Charity update

Broomfield Alexander
professional advisors

Welcome to our Autumn 2009 edition of our specialist Charities newsletter Charity Update. In this issue we are looking at the trading within Charities, an issue that is becoming more relevant as funding sources suffer due to the recession. We have also looked at the benefits of outsourcing the Charity payroll function and freeing up internal time for more productive matters.

This newsletter is issued widely within the Charity community in South Wales. We would be happy to send additional copies to trustees or colleagues, please let us know – as we are going green we can email as many trustees or employees as you need!

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Welsh charities urged to submit accounts on time to the Charity Commission

More than **10%** sent financial returns after the deadline last year.

The Charity Commission has launched a campaign to reduce the number of Welsh charities that submit their annual accounts late. According to Commission figures for last year, 1,000 of the 9,000 charities in Wales were late in submitting their accounts to the regulator. Charities that file their financial information late are marked by a red banner on the online register of charities.

As part of the push to ensure prompt compliance, the commission's Newport office will contact charities by phone to remind trustees to file on time and offering help if there are problems. The campaign will also be publicised through umbrella bodies such as the WCVA.

Charities should look to comply with these filing requirements as they may otherwise face difficulties when raising funding. The WCVA have commented - "We always look at the register of charities when allocating grants and we expect charities to be fully compliant".

50%

rate of income tax – *A benefit to Charities?*

From 6 April 2010 a third rate of income tax will be introduced at 50% for individuals whose taxable income is over £150,000.

Dividend income in excess of this new limit will be taxed at 42½%. Individuals with adjusted net income over £100,000 will see their personal allowance restricted by £1 for every £2 over this limit (the marginal rate of tax on incomes between £100,000 and £112,950 will be approximately 60%).

It remains to be seen whether the increase in income tax rates and the restriction of the allowances have an impact on the charity sector. It is hoped this will prompt an increased level of the donations from those affected by the new rates, assuming there are no restrictions on the amount of gift aid they can claim for at this rate.

Christmas cards *can* mean problems

The sale of Christmas cards and calendars to raise funds may seem like a good idea, but can give rise to tax issues for charities.

With Christmas advancing towards us, some charities may have had the idea of organising Christmas cards and calendars to raise extra funds. However, the sale of bought in items is considered as trading, therefore we then have to consider the specific exemptions available to ensure that no tax is payable on the profits. The sale of fundraising items can only be exempt under the 'small trading exemption' when carried on within the charity, so the trustees will need to consider the income carefully to ensure that no tax is payable. The limits are:

- Charity income of £20,000 or less no more than £5,000
- Charity income between £20,000 and £200,000 25% of the charity's total annual income
- Charity income of £200,000 or more maximum limit £50,000

So provided the non exempt income (turnover) of the charity is less than £5,000 there will be no tax issues, but in comparing these limits the charity would need to consider ALL turnover from non qualifying trade. If the turnover is in excess of the £5,000 limit, the charity will need to check the 25% limit – obviously if the non exempt turnover exceeds £50,000 then tax will be payable on the profit related to it.

Trustees should also be aware of the VAT complications that can arise with the sale of Christmas cards and similar items. Irrespective of the status of the income for direct tax purposes, these sales are subject to standard rated VAT, and the normal sales by a charity shop would be zero rated. So a charity could easily be turning over more than the VAT threshold in sales of donated goods, and the sale of a small amount of fundraising goods would then create a liability to output tax, which may not have been considered.

The simple solution to these problems is to put the trade into a trading subsidiary and gift aid any net profits back to the charity. The VAT issue can be dealt with within the trading subsidiary, and will not create further complexity in the charity, although the liability to output tax does not change. For the smallest charities, the £5,000 turnover limit is likely to prove sufficient, as long as both trustees and advisors are mindful of the limit when thinking about new fundraising opportunities.

THE BIG ASK – 15 questions Trustees should ask themselves

The Charity Commission has produced a good practice checklist which can be used to demonstrate that trustees are acting appropriately in the current circumstances.

The questions will not be relevant to every charity as it will depend on a charity's size and how it operates. The checklist is intended to help structure a discussion and help trustees develop a plan and timetable for action.

If you would like a copy of this – please email bartlettj@broomfield.co.uk

Broomfield & Alexander is going *green*

In order to reduce our impact on the environment, we are now able to forward you your copy of Charity News electronically.

