

Revive - Refocus - Rebuild

The journey back to better

Issue one



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“Giving us the opportunity to pivot and refocus”

Welcome to our first edition of our new series of publications focusing on revive, refocus and rebuild - the journey back to better. At the time of writing lockdown restrictions are easing, summer is on its way and there is generally more normality in our day to day lives. This led us to start thinking about the journey back to normality and what we could focus on over the next 12 months, although with so much uncertainty we have limited ourselves to three months at a time, giving us the opportunity to pivot and refocus the same way so many of you have had to over the last year.

In this publication our tax team take the opportunity to look at some top VAT tips for better VAT recovery. They also look at other potential tax impacts and how you might access cashback for your organisation. Mark Jackson will be looking at how meetings could be managed moving forward, what are the “best bits” that we can take from online meetings are and how we can use this learning as we once again begin to meet in person – or not depending on how well you thought online board meetings have worked for you! Claire Thompson follows this up with her top tips for efficient board meetings – a revision for all of us whether they are online or in person meetings.

Finally, Katherine Parkin considers fundraising in the new normal - this topic will be a running theme for many of you and something that I am sure we will revisit over the next 12 months, as we learn how to navigate the rules and public appetite for charitable giving.

In addition to these quarterly publications, we also hope to bring you our regular newsletters to ensure you are always up to date in our fast-paced new world.



Sarah Case,
Partner





Tax thought leadership

Scott Craig, Partner and Head of VAT, scott.craig@azets.co.uk

Despite successive governments promising to streamline, simplify and consolidate the tax system, tax reliefs appear to have been their only output. At present over 1,100 different reliefs are currently available, however the associated administration can result in additional unnecessary cost.

Charity tax reliefs are a good example of this. Charity relief rules are considered by many to be bureaucratic, inefficient, and expensive to operate. In view of the role charities play in modern society many feel that the Government should look at making improvements to the tax position for charities as a matter of priority. The VAT reliefs currently available to charities are too narrow. They should be extended and made more efficient. Some still involve paper-based administrative processes that often cost more money to manage than they save.

In many areas, the VAT rules that apply to charities are confusing and open to interpretational differences. This results in charities suffering unbudgeted VAT costs or significant costs to defend a position. In a number of cases the VAT rules do not reflect current government policy, or the range of activities charities undertake these days.

The majority of charities are unable to recover all of the VAT they incur. Charities must therefore use hard earned funding to fund VAT costs and in some cases even apply for Government funding to cover the cost of irrecoverable VAT which is duly repaid to HMRC. If the rules on the recovery of VAT were changed, 100% of

donations given by the public and Government funding could be used for the purpose it was originally intended for.

Public sector bodies and some charities have a special VAT status that allows them to recover all of the VAT they incur on free of charge non-business activities. If this status were extended many charities would be in a much better financial position. This would not result in a loss of revenue to the Government. The current “pot” of public sector funding could be used to fund a greater number of charitable bodies and activities. Following Brexit, the Government now has the ability and power to make changes that could make the tax position of charities simpler and more efficient.

It is normal for charities to operate trading activities through a trading subsidiary which then donates any profits to the charity. This arrangement ensures neither entity pays corporation tax. However, this is a convoluted and often problematic way to prevent tax leakage. The Government could allow charities to trade under wider parameters that would reduce the cost and administration of running separate entities.

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After speaking to some of our clients here are the changes they would like to see:

Most want to eliminate unnecessary administration costs and complexities. The suggestions we received included:

1. [Removing the cumbersome trading subsidiary model](#) by allowing charities to trade more freely. Failing that, create a nil rate band for trading subsidiaries allowing them to retain some working capital (£50,000?).
2. [Apply zero rate VAT to all supplies by charities](#) – this would allow all VAT on expenditure to be recovered too.
3. [Give a 'Special VAT recovery Status' to charities](#) and allow them to recover the VAT incurred on expenses in the same way as public sector bodies.
4. [Remove VAT on charges](#) between charities.
5. [Remove the VAT reverse charge procedure](#) on overseas services for registration purposes for all charities. This would remove unnecessary VAT registrations and additional irrecoverable VAT costs.

