Charities & Non-profit newsletter.

November 2025

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Contents.

Updates to the Charity and Further and Higher Education SORPs.

The Charity Statement of Recommended Practice (SORP 2026) was officially released on 31 October 2025, followed shortly by the Further and Higher Education SORP (FE/HE SORP 2026) on 3 November 2025.

Both frameworks introduce updated guidance to ensure transparency and consistency in financial reporting. They apply to **financial periods beginning on or after 1 January 2026**, meaning charities with year ends of **31 December 2026** and institutions with year ends of **30 June 2027 or 31 July 2027** will be among the first fully impacted.

Charity SORP

This is the most significant revision to the SORP in a number of years and replaces our current FRS 102 SORP published in 2019. Many of the changes are driven by the revisions made by the Financial Reporting Council (FRC) to the UK Financial Reporting Standard FRS 102, which continues the alignment of UK GAAP with IFRS.

The most significant accounting changes being in relating to lease accounting and contract revenue accounting. The publication of the final SORP 2026 also coincides with the outcome of the charity threshold consultation, which we consider on page 14.

The SORP committee managed development of the new SORP through a number of working groups, themes and strands and sought to respond to sector feedback for greater transparency and proportionality. One of the most significant changes is the introduction of a tiered reporting framework.

Tiered reporting framework

The new SORP introduces a three-tier system based on a charity's income, designed to make reporting proportionate to size and complexity:

- **Tier 1:** Income up to £500,000
- **Tier 2:** Income between £500,000 and £15 million
- **Tier 3:** Income over £15 million.

Smaller charities in Tier 1 should benefit from reduced disclosures and are encouraged to consider natural classification as a simplified method of presentation which avoids the complication of allocations.

However, it is not all reliefs, there are some additional requirements for Tier 1 charities, particularly in respect of the trustees report including fuller disclosures around volunteers, reserves, going concern and future plans.

The requirement to prepare a cash flow statement has also been removed from Tier 2 broadly aligning the only Tier 3 requirement to prepare a cash flow statement with the companies act threshold.

Although as charity thresholds are just based on income thresholds, there may be charitable companies in Tier 2 that breach the net assets and employee thresholds and are therefore required by the Companies Act to prepare a cash flow statement.

Expanded narrative reporting requirements

As noted above, the revised SORP requires all charities to provide more information on financial sustainability through linking reporting on reserves, future plans and going concern. However there are also more requirements around impact and sustainability.

Impact

The SORP challenges all charities, including Tier 1 charities to think about their impact. Tier 1 smaller charities must report a summary of the main achievements of the charity and are challenged to consider 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?

For charities with income over £500,000, more in depth reporting is required. This additional reporting includes linking the achievements to the aims and objectives and explaining the impact the charity is making, including the long-term effect of its activities on individual beneficiaries and on society as a whole.

The SORP suggests that infographics, statistics, beneficiary and volunteer testimonials to communicate this information, as well as measures and indicators to assess performance.

Sustainability

Trustees are encouraged to consider the needs of stakeholders when reporting in this area and reporting is only mandatory for the largest charities, those with income greater than £15m.

Annual reports:

- **Must** provide a summary of how the charity is responding to and managing environmental, governance and social matters
  - **Could** provide KPIs used to assess progress against targets for climate-related risks
  - **May** include details of:
  - Cyber and data security and business ethics
  - Engagement and well-being
  - Diversity and inclusion
  - Community.
- **Should** include a link if the charity reports elsewhere.

Income Recognition – New five-step model

SORP 2026 introduces a structured five-step approach for income from exchange transactions (e.g., contracts for services), aligning with IFRS 15 principles. We covered some of the principles around contract income recognition in our June webinar on the changes. As a reminder the five steps are:

1. Identify the contract
2. Identify performance obligations
3. Determine transaction price
4. Allocate price to obligations
5. Recognise income as obligations are satisfied.

However, for many charities a greater proportion of the income is received through non-exchange transactions. There are no specific changes for non-exchange transactions, however the language is changing and the concept of 'entitlement' is no longer a key to the recognition decision (except for performance related grants and dividends).

One of the most fundamental judgments going forward is around whether a transaction is in 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, which may either be similar to a donation or an exchange contract, and identifying performance-related grants and contracts.

