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# Charity workshop

## Difficult times ahead for charities



**George Osborne claimed that his recent emergency Budget was tough but fair. Well it certainly was tough for the charity sector; I will leave you to decide whether it was fair. The Budget has only a few items specifically targeted at charities but several more general measures are likely to create further financial hardship for charities already struggling with falling incomes. If you dig deep enough however, these are a few glimmers of good news as well.**

### **Increase in the standard rate of VAT**

The major issue in connection with the Budget must be the increase in the VAT rate from 17.5% to 20% on 4 January 2011. This is likely to have a significant hit on exempt and partially exempt charities. The Charity Tax Group estimates that it will cost the sector around an additional £143 million a year in irrecoverable VAT. Smaller charities are likely to be disproportionately hit.

Anti-avoidance legislation, in connection with the VAT increase, has been brought in which introduces a supplementary charge of 2.5% in certain circumstances on transactions on or after 22 June 2010. This is where a standard-rated supply spans the VAT change (i.e. a prepayment is made, or an advance VAT invoice is issued before both the VAT rate increase and the supply of related goods and services) and the customer cannot recover the VAT charged in full and one or more of the following conditions applies.

- The supplier and customer are connected with each other.
- The supplier (or someone connected with the supplier) finances a prepayment for the goods and services or
- The supplier raises an advance VAT invoice where payment is not due within six months of the invoice date.
- The value of the supply, and any related supplies, exceeds £100,000, but not if the prepayment or the issue of an advance VAT invoice reflects normal commercial practice.

### **VAT on postal services**

A second nasty VAT hit for charities, though announced prior to the Budget, is the introduction of standard-rated VAT (i.e. to be 20%) from 31 January 2011 on most postal services made by the Royal Mail other than the main public delivery service. Thus supplies made by Parcelforce, and services provided on terms and conditions that have been freely negotiated, will in future be subject to the standard rate of VAT.

This will have a major impact on exempt and partially exempt charities with significant deliveries or mailshots.

### **Gift Aid – Abolition of transitional relief**

If this were not enough bad news for the new year, remember that the transitional 3% relief for Gift Aid is finally coming to an end on 6 April 2011. Currently, there are no specific proposals to relieve this financial loss for charities. The Government does however state that it will continue to explore ways to improve the Gift Aid system and encourage charitable giving.

## VAT – Cost-sharing exemption

The possibility of charities sharing services could offer them significant cost savings. Unfortunately, there is currently a VAT barrier to such sharing. The Government has entered into informal discussions with the sector to consider options for implementing the EU Cost-Sharing Exemption which would help with this. A formal consultation process will start in the autumn.

## VAT – “Lennartz” schemes

Legislation is to be introduced in connection with “Lennartz” schemes in existence at 22 January 2010, where assets are used partly for business and partly for non-business purposes. Under “Lennartz”, full input tax recovery could be claimed on the acquisition of an asset but VAT was then payable in subsequent years for the non-business use of the asset. Since 22 January 2010, it has not been possible for a charity to use that treatment (unless the treatment was already being used on that asset). Instead, input tax recovery is restricted on acquisition.

## Payroll costs

The threshold for employer National Insurance Contributions (NIC) will increase by £21 a week above indexation. It is estimated that that the number of employees for whom employers pay no NICs will rise by 650,000. This will certainly help a number of charities. Please note however that the 1% rate rise for employees and employers NIC will still go ahead from 6 April 2011.

## Substantial donors legislation

Finally, we still have no revised draft legislation in connection with the substantial donor rules, though we are promised draft clauses in the summer with a view to publishing final legislation in the autumn.

For further information please contact [David Hadley, manager, Kingston Smith LLP](mailto:David.Hadley@kingston-smith.co.uk), at [dhadley@kingston-smith.co.uk](mailto:dhadley@kingston-smith.co.uk)

## Are you ready for iXBRL?

**It appears that another acronym has appeared in our midst, the purpose of which has passed by many charities both large and small! iXBRL stands for Inline eXtensible Business Reporting Language and is the electronic format which all corporation tax returns will need to be filed from April 2011. This will affect all trading subsidiaries of charities, any charity that has been requested to submit a corporation tax return, clubs and societies.**

iXBRL is an electronic tagging system that will allow the accounts of an organisation to be read electronically and will allow HMRC to collect and analyse the numbers submitted automatically.

