

# oncharity



## Understanding Gift Aid

As most charities are hopefully now aware Gift Aid can usually be claimed on personal donations made, thereby increasing the value of the donation by 25%.

Donations from individuals must be accompanied by a Gift Aid declaration which confirms they have paid at least as much income tax or capital gains tax in the relevant tax year as the amount of Gift Aid being claimed and include their name (initials and surname are sufficient) and their address (at least house number or name and postcode).

If your charity has a system where only one declaration is made by a donor to cover the original and all future donations, the charity must ensure that it has up to date addresses for donors. HM Revenue & Customs check donors' details and will reject any where the address in the claim does not match the address on their records.

Example declarations can be downloaded from HM Revenue & Customs website [www.gov.uk/claim-gift-aid/gift-aid-declarations](http://www.gov.uk/claim-gift-aid/gift-aid-declarations).

If your charity receives individual donations of £20 or less in cash, such as through a collection tin or box, Gift Aid can be claimed under the Gift Aid Small Donations Scheme without the need for a Gift Aid declaration. The maximum total of small donations on which Gift Aid can be claimed under this

scheme is £8,000 in any tax year, with effect from 6th April 2016 (£5,000 for previous tax years). However the claim cannot exceed 10 times the amount of Gift Aid claimed on non-small donations.

Donations received as a result of the donor taking part in a sponsored event are eligible for Gift Aid if the donor pays any travel and accommodation costs and sponsors complete a Gift Aid declaration. So if a participant is given a target of raising £2,500 of which £1,000 covers travel and accommodation, £1,500 would be eligible for Gift Aid. Special rules apply if the sponsors include a person connected for tax purposes to the participant - further guidance is available on HM Revenue & Customs website.

Retail Gift Aid can be claimed on goods donated to a charity but only on the sale proceeds received through the charity selling the goods as an agent. How this scheme works must be made clear to donors before they complete a form appointing the charity as agent for the sale of the goods. There are three methods of operating retail Gift Aid, depending on how the retail operation is set up.

**Further details can be found on HM Revenue & Customs website or from Sheen Stickland - [www.sheen-stickland.co.uk](http://www.sheen-stickland.co.uk).**

# Accounts preparation-FRS 102 & FRS 102 section 1A

Following the Financial Reporting Council's decision in 2014 to withdraw the Financial Reporting Standard for Smaller Entities (the FRSSE), small charities are required to prepare annual financial statements which comply with FRS 102. This requirement applies to accounts prepared for accounting periods beginning on or after 1st January 2016 (unless turnover is below £250,000 a year, in which case, accounts can be prepared on a receipts & payments basis).

FRS 102 was originally issued in August 2014 and in July 2015 the FRC amended FRS 102 and introduced section 1A, which allows small entities, including small charities, to prepare accounts with reduced disclosures.

In addition, there is an option for small charities, defined as those with income below £500,000, not to produce a cash-flow statement.

However the accounting requirements of FRS 102 still have to be complied with and these could potentially impact accounting treatment in areas such as intangible fixed assets and employee benefits.

When considering taking advantage of reduced disclosures charities should bear in mind the overarching principle that accounts need to give a true and fair view.

**For more information or advice on the impact and application of FRS 102, FRS 102 section 1A and the Charities SORP 2015, please contact us.**

## VAT for Charities

Charities do not benefit from any general relief from VAT. They are treated like any other entity in that, as soon as income is received that could be deemed to be a business transaction they may be subject to VAT. A charity which makes taxable sales in excess of the registration threshold (currently £85,000 in any 12 month period; this is not the same as the 12 month accounting period) must register for VAT.

### VAT on income

Charities receive income from a variety of sources and some of these may be liable to VAT, if the charity is VAT registered. Income received will fall into three categories: outside the scope; taxable; and exempt. Taxable sales can be standard-rated, reduced-rated or zero-rated. The VAT treatment of the most common income generating activities carried out by charities is explained below.

### Admission charges

Charging an admission fee to enter charitable premises is treated as a business activity and the standard rate of VAT will apply. However, if the admission fee relates to a fund-raising or cultural event, the income will be exempt from VAT.

### Advertising

A charity may sell advertising space in its publications. This is a business activity and would be standard rated. However, if more than 50% of the adverts are placed by private individuals the charity may treat all sums received as donations, which will be outside the scope of VAT. Any advertising that relates to fundraising events is exempt from VAT, or zero-rated if sold to another charity.

### Charity shops

Sales of donated and bought in goods by charities and their trading subsidiaries is a business activity. Donated goods will be zero-rated for VAT as long as they have been donated to the charity or trading subsidiary and are made available for sale to the general public.

In order to maximise Gift Aid receipts some charity shops act as selling agents on behalf of the donor, whereby the charity shop gives the donor the option of receiving the proceeds of the items sold less an administration fee. These types of sales will be standard rated. Bought in goods will be standard-rated unless they are goods that are zero-rated, for example books and children's clothes.

### Catering

The provision of catering services is a business activity and will be standard-rated for VAT. However, where a charity supplies catering as part of a welfare service, such as meals to residents of a care home, the income will be exempt from VAT. If catering is provided as part of a fundraising event it will be exempt from VAT.

### Fundraising events

Organised events that are intended primarily to raise money for the charity will be exempt from VAT. The exemption includes the cost of admission, catering



services and the sale of merchandise but only applies to income generated at the event.