Accruals accounting for grants is still not permitted under the SORP 2026 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. Although the Trustees' reporting module now contains a requirement for charities in Tier 2 and above to include information around material legacy judgments in their Trustees' report.

Changes in judgments and income recognition may mean that income is deferred (or accelerated). This may have an impact on the thresholds, SORP and legal applicable to the charity.

Lease Accounting – On-Balance Sheet Recognition

Most operating leases must now be recognised on the balance sheet as a right-of-use asset with a corresponding liability, except for short-term or low-value leases.

This will be a significant change for charities with property or equipment leases and may affect key financial ratios and/or require system updates. For some charities with peppercorn leases, or leases with a nominal value the first decision will be whether the lease is within the scope of the standard, or should be treated as a donation. If a lease is given at below market value, and the charity determines that this means that the lease included a social donation or non-exchange component, then the charity will need to consider whether that social donation is part of the asset or a donated facility or service in relation to the asset and then how that amount may be determined. These judgments may 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

One other area of change is social investments. Previously the SORP has divided social investments into programme related investments and mixed motive investments, now there is only one category, that of social investments. Social investments are made for both a financial return; and to further the investing charity's purpose.

Comparatives will need to be restated in line with the new terminology and definition.

Any losses on social investments will be shown within charitable expenditure and gains subsequently credited to charitable expenditure to the extent that they match previous losses. Gains should be recognised in other income.

FEHE SORP

As we expected, the most significant changes to the FE/HE SORP 2026 are the revisions to lease accounting and revenue recognition as embedded into FRS 102.

The changes align lease accounting more closely with IFRS16 by removing the distinction between operating and finance leases for most arrangements. Under the revised standard, lessees must now recognise all leases (with limited exemptions) on the balance sheet, recording both a right-of-use (ROU) asset and a lease liability.

With regards to revenue recognition, the changes in FRS 102 are primarily around the recognition of contract income, which adopts a five-step model in line with IFRS 15, as described above. There are detailed examples in the FE/HE SORP 2026 for specific circumstances which supports institutions in applying the five-step income recognition model. A specific change is that fee waivers, bursaries and scholarships are now to be accounted for as a reduction to revenue rather than as expenditure.

At PEM, we have published technical guidance on the accounting impacts in our July article and September article.

The FE/HE SORP 2026 introduces a number of clarifications and minor enhancements throughout the document. Below is a summary of some of the most notable updates.

Government Grants and Non-Exchange Transactions

- The 2026 SORP retains the policy choice for government grants but clarifies definitions and provides enhanced guidance on performance-related conditions and restrictions.
- The new SORP includes more explicit requirements for allocating joint grants between government and non-government sources.

- Guidance on non-exchange transactions is expanded, with clearer instructions on measurement, recognition, and disclosure, including flowcharts to assist in determining the correct treatment.
- Disclosure requirements for both government grants and non-exchange transactions are also enhanced.

Presentation of the Statement of Financial Activity and Annual Report

- The 2026 SORP maintains the requirement for the key primary statements: Statement of Comprehensive Income, a Statement of Changes in Reserves, a Statement of Financial Position, and a Statement of Cash Flows, but updates the illustrative formats in Appendix 1.
- The Statement of Comprehensive Income now includes "Interest and other finance income" as a separate line item, combines "Depreciation and amortisation," and replaces "Fundamental restructuring costs" with "Restructuring costs." The Statement of Financial Position adds "Negative goodwill arising from the acquisition of ABC College" as a line item and clarifies the presentation of joint ventures and associate investments.
- There is enhanced guidance on restatements due to changes in accounting policy.
- The annual report now explicitly encourages disclosure of environmental, social, and governance (ESG) practices, reflecting stakeholder feedback.
- The SORP maintains the single-column presentation for the Statement of Comprehensive Income, rather than splitting by fund type, but requires additional note disclosures for material restricted or endowment funds.

Other Notable Changes

- The 2026 SORP introduces a new Section 2A on Fair Value Measurement, replacing the previous appendix and aligning with IFRS 13 principles.
- Guidance and disclosure requirements for service concession arrangements are enhanced, particularly for student accommodation and PFI-type arrangements.
- The SORP updates guidance on multi-employer pension schemes, with more explicit requirements for recognising liabilities for past service deficits.
- Section 27 and Appendix 2 provide detailed guidance on transition, including practical expedients and exceptions from retrospective application for leases and revenue.