Conclusion

Tax and VAT. Three short words but a major headache for charities that is expensive to administer and manage. The government really needs to restructure charity taxation and in so doing, free up charities and their people to focus on their core businesses – let's make a difference!





Meeting management as we begin to meet in person

Mark Jackson, Partner, mark.jackson@azets.co.uk

How good are your meetings? My guess is there will be room for improvement. Here are three things to think about as we begin to meet in person again.

1. Accessibility of meetings

Let me start by challenging the assumption in the heading that it is right to meet in person again. Maybe continuing to meet electronically will enable some charities to be more effective, for example:

- Online meetings during the day are less disruptive than in-person meetings, and therefore perhaps easier for some to join.
- Some will have enjoyed reaching for the laptop from their armchair a few minutes before the meeting starts and will not be looking forward to travelling, find parking and run from their car in the rain.
- Maybe some of your best potential trustees' live miles away and historically have not felt able to support you.
- Maybe you can more easily bring in other stakeholders and experts for parts of your meeting.

So, perhaps a blended approach will be required, for example:

- brief video meetings, to deal with routine business decisions with 'in person' meetings for those requiring more discussions and debate; or
- all meetings have some people physically present and some via technology.

2. Team dynamics

I wonder if the first in-person meeting will take much longer as some will have a year's worth of minutes to go through before you begin.

Team dynamics may have changed during lockdown from not having those informal and social interactions found at the start and end of meeting in person. There may be new trustees that you need to re-introduce and others will need to re-learn the skills of reading the body language signals which are harder to identify on video calls.

Some people may only be partly present in video meetings as they look after children at the same time or continue trying to do the day job while listening to others. Different distractions happen when meeting in person.

The commitment of many trustees is amazing, but for others, sometimes this needs to be challenged. Are your trustees more or less likely to attend meetings, arrive on time and have read all the papers in advance?

Lockdown has highlighted how different personalities react differently to the same thing. Some are comfortable with video calls, while others struggle to participate in the way they would around a table. Some will be nervous of coming out again, others will slip back to the old way as if nothing had changed. The Chair and each trustee will need to be aware of the impact this will have on the meetings.

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3. Content of meetings

It will be important to take time to reflect together on the challenges and achievements of lockdown.

After a year of change it may be time to review exactly what you are doing and how you are doing it, and whether priorities that shifted during lockdown should remain or whether it's time to revert back to what you were doing – or, perhaps more likely, a bit of both.

Roles of individuals may, by necessity, have shifted during lockdown. Now is the best time to review roles and responsibilities.

Many charities have had different processes in place during lockdown and it would be right to review whether those changes remain appropriate, for example authority levels, committees and financial systems and controls.

You may want to review and update (or write?) your risk register as the risks facing the charity, or maybe your understanding of those risks, could have changed.

Conclusion

So, I encourage you to rethink each element of your meetings without being limited to what happened before or during lockdown, and go back to the foundations of The Charity Governance Code working through, as a Board:

- how you can best deliver your charitable objects;
- how you can best support your beneficiaries;
- how the dedication and commitment of trustees can be maximised;
- how you can achieve the highest levels of governance; and
- how you can continually improve what you do best.





Top tips for effective Board meetings

Claire Thompson, Associate Director, claire.thompson@azets.co.uk

1. [Turn up to meetings on time](#) and be committed to stay for as long as required
2. [Read your board papers](#) - be prepared, and don't forget to bring them or have them up on your screen
3. [Ask questions, probe and delve deeper](#), don't accept data at face value and answer any questions before the meeting if possible
4. [Do your technical reading by signing up to newsfeeds](#), this will keep you up to date with the sector
5. [Get under the skin of the organisation](#) and understand the services, structure and people
6. [Understand the finances, the reserves, the commitments and the pressures](#) of the organisation
7. [Use your skills](#) - work skills, life skills, family skills and social skills
8. [Communicate at meetings and between meetings](#), with Senior Management Team, with each other and take the time to learn and understand each other, question, and listen to what is being said
9. [Agree, but also if necessary, disagree](#) participate and be passionate
10. [Agree action points](#), allocate them to individuals and provide deadlines. Follow up via email

Virtual meeting tips:

- Test the meeting link beforehand
- Familiarise yourself with the platform being used
- Mute yourself when you are not talking
- Share your screen when discussing documents
- Allow for personal time





Tax reliefs – potential cashback into your Charity

Kirsty Murray, Partner, kirsty.murray@azets.co.uk

HMRC is perhaps not the first place a charity would look if it needed cash, but these valuable tax reliefs that provide real cash payments to charities should not be overlooked.

