



UNDER THE SPOTLIGHT

Tender Management Consultancy

With the reduction in the amount of grant funding available it is becoming increasingly important for not-for-profit organisations to seek alternative funding streams.

The UK Government procures £220 billion of services every year. Over half of this amount is awarded to small / medium sized bodies and many charities and other not-for-profit organisations are tapping into the public sector market. The contracts provide vital income whilst allowing them to pursue their social objectives.

However the competitive tendering process is very different from completing a grant application. The requirements are much more stringent and tenders are open to any organisation, charitable, social or private, to apply.

Currently only a quarter of charities are engaging in competitive tendering - understandable as the process can be quite daunting - and it is mainly the larger charities that are successful.

Tender Management Consultancy provides a specialist commercial tender training and support

programme to 3rd sector organisations of all sizes, to help you take advantage of tendering opportunities. With over 15 years experience of writing successful tenders for charities, we will guide you through the procurement process, explain the different approaches required to grants and tenders, source suitable tendering opportunities, help you to build your 'Tender Toolkit' - all the documentation you need to accompany your tender - work through a tender with you and give you the skills to submit high quality tenders that have the best chances of succeeding.

Through our own not-for-profit Community Interest Company we can provide training at greatly reduced rates and in some cases completely free.

■ For further information, please contact Malcolm Sutton, 3rd Sector Bid Director, email malcolm@tendermanagement.co.uk or T: 0151 600 5085.

Alternative Investments



As the governor of the Bank of England, Mervyn King recently predicted Consumer Price Inflation reached 3.5% in January - the fastest annual pace for 14 months - requiring him to write a letter of explanation to the Chancellor. In it, the governor said the inflation rise was 'temporary' and he anticipates this will quickly fall back below the 2% target and could remain below this level for several years. This means that I would expect interest rates to remain low for the foreseeable future.

With the low interest environment we have had more enquiries from historically cautious investors, including charities and trustees, who are looking for better returns for their cash deposits.

The good news is there are alternative low-to-medium risk products that can generate a better return.

One possible alternative could be so-called Structured Products, which typically run for three to five years. The attraction here is that these come with a capital guarantee provided from a strong financial institution.

The return depends on the performance of the financial markets. For example, you might invest money for three years in a product that guarantees a return (in addition to the original capital) if the value of the FTSE100 is higher in three years. So, if the FTSE100 was at 5,300 when the investment is made and after three years it was at 5,301 or higher you would get the guaranteed return.

If the FTSE 100 was lower at the end of three years, you would simply get your money back in full. The capital is not usually returned until the end of the investment term.

These products are currently generating yields equivalent to 6 or 7 per cent per year - although the returns vary depending on provider and how long you want to invest for.

■ If you have reasonable cash holdings and would like to find out more about structured products, or other alternative investments, contact us.

www.mitchellcharlesworth.co.uk

The content of this newsletter is for general information only. It should not be relied on and action which could affect your business should not be taken without appropriate professional advice. For advice, please contact your usual partner or local MC office.

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CHARITY UPDATE

EDITION 8

TO "G" OR NOT TO "G" VAT IS THE QUESTION!

It is usually assumed that there are no VAT implications when Grant funding is received, however there are a wide variety of grants, some of which are deemed to be 'business' in nature. i.e. the grantor is in receipt of goods or services from the recipient. In these circumstances there is deemed to be a 'supply for a consideration' and VAT can be due from within the funding.

If a grant is freely given, with nothing supplied in return, then no VAT is due on the income however nowadays many fund providers usually ask for something in return. This 'something' is usually described in a service level agreement (SLA) or similar document which sets out what has to happen for the grant cheque(s) to be sent. An SLA does not necessarily mean that VAT will be due so it is important to establish whether the Grantor has received any goods or services in return or whether the SLA only ensures that the funding is correctly spent.

The unexpected loss of VAT from a grant can be a huge blow so care taken at the start can be repaid many times over. Always ensure all grants applied for are 'Excluding VAT if applicable' to ensure VAT can be billed later to the grant provider in addition to the grant if necessary.

In addition to the issue of whether VAT is chargeable on the grant, there are implications relating to the recovery of VAT incurred. VAT incurred on expenditure relating to non-business activity is not recoverable, but VAT incurred on business activity is recoverable. Therefore if it is appropriate to charge VAT on the grant then when the funding is spent the VAT will be recoverable. VAT reclaimed on related expenses can, of course, be substantial if related expensive equipment has been bought and/or buildings altered. Usually however this is never quite so simple and often expenses are incurred that relate to both business and non-business activities in which case some form of



Sooner or later every charity will seek 'G' (grant) money and must decide if it is Vatable.

apportionment is required in order to determine the amount of VAT to be reclaimed. The practical effects of getting this wrong are best explained by way of examples.