Next Steps

Review income and lease arrangements: Prepare for changes in recognition and disclosure.

Assess tier classification: Determine which tier your charity falls under and review the associated requirements, remember to consider companies act threshold and legal thresholds as well to understand all reporting requirements for the entity.

Update narrative reporting: Incorporate impact, sustainability, volunteers, reserves reporting and future plans into the Trustees' Annual Report, as required or desired.

Consider responsibilities for each section, whether the information is already available, what information needs to be collected and collated.

Engage advisers early: Ensure systems and policies are ready for implementation by January 2026.

Please get in contact with us to discuss how these changes might impact your charity, or institution and how PEM can support your transition to the new standards.

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Code of Fundraising Practice 2025.

The Fundraising Regulator's new Code of Fundraising Practice ("the code") came into effect on 1 November 2025. The code sets the standards that apply to fundraising conducted by all charitable institutions and third-party fundraisers in the UK.

Updated code

The updated code was developed through extensive consultation with fundraisers and organisations in the charity sector.

It simplifies and consolidates previous rules, introduces clearer language, and strengthens protections for donors, particularly those in vulnerable circumstances.

The new code also aligns fundraising practice more closely with legal requirements and best practice, making it easier for organisations to comply and maintain public trust.

Key changes

We have summarised some of the key changes to the code in the table on page 9.

A full list of all changes can be found on the regulators website.

Regulator Guidance

To help charitable organisations and third-party fundraisers apply the new code, the regulator has created a set of supporting guides and offers a dedicated advice service.

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Section	Section Title	Summary of Change
1	Behaviour when fundraising	New consolidated rule (1.1.2) requiring fundraising to reflect positively on the sector, including avoiding undue pressure, persistent approaches, and respecting requests to end interactions.
1	Informing donors and treating people fairly	New rules (1.2 series) clarifying evidence requirements for claims, prohibit misleading information, and require fairness in donor interactions.
2	Responsibilities of governing bodies	New rules (2.1 series) setting clearer duties for trustees, including risk management, protecting fundraisers from harm, and responding to regulator inquiries.
2	Accepting, refusing and returning donations	New rules (2.2 series) formalising due diligence on donors and sets clear conditions for refusing or refunding donations.
2	Complaints and concerns	New rules (2.3 series) requiring clear, public complaints procedures and systematic reviews of complaints for learning.
4	Processing donations	New rules (3.1–3.5) introducing detailed standards for handling cash, cheques, and card transactions, including security and accountability requirements.
5	Volunteers	New rules (4.1–4.2) mandating appropriate training and due diligence for volunteers and distinguishing "in-aid-of" and "on-behalf-of" roles.
6	Fundraising involving children	New rules (5.1–5.2) strengthening safeguarding, age restrictions, and permissions for photography and school engagement.
7	Fundraising partnerships	New rules (6.1–6.4) requiring due diligence on third-party fundraisers, written agreements with clear termination rights, and monitoring compliance.
8	Collecting money or property	New rules (7.1–7.5) setting stricter standards for behaviour, identification, and permissions for street and door-to-door collections.
9	Fundraising communications	New rules (8.1–8.4) emphasising responsible accurate content, opt-outs, and consent for marketing, plus clarity on case studies and frequency of contact.
10	Events	New rules (10.1–10.3) requiring risk assessments, clear participant conditions, and contingency planning for cancellations.
11	Lotteries and prize competitions	New rules (11.1–11.3) clarifying responsibilities for draws, transparency, and participant communication.
14	Legacies	New rules (14.1–14.3) strengthening safeguards against undue influence and clarifies procedures for will-writing and legacy fundraising.

Charity sector risks.

In September 2025, the Charity Commission published its first annual *Charity Sector Risk Assessment*.

The report is designed to help trustees and charity leaders understand the current and emerging risk landscape and make informed decisions.

Key findings

The report identifies two spotlight risks and a range of other threats:

Financial resilience

Charities face growing financial pressures, including rising costs, increased demand for services, and inflation eroding funding value.

The proportion of charities reporting operating deficits has risen, with many drawing on reserves to bridge gaps.

This trend highlights the need for robust financial planning and stress testing.

Risks to public benefit

The Commission warns of misuse of charitable status by bad actors seeking private gain. Examples include false Gift Aid claims, unauthorised payments, and tax avoidance schemes.