Gift Aid

A charity can claim an additional cash repayment from HMRC where it receives donations from UK tax paying individuals. Charities can claim an extra 25p for every £1 an individual donates.

To claim Gift Aid the entity will need to be recognised as a Charity with HMRC. The individual making the donation needs to make a declaration which gives the Charity permission to claim Gift Aid and confirms that they have paid at least as much UK tax in that tax year.

Gift Aid can increase the value of donations by 25% so charities should encourage their eligible donors to sign up.

Theatre Tax Relief

Theatre Tax Relief (TTR) provides a tax break for production companies (charitable or not) engaged in qualifying theatre productions. The relief is designed to recognise the unique cultural value that theatre brings to the UK and encourage greater and more diverse productions.

TTR provides companies with either a reduction in their corporation tax liability or as is more likely with charities, a cash repayment.

The relief applies to various theatrical productions including:

- Theatre
- Ballet
- Dance and Opera
- Other live performances

Any company (charitable or not) that meets the definition of a production company can claim TTR. A production company is a company that produces, runs and closes the production, is engaged in decision-making, and makes creative, technical and artistic contribution to the production.

The production company may be able to claim a repayable tax credit from HMRC. This is calculated as up to 20% of a non-touring production's qualifying expenditure and, 25% of a touring production's qualifying expenditure.

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Museums and Galleries Exhibitions Tax Relief

Museums & Galleries Exhibitions Tax Relief (MGETR) provides a tax break or a cash repayment for charities and their subsidiaries that maintain a museum or gallery and create new temporary or permanent exhibitions.

The tax relief is available to museums and galleries with charitable or educational objectives. A museum or gallery includes a library or archive and a site where a collection of objects or works is held.

To qualify for the relief the entity will need to maintain a museum or gallery and be:

- a charitable company;
- a trading subsidiary of a charitable company; or
- a company wholly owned by a local authority.

The exhibition must be a collection of objects or works which are considered to be scientific, historic, artistic or of cultural interest. The exhibition must be open to the general public, but there is no requirement to charge for entrance.

The charity may be able to claim a repayable tax credit from HMRC. This is calculated as up to 20% of a non-touring exhibition qualifying expenditure and 25% of a touring exhibition's qualifying expenditure. Unlike TTR and Orchestra Tax Relief (OTR), MGETR repayments are restricted to £100,000 per touring exhibition and £80,000 per non-touring exhibition.

Orchestra Tax Relief

Orchestra Tax Relief (OTR) provides a tax break for companies (charitable or not) involved in producing qualifying orchestral concerts. An orchestral concert is one which is:

- performed wholly or mainly by instrumentalists in an orchestra, ensemble, group, or band;
- the instrumentalists must be the primary focus of the concert.

OTR provides companies with either a reduction in their corporation tax liability or, as is more likely with charities, a cash repayment.

A concert will qualify where the number of instrumentalists is at least 12 and none of the instruments are electronically or directly amplified.

Like TTR and MGETR, each qualifying concert must be treated as a separate trade for the purposes of its corporation tax return. However, here there is the option to elect to treat a number of concerts in a series as one separate trade.

Where loss making, the company may claim a repayable tax credit from HMRC amounting to 25% of the loss available for surrender.

Conclusion

Despite these reliefs providing great value to charities, the uptake of them is still low.





VAT savings for charities

Scott Craig, Partner and Head of VAT, scott.craig@azets.co.uk

VAT affects all charities – even those that are not registered for VAT. In practice VAT is an irrecoverable cost for most charities and whilst VAT savings are available, they are not as obvious or as far reaching as they should be. In simple terms, charities can reduce the cost of irrecoverable VAT in two ways, they can look to reduce or remove the VAT they incur on expenses and recover as much of the VAT they incur as possible. But remember, to recover VAT you must first be registered.