Example 1 - a charity running a Citizen's Advice Bureau added vat to invoices it sent to a local authority grant funder for providing advisory services because the local authority insisted on a signed SLA which required the charity to provide detailed reports and business accounts to prove the service level provided to the local authority. The charity thought this made the service vatable and that vat could be added to bills sent to the local authority so that vat could be reclaimed on related expenses and equipment.

Unfortunately, Customs took the view (upheld on appeal) that detailed reports and accounts to prove the service level provided amounted to no more than good housekeeping. No vat was due on grant income so no vat could be reclaimed on related expenses and equipment.

Example 2 - a charity running work experience for disabled students added vat to invoices it sent to a local authority grant funder because of a signed SLA (and even though the local authority had priority in deciding who received training and had certain monitoring rights) all supplies were non vatable and were being made to the students - ie not the local authority.

Usually it is as much in the interest of a local authority (or other government funded body) to ensure the 'something' is Vatable because, very broadly, the local authority / government funded body can reclaim VAT charged to it by the charity for non business and/or outsourced activities.

In borderline cases (and especially where the charity will incur considerable VAT on related expenses, equipment and/or building alterations) it is worthwhile discussing specific VAT points in advance of any signed SLA to ensure the optimum VAT position and avoid any unexpected VAT bills!

In this issue...

To G or not to G • Gift Aid • Pay Per Click • Reporting Requirements • Tender Charity Consultancy • Alternative Investments

Celebrating 125 years in business



INVESTOR IN PEOPLE



Gift Aid – admissions and membership subscriptions

According to recent figures charities received nearly a billion pounds from Gift Aid last year. However it is apparent that many charities are still not reclaiming the full amount of Gift Aid they are entitled to. This article focuses on where your charity can qualify for Gift Aid on admission fees and membership subscriptions.

Admission Fees

If your charity charges an admission fee to visit and view a property then the admission fee gained will not qualify for Gift Aid. If payment is required to enter or view the property, the money raised from the admission fee counts towards your trading profit and is not a 'gift'.

However, if you ask visitors to make a voluntary donation that is either;

- Ten per cent more than the normal admission fee
- Allows admission for at least a twelve month period

...you may be able to claim Gift Aid.

A donation which is ten per cent or more than the admission fee

Gift Aid applies when the visitor has the option of paying an admission fee but instead chooses to make a donation that is at least ten per cent more than the normal admission fee.

Example

Admission is £5.00. If the visitor makes a donation of £5.50 or more then it qualifies for Gift Aid. In this case, the whole fee will qualify and not just the excess payment.

It is important that all visitors are made aware that the option to donate the extra ten per cent is entirely voluntary. Therefore, no extra incentives can be offered for the donation, the visitor must have the same access as another visitor who pays the normal admission fee.

A donation that allows admission for at least a twelve month period

If a visitor offers a donation you can, in return, offer them the right to admission to the charity for a period of at least one year. In return for a donation, the charity can either allow free admission for all visits during a twelve month period, or allow admission to view the charity and property for a reduced admission fee for all visits within a twelve month period. Your charity can decide the minimum level of donation they accept before granting the membership for twelve months.

Membership subscriptions

To qualify for Gift Aid, any subscription payment must be for membership only and must not allow the personal use of facilities. Members can still receive newsletters produced by the charity, visit the charity and property, and take part in activities that form part of the charity's objectives. However, where an individual pays for somebody else's membership fee, that fee will not qualify for Gift Aid.

This is just a brief overview of where a charity can claim Gift Aid for admissions or membership. In all cases there are a few points to remember;

- Donations must be supported by an appropriate Gift Aid declaration.
- Visitors must be offered a clear choice between the donation and normal admission price.
- Both donors and visitors who pay the normal admission fee must be allowed the same access rights to the property.
- All other conditions of the Gift Aid scheme are met.

■ If you would like any more information about Gift Aid, or the areas your charity can claim Gift Aid, then please do get in touch.

Pay per click qualifies for zero VAT rating

HMRC have recently announced that pay per click ('PPC') links on search engines, such as Google, qualify for zero rating when supplied to a charity. Also the supply of associated copyright and design services are zero rated.

PPC is used by organisations on search engines to encourage searchers to click on the organisation's link in priority to any other links on the results page following a search. The organisation pays the search engine provider an agreed amount each time their website is accessed through the sponsored link.