While cases are rare, even isolated incidents can damage public trust significantly.

Other risks highlighted in the report include:

- **Governance risks:** Weak governance structures can lead to poor decision-making and compliance failures.
- **Safeguarding risks:** Charities must maintain strong safeguarding practices to protect vulnerable beneficiaries.
- **Fraud and financial crime:** Persistent threats include cyber-enabled fraud and insider abuse.
- **Emerging technology and cyber risks:** Increased reliance on digital tools exposes charities to cyberattacks and data breaches.
- **Social tensions and geopolitical turbulence:** Charities operating in sensitive environments face heightened risks from political instability and hostile foreign states.

PEM's view

The Charity Commission's risk assessment provides a valuable overview of systemic risks and practical insights for trustees. It encourages charities to review their risk registers, strengthen governance, and embed resilience measures. By understanding these risks, charities can better protect public trust and ensure continuity of services. We recommend all charities read the full report and reflect on its findings.

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Charity redundancies and Going Concern.

This year has seen a number of announcements regarding the risk of redundancies at established charities.

These developments reflect the financial resilience risks discussed in the previous article and strategic shifts many organisations are facing in response to rising costs and evolving service demands.

Announcements

In April 2025, it was reported that Oxfam GB had taken the difficult decision to put 265 jobs at risk as part of efforts to reduce salary costs by over £10 million. Per the article, a hiring freeze is in place, and while programme funding is being prioritised, staffing structures are under review.

Following a strategic review, in May 2025, it was reported that 307 roles were at risk of redundancy at Dogs Trust. The article noted that the charity is restructuring to ensure long-term sustainability, with plans to convert three rehoming centres into foster hubs and consolidate behavioural and educational services into more digital and hybrid formats.

These announcements reflect the difficult decisions charities sometimes need to make to adapt to changing circumstances and ensure their long-term impact.

Oversight of Going Concern

While each organisation's context is unique, these developments offer a timely reminder for the wider sector of the importance of financial vigilance and strategic foresight.

To remain resilient, charities should ensure that:

- **Going concern assessments** are not treated as a formality. These should be robust, forward-looking evaluations that consider the charity's ability to meet its obligations over at least the next 12 months from approval of the annual accounts, or indeed on a rolling basis.
- **Reserves policies** are critically reviewed to ensure they are fit for purpose. This includes assessing whether the level of reserves held is appropriate given the charity's risk profile, income volatility, and future commitments.
- **Going concern statements in financial accounts** accurately reflect the charity's position and are supported by detailed internal discussions and documentation.
- **Stress testing and scenario planning** are used to model the impact of potential financial shocks, helping trustees understand the limits of resilience and identify early warning signs.
- **Ongoing financial monitoring** is embedded throughout the year, with trustees receiving timely and forward-looking reports that support strategic decision-making.

Embedding these practices helps ensure that charities remain resilient, transparent, and well-prepared to navigate uncertainty, whatever their size, mission, or operating environment.

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Charity Governance Code.

A refreshed Charity Governance Code was published on 3 November 2025 strengthening focus on behaviours and inclusion.

Overview

The updated Charity Governance Code sets out eight core principles for charity boards. It helps trustees think about how they work together, make decisions and manage risk. It highlights how ethics, decision making and inclusion support strong governance. A key change is the Foundation has been formalised in a new first principle which underpins the familiar elements of the code. This principle is not new but clearly sets out how Trustees should take responsibility for, and invest the necessary time and care, in understanding the charity, their responsibilities and legal duties.

PEM's view

Charities are encouraged to start using the new Code now. It helps boards review how they work and identify where they can improve. Trustees should considering including a short statement in their annual report explaining how they use the Code.

Next steps

Please get in contact with us if you are looking to review your governance. We would be more than happy to help.

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Breaking news: Charities Act 2022 update.

The final provisions of the Charities Act 2022 came into force on 27 November 2025 and further guidance has been published by the Charity Commission on how charities can make a moral, or 'ex gratia', payment to support trustees.

This is the final instalment and last statutory instrument to implement the provisions of the Act. The gov.uk website states that the final changes will enable:

- Trustees to delegate decision-making authority for moral payments to other people at the charity, for example a member of staff or a trustee sub-committee.
- Charities to make certain moral payments without Commission authority.