The following five points should be considered by all charities who want to ensure that they are minimising the cost of irrecoverable VAT, and maximising the use of their funds and resources:

1. **The construction of new dwellings**, relevant residential buildings, charitable purposed buildings, and village halls/ community use buildings are liable to the zero or 5% rate of VAT when specific conditions are met. It is important that the VAT liability of building works is confirmed at the planning stage of any project if the cost of irrecoverable VAT is to be minimised.
2. **Where specific conditions are satisfied**, charities should incur zero rate VAT or 5% VAT on core costs. The most common are advertising costs and fuel and power bills. Make sure that you are aware of the conditions that apply to these purchases and that you confirm the VAT liability with suppliers when the services are being procured.
3. **A range of medical and personal related goods and products** by individuals and charitable bodies can be purchased VAT free – this includes furniture, specialised equipment, DDA works and improvements to buildings. Once again check the VAT position at the procurement stage and make sure you do not pay 20% VAT if it is not applicable.
4. **Organisations that are involved in the education, care and welfare, and arts sectors** will make exempt supplies when specific conditions are satisfied. While this ensures that VAT does not have to be charged or accounted for on income, it means that the VAT incurred on associated costs cannot be recovered. Affected organisations should regularly review the VAT classification of their income to ensure they are following the correct and most effective model for them. This is especially important when capital projects are being considered.
5. **Improve your recovery of VAT**. It is worth reviewing the procedures used to calculate the value of recoverable VAT annually. This can be done at the same time as VAT annual adjustment calculations are undertaken. This ensures that changes in activity or income values are identified, and the VAT calculation is adjusted or refined accordingly. If a calculation does not reflect the use of expenditure, a special method of calculation should be considered and agreed with HMRC to improve the recovery of VAT.





Fundraising in the new normal

Katherine Parkin, Senior Manager, katherine.parkin@azets.co.uk

The impact of COVID-19 on charity fundraising has been significant, with mass participation events, fundraising dinners and face-to-face fundraising becoming all but impossible through much of the pandemic. Private family trusts and foundations have also been under some strain, with volatile investment earnings reducing their capacity to support charities. It is essential for charities to grasp new opportunities and explore different ways of fundraising in the new normal.

Go digital

In our recent Digital in the Third Sector Guide, we explored digital strategies for fundraising. Whether this takes the form of a simple website upgrade enabling mobile donations, promoting digital fundraising platforms such as VirginMoneyGiving and JustGiving, or using social media to promote the charity's activities and daily challenges, there are a wealth of options out there to provide maximum exposure with a national or even global reach.

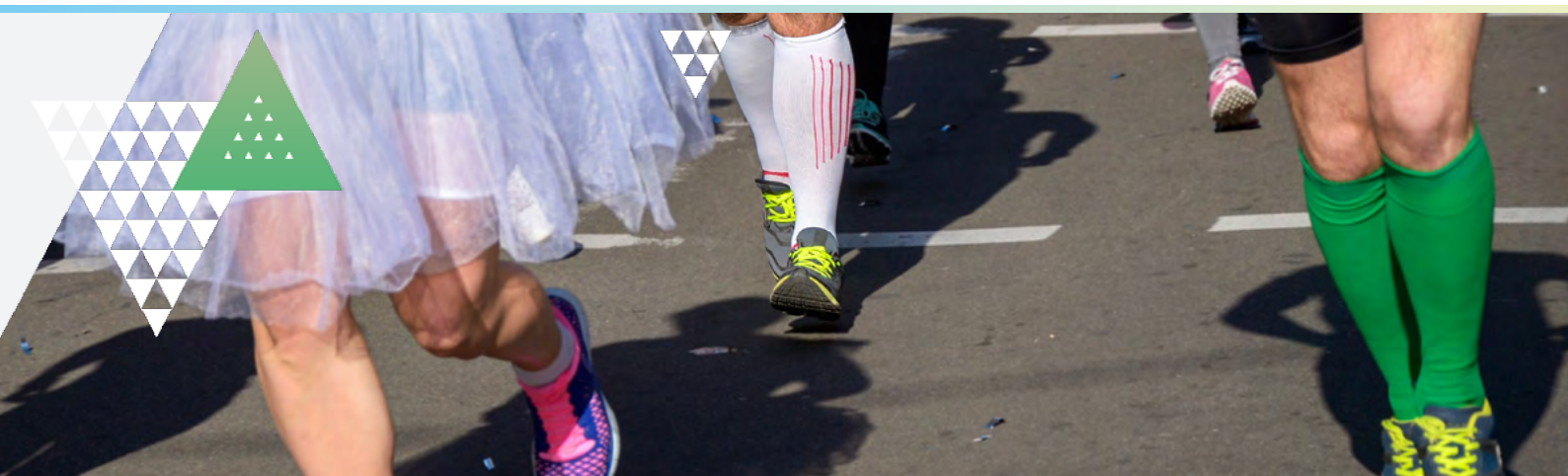
Twitter, Facebook, and Instagram all have inbuilt analytics which can provide invaluable information on your audience enabling you to capitalise on their engagement. While a digital approach may not generate the same numbers of donors as face-to-face fundraising, it has been shown that supporters converted by this method often represent better retention value.