If you would like to receive your copy electronically, please email Joanne Bartlett on bartlettj@broomfield.co.uk

We will, however, continue to mail printed copies to those of you who would prefer this format.

Trading Subsidiaries

The use of trading subsidiaries

Given the current economic climate, an increasing number of charities will look to undertake trading activities to raise funds. However, Charities need to carefully consider how they structure their trading activities in order to minimise the potential tax payable on trading profits.

Trading exemptions

The following situations are examples of where a charity is able to trade without incurring a tax liability:

- Primary purpose trading
- Lotteries
- Fundraising events
- Trading activities undertaken by beneficiaries
- Small-scale trading

Where trading falls outside these exemptions, charities need to consider setting up their own trading subsidiary which would undertake the trading activities on their behalf. The trading subsidiary would then gift aid its entire profits to the charity.

Use of gift aid by trading subsidiaries

The subsidiary is subject to corporation tax on its profits just like any other company, however it is able to obtain tax relief on donations made to UK charities under gift aid, subject to certain restrictions.

It is possible therefore for the subsidiary to make a gift aid payment equal to its pre tax profits, eliminating its corporation tax liability. However, the gift aid payment does need to be paid within nine months after the end of the subsidiary's financial year.

The receipt of the gift aid donation by the charity is not regarded as trading income, and so providing that it is applied for charitable purposes it will be exempt from tax.

Trading Company Losses

Careful consideration is needed if the trading subsidiary makes losses as the shareholder (the charity) may be required to financially support the subsidiary This can give rise to the charity losing its tax exemption on income by an equivalent amount to that used to support the trading subsidiary.

There are therefore important issues to consider when undertaking any trading activity and advice should be sought regarding the most tax efficient structure at an early stage. Should you wish to discuss trading within your charity please call Sarah Case or email cases@broomfield.co.uk

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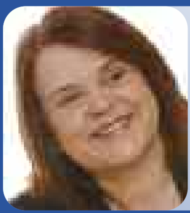

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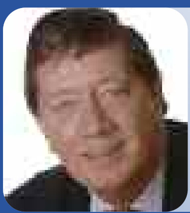

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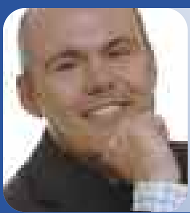

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Payroll outsourcing

The charity sector is undergoing huge challenges right now as a result of the economic downturn. In times like these, organisations need to be able to focus on their core competencies and maximise efficiencies in the business.

Tighter economic conditions prompt many organisations, to look for ways to reduce costs and outsourcing non-core activities such as payroll is an effective way to improve business efficiency and acquire a competitive advantage.

Payroll is one of the most established outsourcing services and for good reason. With overtime payments, tax calculations and National Insurance Contributions to consider, not to mention the penalties from HMRC for getting it wrong, it's an administrative hassle that many could do without and one that can be easily separated from the rest of the business.

All organisations require accurate and timely payroll. After all, everybody expects to be paid on time. However, with constraints on funding and fund insecurities, employing staff with the correct skills can be an expensive business, especially when competing with the private sector's pay scales.

On paper payroll should be a pretty straightforward process, but with statutory Sick Pay, Maternity Allowance, Paternity Pay and other employment legislation and tax implications to consider, running a payroll has become exceedingly complex, it therefore makes a lot of sense to employ a specialist company to perform the role, given their detailed knowledge of payroll legislation, and overall wealth of expertise.

For charities, outsourcing payroll also brings the additional benefit of diverting administrative time and costs to more direct charitable purposes. Direct costs such as software packages and payslip stationery may be easy to calculate, however, the hidden costs of time spent in processing the payroll and in interpreting employment law are often lost. Leaving this to the experts can help reduce administration costs and free up time for staff to focus on strategic issues and key operational tasks.

Payroll outsourcing costs are negligible when compared to the expenditure incurred in processing payroll with in-house staff. Indeed, budgeting for payroll is easy because a set fixed quote can be obtained, allowing employers to calculate exactly what outsourcing their payroll will cost each time the payroll data is processed.

If you would like us to quote your payroll function please call Joanne Bartlett or email bartlettj@broomfield.co.uk