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Charities Alert

Triennial Review 2017
including an update on gift aid payments

February 2018

In a nutshell

In December 2017 the Financial Reporting Council ('FRC') published its amendments to FRS 102[1]. The amendments are mainly editorial in nature and are intended to clarify rather than change the accounting. These amendments also include changes relating to gift aid payments by subsidiaries to their charitable parents (based on the proposals in FRED 68), clarifying the accounting for the gift aid payment and amending treatment of the tax effects.

Other principal amendments which may have an impact on the financial statements are:

- An accounting policy choice is introduced for entities that rent investment property to another group entity, whereby they can choose to measure the investment property either at cost (less depreciation and impairment) or at fair value.
- The introduction of a description of a basic financial instrument, as well as conditions for classification, may result in a small number of additional financial instruments now being considered to be basic.
- For small entities a loan from a director or their close family members may be initially measured at transaction price rather than present value.
- Entities will be required to recognise fewer intangible assets acquired in a business combination separately from goodwill.
- A net debt reconciliation will be required with the cash flow statement (similar to old UK GAAP).

Triennial Review 2017 *https://www.frc.org.uk/getattachment/9be-202ba-351d-4e38-9d09-1982cb20d666/Amendments-to-FRS-102-Triennial-Review-2017-(Dec-2017).pdf*

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.

An update on gift aid – effective now

The ICAEW guidance[2] which clarified that the expected gift aid payment was a distribution attempted to reduce some of the diversity of accounting in the sector. The further clarifications in FRS 102 should promote greater consistency. As an expected gift aid payment is accounted for as a distribution to owners, FRS 102 does not allow these payments to be recognised as a liability at the end of the reporting period unless there is a legal obligation to make the payment (typically through a deed of covenant) at the reporting date. Therefore a constructive obligation or history of payment will not be sufficient to recognise the liability.

However, amendments have been made to FRS 102 section 29[3] to allow the tax effects of a distribution by a subsidiary to its charitable parent to be recognised in the reporting period so the accounting is consistent with the tax treatment planned to be used in the entity's tax filings. This applies where it is probable that the gift aid payment will be made within nine months of the reporting date and the payment will qualify to be set against profits for tax purposes. These amendments are effective for periods beginning on or after 1 January 2019 but may be adopted early, separately from the other amendments summarised above.

As a result a charitable subsidiary without a deed of covenant will be able to recognise the tax effects of a probable gift aid payment but will not be able to accrue for the payment itself.

Next steps

The amendments in the triennial review are applicable for accounting periods beginning on or after 1 January 2019, they may be applied early if they are all applied together. An exception has been made for the director's loan provisions and the tax treatment of gift aid. These amendments may be early adopted separately.

A second charity SORP bulletin is expected to bring further guidance for charities and align the requirements of FRS 102 and the SORP. Once issued a further charity briefing will be published discussing all the changes.

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:

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2 ICAEW technical release TECH 16/14BL REVISED – February 2016
3 FRS 102 section 29.14A.

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