

Charity update



Welcome, in this edition of charity update we lead with Gift aid and the implications of the income tax cuts. We also welcome the first in a series of articles from VAT specialists, The VAT Consultancy - this first article focuses on the VAT issues around fundraising.

As always my team are here to advise you on any of the issues we feature.



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Are you making the most of Gift Aid?

The Chancellor's 2p cut in income tax for 2008/9 announced in March's budget could cost charities up to £70m in gift aid income according to the Charities Aid Foundation. From 6th April 2008, charities will only be able to reclaim 25p per pound donated in Gift Aid rather than the 28p they currently reclaim.

The voluntary sector has started lobbying HMRC and tax experts from across the sector have agreed to set up a working party to consider the impact of Gift Aid. However what can charities do now to cover this shortfall?

Firstly Charities need to ensure they are reclaiming the maximum amount of gift aid. Research indicates that up to 5% of gift aid is 'lost' due to poor internal processes.

Charities have struggled with administering gift aid since it was first introduced. For many charities administering gift aid is expensive, many do not understand the amount they are entitled to reclaim or how to explain the tax benefits to donors.

HMRC have also adopted a more stringent approach to

their gift aid procedures so it is vitally important that charities have a system that helps them maintain and administer gift aid without getting penalised.

For more information check out <http://www.giftaidblog.com> - The Gift Aid Blog has been set up to create open discussion and information sharing for the sector as it relates to Gift Aid.

The other alternative is to outsource the gift aid to specialist companies who will collect gift aid and fundraise on your behalf, check out:

<http://www.justgiving.com> - the easy and efficient way to donate and raise money for charity.



Wanted - bookkeeper with charity experience...

In the days before computers, experienced bookkeepers were always difficult to find. Now that the majority of businesses use a computer package to run their books a modern day bookkeeper also needs to be computer literate.

Most bookkeepers are experienced in normal trading businesses where they are used to dealing with sales, purchases and a list of overhead expenditure. However, when it comes to charities further knowledge is definitely required.

Charities have to differentiate both their income and expenditure to different categories or funds. The most common of these will be restricted funds and unrestricted funds. The charity bookkeeper will need to understand the difference between these funds in order to analyse both income and expenditure correctly.

HOW CAN WE HELP?

We can help you with your bookkeeping training needs and requirements. This can be arranged on a one-to-one basis, or on a group basis at our training centre in Cardiff.

Investing in training will help charity trustees to understand their charity's finances but also help your finance staff prepare and produce the year-end financial statements.

For a free no obligation quote then please call us now on 0800 052 1387 or email us at training@broomfield.co.uk



VAT and Fundraising Events

In the first of a series of VAT articles aimed at addressing charity specific issues, the issue of fundraising events is addressed.

Fundraising is a critical activity for most charities, but it is still surprising that so many charities do not take advantage of the VAT exemption relief to maximize the revenue available from fundraising events.

Generally speaking, the proceeds raised from a fund raising event put on by a VAT registered business would be subject to VAT. There is however, a VAT exemption for fund raising events put on by charities, which are clearly organised and promoted primarily to raise money for their charitable objectives. The exemption covers admission fees for the event and certain other income generated at the event (eg sale of commemorative items, food, sponsorship etc).

There are a variety of events that can qualify for the VAT exemption and these range from barn dances to bazaars, dinners to discos and sponsored walks to stage productions, to name but a few. There is however a limit of 15 events of the same kind being held at the same location, but all in all, this is a generous limit.

The downside to the VAT exemption is the fact that the VAT incurred on expenditure (eg room hire, catering and entertainers) will be irrecoverable. However, this is a fact of life for charities and is ordinarily outweighed by the additional revenue potential. Furthermore, where the event includes the sale of donated goods, there is the additional possibility to mitigate the VAT recovery impact.

If you are not already taking advantage of the VAT fundraising relief, then now is the time to address this to make sure you are not losing out on potential revenue.

If you require further information or would like to discuss this further, please do not hesitate to contact either Phil or Peter at The VAT Consultancy on 01454 629 659.



