a non-taxpayer where the date of Gift Aid not being eligible to claim being the date of notification to the Charity and not the date when that person ceases to be a taxpayer.

As a reminder, Gift Aid declarations are essential in order to claim Gift Aid. These need to have the following key information in order to be valid:

- the name of your charity or CASC
- the donor’s full name
- the donor’s home address
- whether the declaration covers past, present or future donations or just a single donation
- a statement that the donor wants Gift Aid to apply (this could be a tick box on a written or online declaration)
- an explanation that the donor needs to pay the same amount or more of UK Income Tax and/or Capital Gains Tax as all charities and CASCs will claim on the donor’s gifts in a tax year and that the donor is responsible to pay any difference.

It is possible to receive verbal declarations, but these must be followed up by the charity issuing a written confirmation to the donor with the above information and also letting them know that the declaration can be cancelled within 30 days. This letter and/or the verbal recording should be retained.

Written declarations can also be cancelled, but not for one off donations. Records of cancellations should also be kept.

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# Charities paying a trustee or a connected person: understand the rules (CC11).

In April 2025, the Charity Commission published a comprehensive revision of CC11 and its guidance on payments to trustees.

The press surrounding the release of the guidance made clear that the Charity Commission view that:

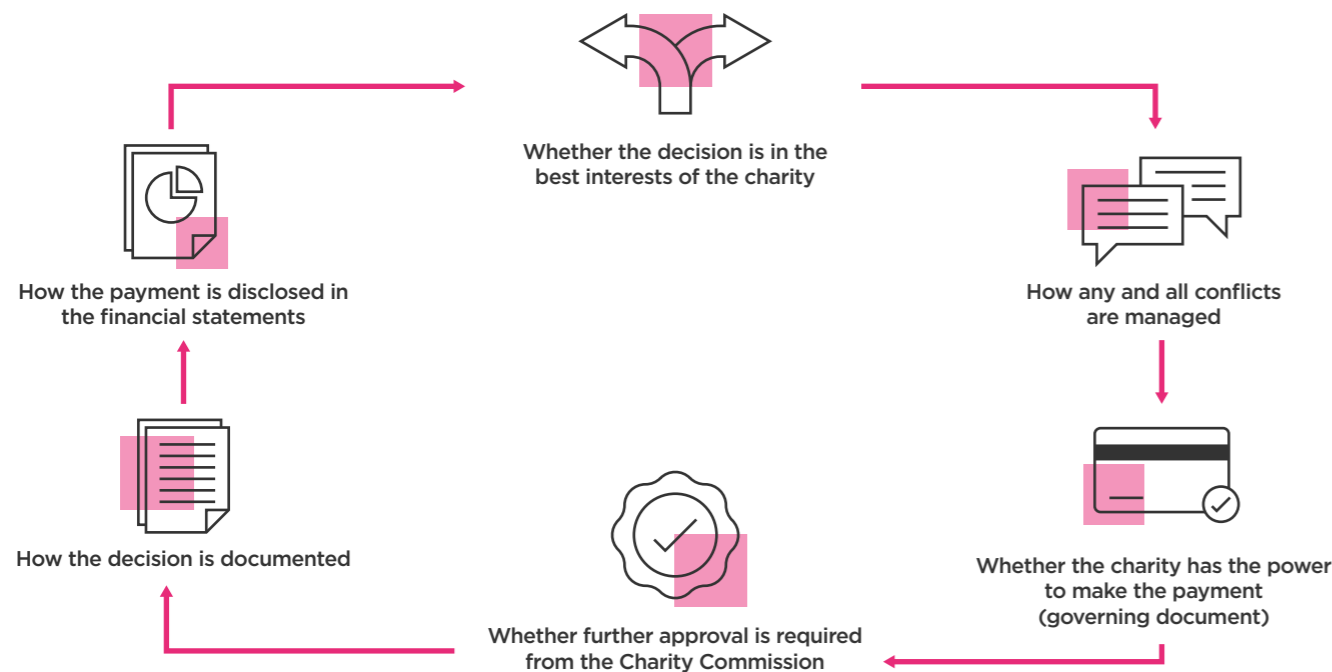
*"Being a trustee is generally a voluntary role. This is what makes the charity sector unique and promotes trust and confidence in charities".*

The module on Paying a trustee for carrying out trustees' duties states that external reaction to paying trustees is often negative.