Sections 15 and 16 of the act cover ex gratia payments. The implementation was delayed as questions were raised about the impact of these provisions on certain institutions, namely museums and galleries with extensive and historic collections.

As a result, these sections are being commenced with the exception of certain statutory institutions, including relevant museums and galleries, which have existing legislation that prevents them from disposing of items from their collections except in very limited circumstances.

This list of institutions is set out in the statutory instrument and the website confirms that the Department for Culture, Media and Sport (DCMS) has contacted those charities falling within scope of this exclusion.

The limits are in relation to the charity's income in the last financial year and were not changed following the DCMS consultation on charity thresholds.

Gross income of charity in last financial year	Size of ex gratia payment permitted without Commission authorisation
£25,000 or less	£1,000
Over £25,000 but not over £250,000	£2,500
Over £250,001 but not over £1 million	£10,000
Over £1 million	£20,000

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Audit and Independent Examination threshold changes.

On 31 October 2025, the Department for Culture, Media and Sport (DCMS) announced that audit and independent examination thresholds will increase. Shortly after, on 10 November 2025, the Scottish Government introduced similar reforms through the Charities Accounts (Scotland) Amendment Regulations 2025.

These adjustments aim to ease the regulatory burden on smaller charities and reflect the evolving financial landscape.

Threshold changes

We have included in the tables on page 15, a comparison of the current thresholds and the revised thresholds.

England and Wales

Whilst registration and annual return thresholds have not been changed the independent examination and audit thresholds have been raised.

The threshold for accruals accounts and the requirement for a qualified independent examiner has risen above inflation and aligns with the SORP lowest tier.

Scotland

The Scottish reforms double the thresholds for audits and consolidated accounts.

Timeline

England and Wales

These changes are not expected to come into effect until at least **1 October 2026** as a statutory instrument will be required to implement the changes. Charity Commission guidance to accompany these will be updated in due course.

Scotland

These changes are effective for accounting periods beginning on or after **1 January 2026**. The SORP acknowledges the diversity of thresholds that charities will have the consider annually to ensure that they are complying with SORP and legal requirements.

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Thresholds - England and Wales

	Current Threshold	Revised Threshold	
Registration Thresholds	Gross income: £5,000	£5,000	No change
Annual Return Requirement	Income over £10,000	£10,000	No change
Independent examination AND Submission of Annual Reports and Accounts	Income over £25,000	£40,000	Increase in line with inflation
Accruals accounts AND qualified independent examiner	Income over £250,000	£500,000	Increased in excess of inflation
Audit threshold income	Income over £1,000,000	£1,500,000	Increased in line with inflation
Audit threshold assets	Gross assets £3,260,000 (and income over £250,000)	£5,000,000 (and income over £500,000)	Increased in line with inflation
Preparation of consolidated group accounts	Income over £1,000,000	£1,500,000	Increased in line with inflation

Thresholds - Scotland

	Current Threshold	Revised Threshold	
Audit threshold income	Income over £500,000	£1,000,000	Increased in excess of inflation
Preparation of consolidated group accounts	Income over £500,000	£1,000,000	Increased in excess of inflation

Changes to charity compliance measures.

The draft Finance Bill 2025-26 contains changes which relate to charity taxation. The ICAEW has recently responded to these changes, highlighting ways these could have an adverse impact on some charities.

Approved charitable investments

The most concerning proposed change is in respect of approved charitable investments. "Approved charitable investments" for both charitable companies and charitable trusts are investments which are not treated as non-charitable expenditure and so do not cause the charity to lose part of its charitable exemptions.

For trusts, it is intended that the legislation be altered to replace the existing test (that the investment must be made for the benefit of the charity and not for the avoidance of tax) with a new test (that the investment is made for the sole purpose of benefiting the charitable trust).

This is just in the legislation which governs trusts, not charitable companies. The concern is that this sole purpose test will exclude some investments that should be eligible for the exemption.

Some charities have a legitimate secondary purpose that influences an investment decision (e.g. the environmental or social impact of the investment).

Also, this test would be difficult to meet where there is a loan or other investment by a charitable trust to its trading subsidiary as this would also benefit the subsidiary.

It could also apply where there is a personal benefit which is incidental to the public benefit purposes of the charity. For example, some universities have equity sharing arrangements where they jointly purchase a property with a faculty member for use as the member's accommodation.

The ICAEW's recommendation is that the words "for the sole purpose of" be replaced with "wholly or mainly for the purposes of".