Hybrid events

While virtual events have been a recent lifeline, there are some benefits to staging an in-person event. Hybrid events combine the best characteristics of both, providing the convenience and reach of virtual events, with the memorable experiences and opportunities for networking that come with physical ones. They facilitate participation of individuals who may be unable or unwilling to travel, alongside the more traditional face-to-face discussions that are still valued by many people.

A conference following the hybrid event model would retain many features of a physical event, such as a central venue, a programme of events, and in-person networking. Speakers may be present in person, attending virtually through video-conferencing software, or a combination of both. Hybrid events allow for improved accessibility, particularly for smaller charities with limited resources, and can offer great fundraising potential. In uncertain times, organising a hybrid event also offers flexibility should plans need to change unexpectedly.

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Sustainability

One of the most sustainable and crisis-resistant forms of fundraising is regular giving by direct debit or standing order. It's not difficult or expensive to implement, and even small organisations can raise money this way. Did you know that by signing up just 25 new supporters each year each donating £10 per month, you could raise:

- £3,000 in the first year
- £15,000 per year by year five
- £45,000 in total over the first five years

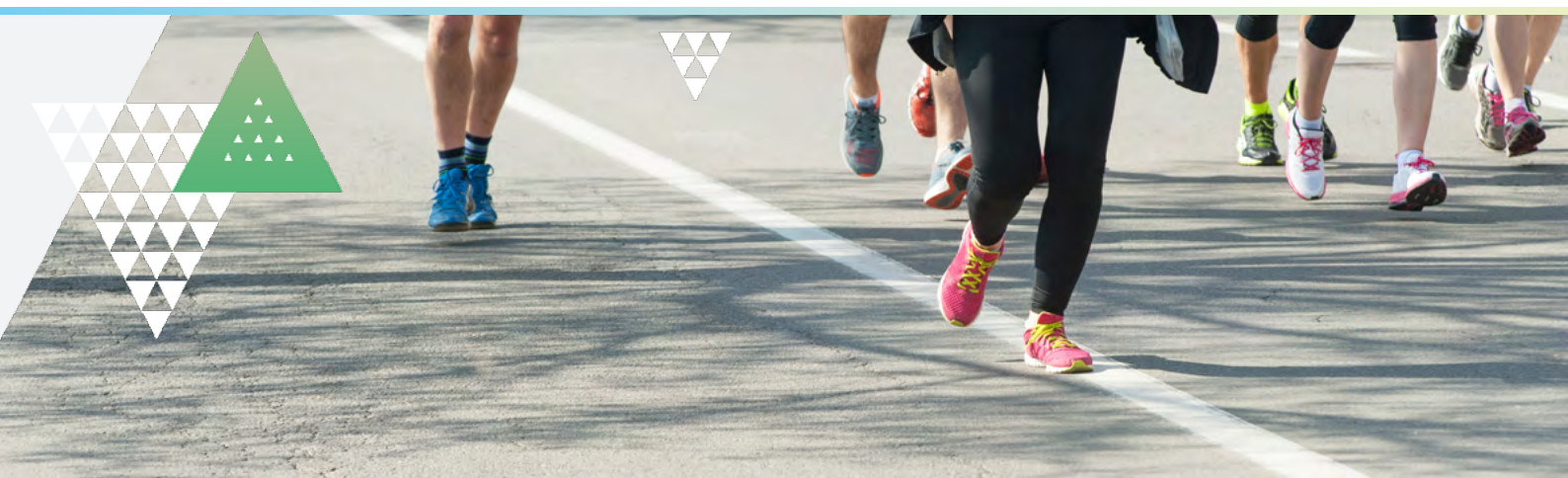
Even with expected attrition rates, this could be an important source of funding that will continue in the future with relatively little time commitment required.