The guidance is broken down into a number of discrete elements to make it easier for trustees to select the relevant guidance.

- paying a trustee or a connected person for providing goods or services to the charity (overview)
- employing a trustee or a connected person
- paying a trustee for carrying out trustee duties
- compensating a trustee for loss of earnings
- paying trustees: other types of trustee payments.

The key elements of the guidance are for trustees to consider:



The importance of not only making but documenting and disclosing trustee decisions are perhaps a key element of whether the payment can be justified to be in the best interest of the charity.

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## A new Code of Fundraising Practice.

A new Code of Fundraising Practice (effective 1 November 2025) has just been published by the Fundraising Regulator in April 2025. Following a comprehensive review initiated in September 2022, the Regulator states that it has made the code 45% shorter than the previous version, with improved signposting to legal requirements and external guidance.

The Regulator also published three support guides

- documenting your fundraising decisions
- due diligence and fundraising
- monitoring fundraising partners.

And additional guidance on how to engage with the Fundraising Regulator. All the guidance can be found on the Fundraising Regulator website. There are also a number of events through May and June to support organisations implementing the code.

[New Code \(effective 1 November 2025\) | Fundraising Regulator](#)

The code sets out the key principles with examples and explanations alongside links to sources of further guidance throughout.

Some areas have been combined and linked to clarify the rules. Key principles remain:

1.1.2 You must take all reasonable steps to make sure your fundraising is carried out in a way that reflects positively on fundraising in general. This includes:

- not unreasonably intruding on a person's privacy
- not putting undue pressure on a person to donate
- not using unreasonably persistent approaches
- accepting a request to end an interaction.

Further guidance is given on restricted fundraising and secondary purposes and how fundraisers can provide information.

Section 2 of the new Code set out responsibilities for trustees; it will be important for all trustees to review their arrangements during the transition period to the new code to ensure that they are fulfilling their overarching responsibilities.

2.1.1 You must act reasonably and carefully in all matters relating to fundraising. This may include:

- taking overall responsibility for fundraising activities, including those you have delegated to others
- following codes and guidance from relevant regulators
- making sure your fundraising activities keep to data-protection requirements
- getting appropriate advice when needed
- considering the effect of controversial fundraising campaigns
- assessing and managing risks that fundraising poses to your charitable institution's activities, beneficiaries, property, work and reputation
- meeting any reporting and accounting requirements that apply to a donation.

including identifying and dealing with conflicts, making sure that donations are complete and making sure that they are used for the purposes for which they are given. There is guidance on complaints, refunds, data protection and payments to fundraisers to support management and trustees.

### Next steps

Whilst registration with the Fundraising Regulator is voluntary, registered organisations are entitled to display the Fundraising Badge on their material and are listed in the public directory. For all charities, including those who do not register, but which are required to have an audit, fundraising responsibilities to monitor and report are enshrined in the [Charities \(Protection and Social Investment\) Act 2016](#).

We recommend that Trustees consider their transition to the new Code of Fundraising Practice, or adopting the Code when assessing their compliance with fundraising requirements.

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The new Code makes clear that trustees also have a responsibility to protect their fundraisers from harm, as well as potential donors. Trustees must demonstrate that they have acted in the best interests of the charity when fundraising,

# Coming up at PEM.

With the new SORP on the spring horizon and FRS102 already issued, we are planning some lunches and webinars for questions and discussions of the changes.

Topic	Timing	Location	Host	Link to register/to receive further information
The proposed Charity SORP: Considering revenue, leases and other changes	18 June 2025 12:30-14:00	Webinar	PEM	N/A
Financial challenges and recovery	2 July 2025 12:30-14:00	PEM	PEM with Phil Reynolds FRP Consulting	Registration not yet open
Changes to the SORP and trustees reporting	September 2025 (TBC)	Webinar	PEM	Registration not yet open
Pure Charity Leaders Group	October 2025 (TBC)	TBC	Pure Charity Leaders Group and PEM	Registration not yet open
Cyber recap and charity updates	November 2025	PEM	PEM with Jon Stanton (4Cambridge) and their special guest	Registration not yet open



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