Deloitte.

January 2019

Charities Alert

SORP Information Sheet 2

January 2019

Information Sheet 2 is available at http://www.charitiessorp.org/

In a nutshell

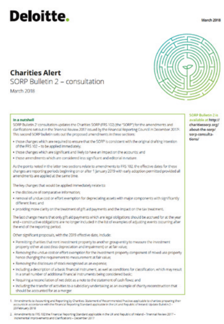
Information Sheet 2 published in January 2019 focusses on the changes in respect of the accounting for gift aid payments made by a subsidiary to a parent charity where no legal obligation exists. It provides support and examples for charities to implement those changes made to FRS 102 through the Triennial Review 2017[1] and the consequential changes to the SORP through SORP Bulletin 2[2] .

The guidance is written primarily for the subsidiary entities of a charitable parent that applies FRS102. In summary, the impact of the changes on the subsidiary were that:

- A gift aid payment, intended to be made after the year end, could not be recognised at the balance sheet date where there was no legal obligation.
- Gift aid tax relief could be recognised at the balance sheet date, even where there was no legal obligation or liability for the gift aid payment, when the conditions were met and it was probable that the gift aid payment would be made.
- No current or deferred tax liability is recognised by the subsidiary in relation to a gift aid payment where the tax charge and corresponding relief effectively net off, resulting in a nil tax charge.
- Tax effects may still need to be recognised where for example the subsidiary does not intend to distribute all its taxable profits (current tax effect) or has an anticipated capital gain as a result of the revaluation of items in property, plant and equipment (deferred tax effect).
- Where the application of the amendments changes the entity's accounting policy for expected gift aid payments and/or the related tax relief, and they are material, then a prior period adjustment will be required.

Background and changes

In October 2018, the Charity Commission published Amendments to Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland Update Bulletin 2. This updated the Charites SORP (FRS 102) for the amendments issued by the Financial Reporting Council in December 2017 as part of its Triennial Review 2017. The main purpose of the changes was to improve the consistency of reporting by charitable groups (public benefit entities) and the subsidiaries within those groups. The changes relating to gift aid payments are effective for accounting periods beginning on or after 1 January 2019 and could be applied early, separately from the other changes made in the triennial review. SORP bulletin 2 considers the recognition of the gift aid payment only when there is a legal obligation to be a clarifying amendment and therefore to be applied for year ends beginning on or after 5 October 2018. In most cases these two requirements may be expected to align but charities with October or November year ends should consider the impact of these differences in timing and the need to early adopt separately the triennial review gift aid change. Further details of the background to the changes and the impact are included in our publication on the second SORP bulletin consultation.



[1] Amendments to FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial Review 2017 – Incremental Improvements and Clarifications - December 2017.

[2] Amendments to Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland. Update Bulletin 2 – October 2018.

Prior period adjustments

A prior period adjustment may be required.

The amendments to the SORP mean that where a charity has been accruing a gift aid payment, without a deed of covenant creating a legal obligation to do so, the policy and practice must now change for accounting periods beginning on or after 1 January 2019, (if they had not already been early adopted). Where the impact of the change is material a prior period adjustment will be required for the subsidiary.

Where, as a result, material gift aid income has previously been recognised by the parent entity in the absence of a legal obligation at the reporting date a prior period adjustment may also be required in the parent only statement of financial activities and balance sheet.

Such prior period adjustments will only impact the individual accounts of the parent and subsidiary given that gift aid income is fully eliminated on consolidation.

Statement of income and retained earnings or separate statement of changes in equity

Gift aid payments are akin to a distribution.

The amendments make clear that a gift aid payment is akin to a distribution and therefore is a payment recognised in equity. For subsidiaries which have been presenting their gift aid payments in the profit and loss account this will mean a change. Either a 'statement of changes in equity' will be required, to complement the 'statement of comprehensive income'; or a combined 'statement of changes in income and retained earnings' can be presented. The Information Sheet 2 provides examples using the combined statement.

> A combined statement of income and retained earnings is likely to be the simplest way of presenting the results of the subsidiary going forwards.

Presentation of tax

The tax effects of a probable gift aid payment can be recognised in the reporting period resulting in a nil tax charge.

The subsidiary entity has an option of how to present the tax effects of the gift aid payment. It may either have a nil tax charge in its primary statements, and a tax reconciliation in the notes to the accounts; or the subsidiary entity may show additional disclosure on the face of the income statement to present the tax charge on profit and the tax relief in respect of gift aid.

The examples in Information Sheet 2 opt for the latter presentation, however where the tax calculation is more complicated a fuller reconciliation in a note may be necessary.

Next steps

The Information Sheet 2 provides for a number of scenarios and gives examples of how the changes may be presented. Charities should consider their situation and what changes will become necessary, SORP Bulletin 2 requires changes relating to gift aid to be applied for years ends beginning on or after 5 October 2018.

Contacts

If you would like further, more detailed information or advice and to discuss how this will affect you, please contact your local Deloitte partner or:

Reza Motazedi rmotazedi@deloitte.co.uk	**Nikki Loan** nloan@deloitte.co.uk

Deloitte.