

Are you aware of changes to UK Accounting Standards impacting Gift Aid payments?

Clarification to Financial Reporting Standard 102 (FRS 102) was issued by the Financial Reporting Council (FRC) at the end of last year concerning the treatment of Gift Aid payments made by trading subsidiaries to their parent charities.

The FRC states that Gift Aid payments which are classified as distributions by the subsidiary company should be presented as such and subsequently recognised in their statutory accounts when paid, unless there is a legal obligation prior to this date. Whether or not a liability is recorded, the expected tax effects of the payments may be taken into account in determining the tax charge, so long as the payment is expected to be made within nine months of the end of the accounting period.

This change will be mandatory for accounting periods beginning on or after 1 January 2019, but can be adopted early. It will potentially have an impact on comparative periods, as it's a change of accounting policy which requires a prior year adjustment.

The situation is complex and the implication can vary from organisation to organisation, so you need to determine which is the right solution for you. You may consider creating a legal obligation either through a separate deed of covenant between the subsidiary and its parent or including a covenant in the subsidiary company's articles of association. Alternatively, another solution may be preferable for your circumstances.

What should you do?

Subsidiaries in charitable groups should review their articles of association in the first instance, to determine whether they have a legal obligation to Gift Aid their profits to their parent charity. Whether you do or not will determine your next steps.

How can we help?

Our dedicated Not-For-Profit team, working together with our Company Secretarial team, will be happy to discuss further what this will mean for your organisation and any steps you may need to take.

For further information, please contact:

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