

May Issue
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A HPH newsletter for organisations with charitable status

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Charities Act 2006 implementation plan

The Office for the Third Sector has published its Implementation Plan for the Act's various provisions, to show:

- What date the OTS expects to bring each provision of the Act into force; and,
- What regulations and/or guidance the OTS will be preparing in connection with particular provisions of the Act.

Among the provisions listed in the First Commencement Order, which came into force from 27 February 2007, are those relating to the new functions and duties of the Charity Commission, the requirement for the Commission to develop guidance and consult on the Public Benefit test, the changes to registration and audit thresholds and certain new powers of the Commission.

The changes to the audit thresholds will affect financial periods beginning on or after 27 February 2007.

Among the key changes scheduled for later this year are the requirements for consolidated accounts for groups headed by *non-company* charities, the setting up of the Mergers Register to enable merging charities to protect their legacy entitlements, and making whistle blowing to the Charity Commission a duty instead of a right for charitable company auditors as well as (under the new audit-exemption regime) for independent examiners of charitable companies.

The public benefit requirement, the definition of charitable purposes, the Charity Tribunal, the remuneration of Trustees and also the provisions relating to the regulation of exempt and excepted charities are currently scheduled for commencement in early 2008.

The full text of the first commencement order can be found at:

http://www.cabinetoffice.gov.uk/thirdsector/law_and_regulation/charities_act_2006/implementation.asp

The full text of the implementation plan can be found at:

http://www.cabinetoffice.gov.uk/third_sector/documents/charity_ref orm/implementation_plan.pdf

Accounting developments

- **FRS17 amendment**

The Accounting Standards Board (ASB) has issued an amendment to FRS17 Retirement Benefits, which comes into force for accounting periods beginning on or after 6 April 2007. The amendment changes some of the detailed disclosure requirements with regard to Defined Benefit pension scheme valuations and the movements on the component assets and liabilities. As usual, early adoption is encouraged but not required.

- **FRSSE 2007**

The ASB has also issued a revised Financial Reporting Standard for Smaller Entities, which is effective for accounting periods beginning on or after 1 January 2007. The new standard replaces the FRSSE (effective January 2005) and includes updates for accounting developments in the last two years.

The main change of interest to charities is that with respect to Defined Benefit pension schemes.

The full text of the Standard (all 191 pages of it) is available from: <http://www.frc.org.uk/asb/press/pub1250.html>

- **FRED40**

The ASB has issued a new Exposure Draft for a financial reporting standard which deals with accounting for heritage assets. Heritage assets are to be defined as assets which have historic, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contributions to knowledge and culture. As such, they are to be excluded from FRS15. As currently worded, the new standard is unlikely to impact at all on the commercial sector and is thus clearly aimed at government entities for public benefit as well as charities and the not-for-profit sector generally.

The main principle behind the Exposure Draft is that Heritage Assets are assets, regardless of whether they can be sold, and should be accounted for as such, but under special rules requiring *capitalisation at current value* of individual 'collections' of such assets wherever the major part of the collection's valuation is

reliable and practicable (i.e., subject to similar cost/benefit considerations as under FRS15). Regardless of whether capitalisation at an open market valuation is or is not practicable, there are to be enhanced disclosure requirements for all heritage asset collections, which will need to be adopted under the proposed standard.

The ASB expects that proposals to amend SORP 2005 to show how charities can comply with the new requirements will be published in due course. More information can be found on the ASB's website at:

<http://www.asb.co.uk/asb/press/pub1215.html>

Pilot of Scottish Charity Test

The Office of the Scottish Charity Regulator has announced the names of eight charities to be included in a pilot review which will assess them against the requirements of the charity test specified in the Charities and Trustee Investment (Scotland) Act 2005. The pilot charities include an independent school, a church and a university. The results of the pilot, although individual charities will be assessed independently, may well have implications for other Scottish charities. The pilot may also inform the results of the Charity Commission's forthcoming public consultations and may give an indication of the way that the less well-defined regime of Public Benefit testing will operate in England and Wales from early 2008.

VAT and membership subscriptions

It is our experience that HM Revenue and Customs (HMRC) is targeting the liability applied to some membership subscriptions of not-for-profit bodies (NPMB).

Normally the NPMB will have taken advantage of an Extra Statutory Concession that allows it to identify the individual benefits of membership and applying the appropriate VAT liability to each part.

Customs' recent focus has been to see whether the NPMB is offering either of the following services:

- (i) exclusive access to part of the website which provides information for members only
- (ii) the provision of a newsletter electronically rather than in paper format.

Both of these benefits are viewed as being taxable at the standard rate by HMRC and that could lead to a VAT assessment.

Charity Commission consults on new Annual Returns for 2007 year-ends

Drastic changes are proposed for this year's Annual Return Regulations to be made by the Commission. While the administrative information section (Part A) remains much the same as for previous years, almost all the monitoring questions in Part B are to be dropped completely. (Charities with less than £250,000 gross income had already been exempted from Part B in the 2005 Regulations when the SIR was introduced – for which see below).

Instead, all registered charities above the £25,000 gross income threshold are to be required for 2007 year-ends to notify the Charity Commission of any 'serious incidents' taking place in the reporting year, while those above a threshold of £500,000 will be required to summarise all the key figures from the SoFA and Balance Sheet in a standard format of numbered boxes similar to HMRC's Self Assessment Returns and distinctly reminiscent of the line-numbered annual returns that all charities in the USA have to file with the IRS there. The required trustee sign-off to AR07 will include specific confirmation that the charity trustees have complied with what the Commission proposes to call its 'Serious Incident Reporting' requirements – an unfortunate acronym in relation to Summary Information Returns.

Summary Information Return – the first year

The Charity Commission has conducted a review of a sample of 130 Summary Information Returns submitted in respect of the 2004/5 financial year and has published a report entitled 'In their own words – How charities have responded in the first year of the Summary Information Return'.

The report runs through the SIR questions in order, together with selected examples of how each question has been answered, and setting out some of the Commission's guidance notes on completion, and then promises to clarify those SIR questions where ambiguities have been encountered.

The report makes it clear that there is no intention to make any substantive changes to the SIR questions themselves.

The full text of the review can be found at:

<http://www.charity-commission.gov.uk/Library/publications/pdfs/rs14text.pdf>

For any queries, comments, suggestions for future articles, or if you would like to receive this newsletter via email please send an email to Robert Woolley at robert.woolley@hponline.co.uk

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