Charitable Incorporated Organisations (CIOs) - an update

In our last newsletter we mentioned CIOs, the new incorporation vehicles for charities announced in the Charities Act 2006. Here we answer a few of your questions on CIOs.

WHAT ARE THE POTENTIAL ADVANTAGES?

The CIO form will have numerous advantages for charities which choose a corporate structure, including:

- > A single registration - CIOs will only need to register with the Charity Commission.
- > Less onerous accounting requirements - small CIOs will be able to prepare receipts and payments accounts, larger charities will prepare accruals accounts.
- > One annual return - currently charitable companies have to prepare an annual return under company law and (normally) a separate return under charity law.
- > Reduced filing requirements - CIOs will only have to send

accounts, reports and returns to the Charity Commission.

- > Lower costs for charities - there will be no charge for registration or filing for CIOs.
- > Simpler constitutional form - the Charity Commission will produce model forms of constitution which will include fewer fixed governance provisions than is the case with companies.
- > More straightforward arrangements for merger and reconstruction - the Charities Act 2006 contains a number of provisions designed to facilitate merger and reconstruction, which are not available to charitable companies.

As well as new organisations being able to register as CIOs, the Act also allows charitable companies and charitable industrial and provident societies to convert to CIOs.

Charities wanting an unincorporated form should set up trusts or unincorporated associations not look to set up CIOs.



WHEN WILL THIS HAPPEN?

The implementation of CIOs is expected early in 2008. Whilst the Act sets out the legal framework, secondary legislation and draft regulations will be published and a consultation will take place in Autumn 2007 before the final Regulations are made.

The Charity Commission will also be working on model governing documents for CIOs. Watch their website <http://www.charity-commission.gov.uk> for developments in this area.

For more information on CIOs please request our CIO helpsheet using the enclosed faxback.

Free Broadcasting Opportunities

Are you aware that each year the BBC offer 22 different registered Charities the opportunity to raise their profile and promote their cause free of charge!.

Every year BBC Cymru Wales offers Welsh charities the chance to reach a wider audience and promote their causes online, on radio and on television. These broadcasts can highlight a particular campaign, issue or need that your organisation has - or simply inform those who have a need of your services where to go for help.

Find out if your charity is eligible and how to apply at <http://www.bbc.co.uk/wales/info/charities>

I'M NOT A BROADCASTING EXPERT?

Don't worry the BBC's Charities Co-ordinator will give advice and information and the programme producer will advise and support the charity through the broadcast aspects of the feature.

The BBC will also provide a specific telephone number for callers to respond to the feature and BBC staff will be able to pass on the charity's contact address and telephone number for either donations or further information. Details of the broadcast will also be placed on Ceefax and on the BBC website site (bbc.co.uk/walescharities).



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OTHER CHARITY SECTOR NEWS

Where has the money come from, and where should it go...

Many charities are unclear on the correct way to classify funds within their accounts, and are often left in a situation where due to mis-classification of funds, the use of the funds has been unnecessarily restricted.

The correct classification is dependent on how the funds have been acquired. It is essential to check with the donor the terms of the funding. This may be via the contract or correspondence or both.

Under SORP regulations income is split into three main categories:-

- > **UNRESTRICTED INCOME** is income received for the general purposes of the charity. This income should be spent in line with the charity's objects.
- > **RESTRICTED INCOME** is income received for a specific purpose, or has specific conditions attached to spending of the income.
- > **ENDOWMENT INCOME** is split into two categories:-

Income has to be invested (permanent endowment). Income has to be either invested or spent (expendable endowment).

Funds obtained from the sale of goods or services are normally classified as Unrestricted Income.

Designated Funds are Unrestricted Funds which have been specifically designated by the Trustees for a future project or expense.

Correct classification from the outset is therefore essential to ensure the maximum is left as a general reserve and can be used for the general purposes of running the charity.



If you are unclear on how to classify funds please contact our team on 0800 052 1387 or email us at charities@broomfield.co.uk