HMRC has produced taxonomies, which are dictionaries or reference lists that set out the available tags to be used in a set of financial statements. These consist of 4,375 possible tags for use by organisations when filing electronically. Originally, tags suitable for charity accounts filing were inadequate however, HMRC has reviewed the taxonomy to extend it to the charity sector to allow tagging to be more meaningful. HMRC has indicated that accounts submitted by charities would be readable by computer and by individuals. Thus any inadequacies in the taxonomy and, consequently, the tagging will not automatically cause an issue.

It will be mandatory for organisations with accounting periods ended after 31 March 2010 and which file their tax returns after 31 March 2011 to follow this procedure. Most tax returns and computations prepared by accounting firms have compliant software, however accounts prepared in Microsoft Word or Excel are not currently iXBRL compliant and charities will need to determine how they are able to comply with this requirement. The three main options are as follows.

- Purchase an iXBRL compliant accounts preparations package of which there are currently very few available.
- Purchase a package that will allow non compliant accounting software to be tagged suitably for transmission.
- Ask your auditors to do it for you.

Whichever way charities decide to approach the issue there will be added costs involved.

Currently, at Kingston Smith we are testing a number of packages that will tag non-compliant accounts preparation packages with a view to offering this as an additional service to our charity clients.

It is likely that in the fullness of time Companies House will also require accounts to be filed under the same system.

If you would like further information on this subject, please speak to your usual partner or contact [Nick Brooks, head of not for profit, Kingston Smith LLP](mailto:nbrooks@kingston-smith.co.uk), at [nbrooks@kingston-smith.co.uk](mailto:nbrooks@kingston-smith.co.uk)



## New rules, how these will affect your charity?

### A significant number of matters specific to charities were introduced in the Finance Act 2010.

The most important is changes to the process by which charities are recognised for tax. Charities, if they wish to benefit from tax exemptions and reliefs, have always had to register with HMRC. There is, however, a new requirement that a charity must satisfy the 'management condition'. To meet the new requirement, managers (which include trustees, directors and others who have control over the running of the charity) must be 'fit and proper' persons. A fit and proper person is broadly a person with no history of financial impropriety.

For existing charities there is a presumption that, unless there is evidence to the contrary, all of the managers at 5 April 2010 are fit and proper persons. It is, however, recommended by HMRC that all future managers sign a fit and proper declaration on appointment. Also, there is now a requirement that where there is a change in managers nominated to receive HMRC repayment claims this is notified to HMRC. HMRC will then make checks on those new managers to ensure there is no indication in their records that they are not fit and proper persons.

If a charity does not meet the fit and proper test it could lose the relevant tax reliefs though such a loss is not automatic.

The second most significant change to the new Finance Act is that the charity tax reliefs (including Gift Aid) have been extended to cover charities in the EU, Iceland and Norway. To be entitled to the reliefs the overseas charities must:

- be organisations that if in England and Wales, would qualify as charities;
- meet the fit and proper test;
- be registered with an organisation similar to the Charity Commission if that is a requirement in the state in which they are established.

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A number of other provisions were introduced in the Finance Act 2010, the main ones of which are as follows.

- New rules mean that future payroll-giving donations will only be exempt from tax to the extent that the donations are put to charitable purposes. This should not be an issue for most charities.
- Changes are being made to restrict the number of Gift Aid claims made by a charity. Informal consultations are in progress to establish the precise details, with these expected to close in the autumn.
- Standard-rate VAT will, from 31 January 2011, be applied to certain postal services provided by Royal Mail, such as Parcelforce and specific contracts for bulk deliveries. This could significantly increase a charity's postal costs on for example, a mailshot.

### International expenditure monitoring

Prior to the March 2010 Budget announcement, HMRC's interest in charities' payments to overseas bodies prompted the Charity Commission to lay down some general guidance on aspects such as 'management and controls' and 'accountability and transparency'; all of which were designed to strengthen the legal requirement that a charity had to take 'reasonable steps' to ensure that overseas remittances were being used for charitable purposes.