### Donations

Donations are outside the scope of VAT provided they are freely given with nothing supplied in return.

### Sponsored events

Charities often receive income from sponsored events. Where the charity organises and promotes the event themselves they may be able to claim the fundraising exemption. If it is part of a commercially organised event, for example a marathon, the fundraising exemption will not apply.

### Grant funding

If funding is supplied freely with nothing in return then the income is outside the scope for VAT. However, if the funding is given in return for goods or services, the funding may be subject to VAT, depending on the type of goods or services provided.

### VAT on purchases

There are a number of reliefs that apply to charities that reduce the rate of VAT on certain goods and services. These rules apply regardless of whether the charity is VAT registered. A list of the most common reliefs is below:

- Advertising
- Aids for the disabled
- Construction
- Medical equipment
- Fuel and power
- Rent

In order to claim relief, the charity must provide evidence of its charitable status to the supplier. If you believe any of these reliefs may benefit your charity, please contact us for full details.

**This is a brief guide to the most common areas for charities but advice should be sought before entering into any transaction where the VAT treatment is unclear.**



## Donations from trading subsidiaries

It has previously been accepted common practice for trading subsidiaries of charities to donate all taxable profits made to their parent charities and claim charitable donations relief, thereby not paying any corporation tax. In some cases, this would involve the amount being donated exceeding the total distributable reserves available within the company.

This practice had been endorsed by the Charity Commission (under guidelines within CC 35 that have now been withdrawn), on the premise that the payments being made up to the parent charity were a donation and not a distribution of profits.

The ICAEW has recently sought legal advice on this matter and have issued a technical release, which confirmed that these payments are in fact distributions of profit. Therefore any payments that are being made by companies to their parent charities in excess of distributable reserves are unlawful.

Where unlawful distributions are made by a company, its parent will be liable to repay the excess and the directors of the company at the time of the distribution may also be liable in some circumstances.

Both HMRC and the Charity Commission have now issued revised guidance on this matter, which states an expectation that charities and their trading subsidiaries must comply with the ICAEW's technical release for accounting periods commencing on or after 1 April 2015.

The tax treatment is that any payment representing an unlawful distribution will not be allowed as a qualifying donation, and that repayments of previous unlawful distributions are not taxable.

Where a subsidiary company has made what are now considered to be unlawful distributions in the last six years, HMRC are entitled to open an enquiry into any period in which this occurred. It is therefore important that all charities that this may affect consider the likelihood of such an enquiry and seek professional advice if required, as soon as possible. **Please contact us if you require further advice on this.**



## Fundraising Regulator Levy

You may well have heard of a new regulator in the charity sector. The Fundraising Regulator (FR) came into being in July 2016 and is now responsible for the Code of Fundraising Practice.

This code sets out the standards expected of fundraising organisations across the UK. The regulator is responsible for keeping the code up to date and also investigating complaints against a charity's fundraising. The FR is a voluntary, independent regulator in England and Wales.

In order to fund the FR, there is a new levy on some fundraising organisations along with a registration fee system.

Letters from the FR to those organisations subject to the levy started to land in the autumn of 2016 and this may have been a shock to many charities.

### How is the Levy calculated?

The levy calculation is based on data from the Annual Returns made to the Charity Commission for the year ended 31 December 2014. If your charity is an exempt charity, a flat rate levy is due to be charged instead.

The amount charged is based on bandings determined by the level of spend on generating voluntary income. All charities with a spend over £100,000 per the 2014 Annual Return are being included in the levy and will automatically

be sent a letter closely followed by an invoice, requesting payment within 30 days. The amount of the levy ranges from £150 to £15,000 depending how much was spent on generating voluntary income. Exempt charities are charged a flat rate of £1,000 per annum.

The levy is a fixed rate for three years and will be paid annually. In 2017 and 2018, the invoices are expected in the month of June.

### Do you have to pay it?

The levy is voluntary but if you want to be registered with the FR, you will have to pay it. Registration with the FR will entitle charities to use the FR logo to show donors that they have signed up to the code of practice. This replaces the previous Fundraising Standards Board (FRSB) tick-mark. The charity name will also be published on the FR website and the FR note that this will act "as a public sign of commitment to good practice."

So, while you do not have to pay it, you do need to consider what message it sends to your donors if you are not registered with the regulator. The government has reserved powers in the Charities (Protection and Social Investment) Act 2016 to enforce payment of the levy if necessary.

### What if you haven't received a letter?

If your spend on generating voluntary income was below £100,000 on your 2014 annual return, you will not be subject to the levy and hence will not automatically receive a letter and invoice from the FR. You can however register with the regulator voluntarily. The registration fee is £50. The registration scheme opened in the winter of 2016. You can sign up to receive updates about the work of the FR on their website at <http://www.fundraisingregulator.org.uk/news/>

### What other things are the FR doing?

The FR has recently concluded a consultation into launching a Fundraising Preference Service. The scheme is intended to work in a similar way to the mail preference service where people can register to 'opt out' of fundraising communications from charities. The proposal is that these 'opt outs' could be specific to telephone calls, mail, fundraising communications or all communications.

The final arrangements will be published soon and will impact how you communicate with your donors in the future.

**If you have any specific questions over the Fundraising Levy, registering with the FR or the Fundraising Preference Service, please do get in touch with us.**



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