They would also like to see the updated legislation confirming the nature and features of the claim that needs to be made for HMRC to confirm that the investment has been made for an allowable purpose.

Tainted donations

Gift Aid is denied where a donation is "tainted". At the moment the test for being tainted is a motive test i.e. the intention is for there to be a financial advantage to the donor.

The proposed test for charitable trusts would look at if there is an actual financial advantage.

There is concern that such a benefit may arise after a genuine charitable donation through the actions of the charity which are not within the donor's control, stopping them receiving tax relief.

There is also no provision to allow for the case where the donor compensates the charity for the benefit. The ICAEW propose that the existing rules not be altered for these proposed changes.

Legacies

The proposed changes will state that for charitable trusts a legacy is subject to income tax unless it is spent on the charity's charitable purposes.

The ICAEW is concerned that there is no deadline by which the amounts must be spent and there is a risk that this means the income is taxable if the money is not spent by the time the tax return is filed.

They propose that this particular change not be made as this may discourage potential donors from leaving gifts to charities on death.

Next Steps

Please get in contact with us to understand fully how these changes might impact your charity.

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Updates to Biodiversity Net Gain.

In our May newsletter, we looked at what Biodiversity Net Gain (BNG) is, how this can be achieved and commented on the tax treatment of receipts from selling units to developers. It was noted that charities were in discussions with HM Revenue & Customs (HMRC) with respect to some uncertainties. The Charity Tax Group has released an update with the latest news, and this is summarised below.

HMRC have confirmed that where a charity has objects which include "the advancement of environmental protection or improvement" then if it is selling BNG units, by using its own land to create a suitable habitat bank, the income would be treated as primary purpose trading. If the charity has different objects, then it is likely that this will be non-primary purpose trading income, so subject to corporation tax.

The latter charities may wish to use a subsidiary to contain this activity to shelter profits under the corporate Gift Aid mechanism. However, that subsidiary would need to have an interest in the land being used for the habitat. As ever, it would be important to consider the distributable reserves and cash position of the subsidiary to ensure as much of the taxable profits as possible can be sheltered using a cash donation to the parent charity.

The charity would need to fund the subsidiary and needs to ensure that the investment would qualify as an approved charitable investment/loan, so the estimation of costs involved (including any tax exposure) is important.

As the BNG projects last at least 30 years, it will be vital that charities and their subsidiaries carefully consider the costs involved, to ensure they are not in the position where they make a loss on the activities. The tax position will follow the accounting.

The accounting position will depend on the nature of the contract between the developer and the habitat provider, for example if there are performance obligations it may be possible to defer the recognition of some of the income.

If there are no such conditions then we would expect all of the income to be recognised upfront. The contract will commit the habitat provider to incur significant costs, which can be provided for in the accounts.

However, provisions must meet certain requirements to be recognisable, for example the estimate must be reliable, and given the length of the contract, the costs would need to be adjusted for the time value of money.

Some charities may not undertake the habitat creation themselves, but assist other landowners in this area. Again, the contracts which generate income from this type of activity will need to be reviewed to see if this would be primary purpose or non-primary purpose trading.

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Restrictions on Gift Aid for donations to charities.

There are anti-avoidance rules in place to prevent tax relief being given on donations to charities where the rules are being abused by individuals, companies and/or connected persons.

Company donations

As a reminder, a payment is not a qualifying donation for a company if:

- It is a dividend or distribution of profits (except in the case of subsidiaries wholly owned by a charity)
- It is made subject to a condition as to repayment
- The company or a connected person receives a benefit which exceeds the 'relevant value' in relation to the payment
- It is made by a charity or community amateur sports clubs
- It is conditional on the charity acquiring property that has not been gifted to them
- It is part of an arrangement whereby the charity acquires property that has not been gifted to them.

Individual donations

For an individual to have a qualifying donation the following conditions must be met:

1. The gift takes the form of a payment of a sum of money.
2. The payment is not subject to any condition as to repayment.
3. The payment is not a sum under a payroll deduction scheme.
4. The payment is not deductible in calculating the individual's income from any source.
5. The payment is not conditional on, associated with or part of an arrangement involving, the acquisition of property by the charity from the individual or a person connected with the individual.
6. The payment is not by way of, and does not amount in substance to, waiver by the individual of entitlement to sums (whether of principal or return) due to the individual from the charity in respect of an amount advanced to the charity, and in respect of which a person, whether or not the individual, has obtained relief for social investments.
7. There are no benefits associated with the gift, or there are benefits associated with the gift but the restrictions on those benefits are not breached.