Regular supporters & stewardship

Demonstrating the importance of regular supporters, taking care of supporter relationships, and improving these relationships over time are all key to maintaining long-term giving and the creation of a stable, interested and involved community around your charitable activities. Try to create the best donor experience possible, where giving is rewarded, and they are reminded regularly of the positive impact their support is making. Share stories via whatever means you can; whether an email, a video message, a phone call or a thank you card - it all adds up. It has been shown that a simple phone call to let them know that you continue to use their valuable donations to support your charitable activities is more likely to result in an increase in regular giving than a decrease in monthly donations.

Conclusion

While the COVID-19 pandemic has dented many charities' income streams, it may also provide a driving force to rethink strategies and embrace new and emerging technologies. However, continuing to invest in quality relationships and staying in touch with your donors remain key to fundraising in the new normal.



Quarter 1

checklist

Tax thought leadership	Yes/No	Action to be taken
Do you think the Government should look at making improvements to the tax position for charities as a matter of priority?		
Do you know the VAT reliefs currently available to charities?		
What changes would you like to see?		
Meeting management as we begin to meet in person		
Will you be continuing to meet electronically, and do you think it will enable your charity to be more effective?		
Have you reviewed the roles of individuals and determined whether they need to change?		
<p>Rethink each element of your meetings without being limited to what happened before or during lockdown, and ask yourself the following questions:</p> <ul style="list-style-type: none"> a. how you can best deliver your charitable objects; b. how you can best support your beneficiaries; c. how the dedication and commitment of trustees can be maximised; d. how you can achieve the highest levels of governance; and e. how you can continually improve what you do best. 		
Top tips for effective Board meetings		
Have you built technical reading into your schedule?		
Do you use your skills? <ul style="list-style-type: none"> a. Work skills b. Life skills c. Family skills d. Social skills 		
Do you ask questions about your data or do you accept it at face value?		

Quarter 1

checklist *continued...*

VAT savings for charities	Yes/No	Action to be taken
Is your charity VAT registered?		
Does your charity maximise on the use of their funds and resources?		
Do you review the procedures used to calculate the value of recoverable VAT annually?		
Fundraising in the new normal		
What has been the impact of COVID-19 on your charity's fundraising?		
Does your charity grasp new opportunities and explore different ways of fundraising in the new normal?		
Has your charity revisited its strategies and embraced new and emerging technologies during this time?		



About us

Azets is a Europe-wide group with more than 150 offices across seven countries.

80+ of these offices are based in the UK, giving us a truly national offering of Accounting and Business support along with the other services we offer

80+ offices

120,000 customers

6,500 employees



The charity sector is a diverse and challenging environment which faces numerous pressures from raising funds, diversifying income streams, managing finances and investment portfolios, through to meeting stakeholder demands and keeping up-to-date with ever-changing regulation.

Our specialist charities team have many years' experience in providing high quality compliance, governance, taxation and advisory services to a wide range of charities and not-for-profit operations. Our service is provided on a bespoke basis designed around the organisations unique requirements.

Many of our Partners and staff are actively involved within local charities in various roles from trustees or committee members to active fundraisers.

If you are looking for advice our team would welcome the opportunity to meet with you and discuss your individual requirements before offering a service package to meet your needs.



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