However, the remittance of funds to overseas projects and charities has continued to grow. A great number of charities make payments to overseas bodies, most notably to transmit funds for partnership/project work being undertaken abroad, but also to support local overseas charities in their own activities, i.e. appeals for the tsunami and for Haiti. All of this has attracted renewed interest from HMRC, prompting it to issue additional guidance which became effective from 24 March 2010 following the Finance Act 2010. The new requirements mean that trustees need to follow up on the use of monies sent overseas by carrying out appropriate checks and keeping documentary evidence of the use of such funds. However, the level of record keeping will vary depending on the size and purpose of the payment being made. So, for example, a small one-off gift will not require detailed documentary evidence unlike a regular or large contribution which will need a greater degree of scrutiny by the trustees.

Trustees must therefore take note of both the Charity Commission and HMRC's guidance in this area and establish/strengthen controls for monitoring overseas expenditure and their documentation through minutes, and/or other reporting regimes.

It should be borne in mind that if HMRC is not satisfied over a charity having taken 'reasonable steps', the overseas funding could be deemed non-charitable and result in adverse tax consequences.

If you require further information or would like some advice on the above please contact your usual partner. Alternatively, email [David Hadley, manager, Kingston Smith LLP](mailto:David.Hadley@kingstonsmith.co.uk), at [dhadley@kingstonsmith.co.uk](mailto:dhadley@kingstonsmith.co.uk)

# Social media or social suicide?

**How many people in charities use Facebook, Twitter, LinkedIn, Bebo or My Space? Social networking is a relatively new tool that opens up new and unique opportunities for individuals and charities to network, market and share information. Organisations are increasingly making use of these, especially LinkedIn and Twitter.**

The Australian actor, Hugh Jackman, recently got the charity sector excited with a promise he made via his Twitter page to donate \$100,000 to the favourite charity of one of his followers. Several British charities, including Macmillan Cancer Support and Bullying UK, vied for the money and although the money was eventually split between two US-based organisations, the story demonstrates the positive impact that micro-blogging and social networking sites can have on the not for profit sector.

It also, however, presents opportunities for employees to misuse their time and to communicate messages that work against your purpose. Most organisations have not yet included the proper use of social networking websites in their HR policies and it may now be time for this to be corrected.

### The issues

Content submitted by an employee on any of the social media platforms may have serious consequences. Most recently, Allen & Overy, an international City-based law firm, summarily dismissed one of its senior associates who published an erotic novel online for allegedly bringing the organisation into disrepute. The employee is now suing the employer for more than £3 million, claiming sexual discrimination and unfair dismissal. Allen & Overy, which employs 5,500 people around the world, denied the claim saying it would "vigorously defend" the allegations but the firm is still attracting attention for this, and wishes it wasn't!

So, with this and similar cases in mind, what effect could an employee's use of the online world have on your charity? The possibilities for attracting unwanted media attention are endless.



### Why not just restrict use?

A balanced view needs to be taken. Social media is not going to go away and, unless charities want to miss out on interacting with the new generation of people familiar with this form of communication, they must decide on how best to use it. The way your organisation is perceived on the internet shapes public thinking about your charity and employees and by their communication on these sites, can support, reinforce or completely undermine it.

The benefits and the dangers both need to be acknowledged, but just restricting usage in a blanket policy may not be the answer. To use social media effectively, decisions need to be made on who can use it as part of their job role, what you want communicated and what your objectives for this are. Just like any other marketing tool.

### A social media policy

It is clear that a social media policy as part of your IT policy is now essential. Guidelines should be given on how it should be used and what communications are acceptable, so that it can be managed positively and your organisation can take action against an employee, if this tool is abused. Your internal HR policies remain in effect in both the physical and the web-based workplace. You may also need to consider monitoring social media sites to learn what your employees are sharing and saying about your charity.

If you feel you need assistance with your organisation's social media policies, please contact [Heather Matheson](mailto:hmatheson@hrinsight.co.uk), managing director, HR Insight, at [hmatheson@hrinsight.co.uk](mailto:hmatheson@hrinsight.co.uk)

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## Big gift donors A tale of love and marriage

**Fundraising is in a state of constant evolution and when it comes to development in schools, it has evolved into a boom industry in recent years. However, the principles of major gifts fundraising remain constant across sectors, with relationships at the core of any major gift approach or campaign. As with any relationship, its success depends on time, understanding and passion.**

I like to think of any donor relationship as a marriage with three distinct stages, though perhaps I should step out of the 'marriage' for an instant and explain the importance of identification and research into prospective donors.