HMRC give an example in their guidance on a Tribunal case which looked at the last two points. John Harvey & Anor v The Commissioners for HMRC - UKFTT 1098, considered the application of the rules on a donation made by an individual.

This donation was then used to fund a loan to a party connected to the individual. The act of making the loan was enough to fail conditions 5 and 7 above.

The judge found that:

- By entering into the loan arrangement, the charity acquired property from the borrower (initially the rights to repayment and then the actual cash being repaid).
- The benefit arising to the borrower in such an arrangement is equivalent to the full amount loaned.
- Conditions 5 and 7 above had not been met and the original donation did not qualify for Gift-Aid relief.

Summary

Charity law does not prevent trustees entering into transactions with entities connected to donors, but care needs to be taken, particularly when donors and trustees are closely connected.

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Benefits of moving to a cloud-based accounting solution.

Over recent years there has been a dramatic increase in the use of cloud-based accounting software as more and more businesses have moved away from the traditional desktop options.

What is cloud software?

Before cloud-based software was available we used to have on- premises software. This was software that had to be installed and run on individual computers.

We took regular back-ups to ensure no data was lost and ran all the updates and maintenance tasks ourselves.

This meant that we had to do the work where we had access to the systems and usually this was in the office at our desks.

We also had to buy multiple copies of the software and install it on more than one machine which was costly and time consuming.

Over the last five years we have seen a vast increase in the use of cloud-based software. This is software is accessible via the internet.

What are the benefits of cloud-based accounting software?

Cloud-based accounting software has many benefits over the desktop equivalent solutions including the following:

- **Accessibility** - Cloud-based software is accessible from anywhere 24/7 so long as the user has an internet connection they have access to their accounting data.

  They no longer have to go to the office which can result in less unproductive time when they are travelling and more flexibility over working location as we have seen with the increase of working from home.
- **Updates and maintenance** - Hosting, maintenance and updates of the software are all done for you by the software provider. There is no need to buy multiple copies and install it on different computers as it is maintained in the cloud. Cloud based software is constantly being updated with improvements and new features such as AI support to enhance a user's experience.
- **Time savings through integration and automation** - Cloud based solutions permit automation and the ability to add applications to expand the system allowing for time savings to be made. For example, bank feeds now make the reconciliation of the bank much more time efficient, automated invoice processing removes the need for manual entry, integrations for areas like payroll, stock and many others ensure data flows between applications. All of these provide time saving of repetitive tasks.
- **Real Time Data** - With the accessibility and integrations available, this means that you have access to real-time information. That the team always have access to up-to-date financial data at their fingertips to make informed decisions. Also, everyone has access to the same information so no one is working with old data – instead, everyone works with the same data and so this ensures consistency in reporting across the business.
- **Data Security** - There is the ability to have multi factor authentication and unique passwords with cloud-based software so providing enhanced levels of security. With all data being stored in the cloud the risk of data being accessed or lost if a laptop is lost or stolen is reduced.
- **Cost** - There can be cost benefits to using cloud-based software. The subscription costs are often lower, there are no additional operational costs like maintenance or physical storage space for servers.

  With software providers performing the maintenance there can also be internal resource savings with this not needing to be dealt with in house.

How can PEM help?

Our VFO Team have many years experience assisting clients with moving over to cloud accounting software such as Xero from the first step of initial discussions about how is best to approach the change all the way through to training your team and beyond.

Want to know more? Then please get in touch with the VFO team today to schedule a discovery call.

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Taxable Income considerations for sponsorship agreements.

With growing uncertainty over public funding and increasing pressures on third sector services, it is logical for charities to seek income from corporates and other entities to further the charity's objectives. An increasing number of charities are entering into sponsorship arrangements with commercial businesses.

Taxable Income

Whilst sponsorships are not a new arrangement, many charities are increasing the level of benefits being provided by the charity to the sponsor in return for the sponsorship payment. Where the charity is doing more than acknowledging and thanking the sponsor, HM Revenue & Customs (HMRC) may view this income as being derived from a non-primary purpose trade, causing the income to be subject to income or corporation tax.