Supplies of advertisements for charities, when placed on a third party's website, and their design and production costs also attract the zero rate of VAT.

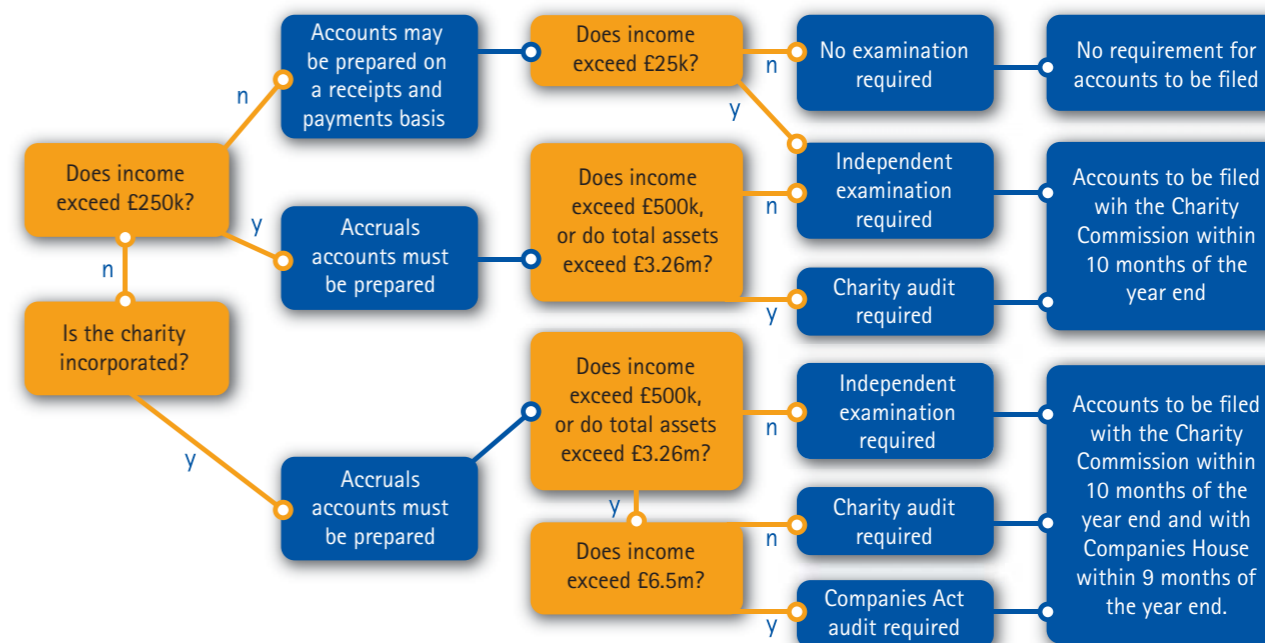
They now accept that PPC-sponsored links appearing on search engine websites are advertisements and qualify for zero-rating when supplied to a charity. It follows that the supply of copyright and design services associated with such sponsored links fall within the zero-rating.

However, they still maintain that services supplied by copywriters and designers for the purpose of search engine optimisation (structuring a website so that it contains as many keywords as possible) do not qualify for relief.

Businesses that have accounted for and paid VAT on supplies of charity advertisements that are now considered to be zero-rated may submit claims for overpaid tax. These will be subject to a transitional four year limitation period and 'unjust enrichment' provisions. If you consider that you may be affected by the above please contact Colin Corder, VAT Manager with Mitchell Charlesworth who will be please to help in the calculation and submission of a possible claim

Important changes in charity reporting requirements

Finding your way through the minefield that is charity financial reporting has never been simple, but with the full implementation of both the Charities Act 2006 and the 2006 Companies Act in the last year, requirements have changed yet again – do you know on what basis your charity's accounts need to be prepared, which regime you can expect to see them scrutinised under and to whom they need to be submitted this year?



Below are a few examples that may impact on your charity and a table summarising the requirements for years ending on or after April 1, 2009:

- If your income is below £25,000 you may now be able to take advantage of the exemptions previously only available to those charities with income below £10,000.
- If your company charity previously had a Reporting Accountant's report it will now be required to have an independent examination or audit instead.
- Only company charities with income over £6.5m will be required to have an audit under company law, although they may still need an audit under charity law.

■ With the ever growing complexity of charity regulation it is more important than ever to have an expert to turn to. If you have any queries regarding reporting requirements or any other regulatory matter our specialist charity team are here to help.