In the case of a school, there are various groups to consider when looking for potential donors, alumni and parents being the most obvious. Once these groups have been screened and a potential pool of donors identified it becomes imperative to gain a deeper insight into their motivations, their capacity and, of course, their propensity to give.

So we are back to our relationship and the courting begins. Like any relationship, you start with some time spent dating, wining and dining, and finding out more about each other. In the school's case, both parties would have embarked on the relationship already knowing a fair bit about each other - but it is important for the fundraiser to develop a deeper understanding of what makes the potential donor tick.

Tim Edge, director of development at Charterhouse School, lays out some common motivations of donors, based on his numerous years of experience in this sector.

He points out that a key motivating factor is a high regard for the leadership, both operational and volunteer. Their charisma and ability to inspire and deliver proves a very successful lure. Donors will also give because they feel that by doing so they will be part of an 'inner circle' and, as such, closely informed about the progress and development of the school.

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Tim also refers to the finances of the school and how effectively they are managed, as this is an important consideration for any donor making a donation in any sector. Giving is about being inspired by the vision of the organisation – the school in this instance - and how well it articulates its claim to transform, not just the future of its students, but of the wider community it serves too.

So by now, we know each other well and where our relationship is headed and the 'M' word is invoked – which for the sake of this article means that we have 'popped the question' at the right time, in the right setting and made the ask. And so married life begins...

Marriage is hard work and one that requires attention and a lot of nurturing to make it last the journey. Our donor is no different. They must be thanked and made to feel valued for their commitment. Writing letters, sending them updates and inviting them to be part of events, appeals, planning meetings, boards and the like are just some ways in which we can keep them engaged and maintain their interest.

They must know they are valued, their contribution is making the desired impact and, ultimately, their children are benefitting from their investment and foresight. In the course of this journey we may return to the donor for their advice, renewed investment and/or time to further our cause. The closer and more treasured they have felt, the more they will be inclined to help us succeed and take on new challenges.

Happily ever after isn't entirely a myth, as our successful 'marriage' may well turn into a handsome legacy someday if we have continued to nurture our relationship well and always keep our donor at the forefront of what we do.



Having indulged in that analogy to explain the importance of your relationship with your donors and how to get them to the stage of becoming one, it may be prudent to give you the seven practical steps in cultivating your donor.

- Identify
- Research
- Involve
- Engage
- Ask
- Thank
- Steward

This is by no means the law and must be taken on board based on individual circumstance. Sometimes it is 'love at first sight' and you jump from step one to five and thanking. Sometimes, love is slower in blossoming and you follow the traditional seven-steps path.

Either way, we are off on our journey, and for the relationship to be healthy, both parties must be happy, honest and passionate about what they are trying to achieve.

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# Seminars and courses

## Seminars / Charities

### Thursday 7 October – City

Gift Aid – Maximising the returns and avoiding the pitfalls

### Wednesday 3 November – Dorking

An update for charities

### Wednesday 17 November – Luton

Is your data really as safe as you think? Probably not!!!

## Seminars / Schools

### Wednesday 17 November – Luton

Is your data really as safe as you think? Probably not!!!

### Thursday 9 December

Gift Aid for Schools - City

## Courses

The Fundraising and Management Division offers a range of training courses for the not for profit sector. Our training courses build on our highly successful seminar programme by providing more in depth analysis of topics which address the developing needs of the sector. Delivered by our in house team of IoF accredited experts, courses will help trustees, CEOs and Directors of Fundraising to deliver their goals more effectively.

Governance - An overview of trustee duties

Tuesday 31 August - London

Monday 27 September - London

Wednesday 17 November - London

Membership development & retention

Thursday 7 September – London

Wednesday 3 November – London

Fairytale fundraising strategies

Tuesday 19 October - London

Better bid writing

Wednesday 13 October - London

Major donor fundraising techniques

Wednesday 25 August - London

Maximising income and increasing supporters with online fundraising strategies

Tuesday 21 September - London

## How to book?

Kingston Smith runs an extensive programme of seminars. To access the full programme and book your place visit [www.kingstonsmith.co.uk/events](http://www.kingstonsmith.co.uk/events) or email [events@kingstonsmith.co.uk](mailto:events@kingstonsmith.co.uk) or phone 020 7566 3850

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