The tax treatment of payments received by charities under sponsorship arrangements will depend on the nature of the arrangement. Where no goods or services are provided by the charity in return for the payment, the income is treated as a charitable donation, freely given by the sponsor, with no obligations on the charity other than that the money be used for charitable purposes. The sponsor deriving good publicity or PR benefits from the payments does not automatically mean the income is trading income in the hands of the charity.

However, where a charity does provide either goods or services, such as advertising, in return for the sponsorship payments then this may be treated as trading income.

The most common form of publicity received in return for a sponsorship is the inclusion of the sponsor's name in charity publications.

Provided that such references amount to no more than acknowledgements of the sponsor's contributions they will not cause the payments to be regarded as trading income. HMRC give examples of more significant services which are deemed to be advertising, and therefore trading:

- Large and prominent displays of the sponsor's logo
- Large and prominent displays of the sponsor's corporate colours
- A description of the sponsor's products or services.

There is a limited exemption for small levels of non-primary purpose trading, whereby, depending on the charity's gross annual income, the charity can receive turnover from non-primary purpose trading up to a specified level, shown in the below table, without having to pay tax. If the level of turnover is above this, then the whole of the income is charged to tax.

Charity's gross annual income	Maximum permitted small trading turnover
Below £32,000	£8,000
£32,000 to £320,000	25% of the charity's total annual turnover
Above £320,000	£80,000

VAT

Sponsorship is invariably subject to VAT at the standard rate of 20%.

A person who receives sponsorship will normally be making taxable supplies if, in return, there is an obligation to provide the sponsor with a significant benefit or benefits, examples of which were mentioned above.

What matters is that the agreement or understanding with the sponsor requires the person being sponsored to do something in return.

Any sponsorship income received from persons belonging outside the UK is outside the scope of VAT.

Where a sponsor's support is freely given and secures nothing in return, the recipient does not make a taxable supply and the sponsorship can be treated as a donation outside the scope of VAT.

A taxable supply is not created where the sponsor only receives an insignificant benefit such as a minor acknowledgement of the source of the support. This can include naming the donor in a list of supporters in a programme or on a notice.

How can PEM help?

PEM are able to review sponsorship arrangements, either those which are already in place, or any new arrangements not yet agreed upon, to ensure that the charity's compliance and payment obligations are being met.

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Charity VAT registration – Case studies.

When your income exceeds £90,000 but you don't need to register for VAT.

I have had a couple of cases recently where clients have informed HMRC that they have exceeded the VAT registration threshold. In both instances the client has known that HMRC will allow exception from registration in special circumstances and unsuccessfully requested this concession, resulting in HMRC stating that the clients must register. In one case the client was looking at having to pay 2 years of backdated VAT.

Luckily, they came to the PEM VAT team asking if we could help them to appeal HMRC's decision. We found HMRC had been far too hasty in their initial interpretation of these cases and failed to recognise the organisations were either charities or 'not-for-profit' institutions. When your organisation falls into either of these categories there are several instances where the VAT liability of your services change, particularly in connection with health, welfare and education. What would have been fully taxable at 20% for most businesses becomes VAT exempt when the correct practices are put in place at 'not-for-profit' entities.

In both these instances the client managed to prevent a large historical VAT bill being levied on them, a bill which would have severely impacted their ability to continue helping our communities.

The current VAT registration threshold is £90,000 but not everything you receive is included.

There are many types of income but they can be split into 2 main categories, non-business income and business income.

- Non-business income is excluded from any income that leads to your VAT registration threshold.
- Business income is included but is broken down further into taxable and exempt income.
  - Taxable income counts towards your VAT registration threshold
  - Exempt income does not count towards your VAT registration threshold.

Interactions with HMRC can prove to be long, frustrating, time consuming and expensive. Before approaching HMRC with any queries you may want to consider speaking to the VAT team first.

In our discussions we may be able to alleviate your concerns, preventing unnecessary 'heightened interest' from the VAT man.

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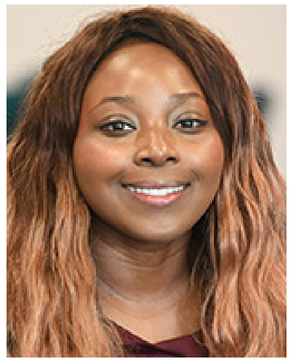

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