



Home

Welcome

Taking control
of investment
strategy

Mind your
tax heads

Benefits of
Incorporation

IFRS Update

Accounting for your
Heritage Assets

Community
Matters

Of further
interest

Key contacts

Charity news

August 2010



- Home
- Welcome**
- Taking control of investment strategy
- Mind your tax heads
- Benefits of Incorporation
- IFRS Update
- Accounting for your Heritage Assets
- Community Matters
- Of further interest
- Key contacts

In this edition...

01. Welcome
02. Taking control of investment strategy
04. Mind your tax heads
06. Benefits of Incorporation
08. IFRS Update
09. Accounting for your Heritage Assets
11. Community Matters
12. Of further interest
13. Key contacts

Welcome

In the last edition of the Charity Newsletter, we discussed the role and responsibilities of Trustees and their investment decisions and policies. In this issue we have taken this one step further by outlining some of the issues that can arise in defining and monitoring investment policy. We also outline some of the controls that should be put in place and the methods to monitor them.

It is often assumed that tax is a cost that charities need not be concerned about. In this edition of Charity news we discuss the tax considerations that charities should be aware of so that risk exposures can be avoided. The areas highlighted in this article include VAT, PAYE/PRSI, Professional Services Withholding Tax and Relevant Contracts Tax.

FRS 30 'Heritage Assets' was issued by the ASB last year in order to improve the reporting of heritage assets held by charities and other organisations. We have set out the main features of this FRS for charities

If you would like to discuss any aspect of this newsletter, or any other challenges that your organisation may be facing, please contact your regular PwC contact or contact me at teresa.harrington@ie.pwc.com.

Teresa Harrington
PwC Not for Profit leader, Ireland





Taking control of investment strategy

Back to basics – defining your investment strategy and implementing controls

In our last article on investments we discussed the role and responsibilities of the Trustees over their charity's investments and the key considerations in developing an investment policy.

In practice, defining and monitoring investment policy can require a significant amount of expertise and in this article we have outlined some of the issues that can arise.

When determining the investment strategy, there should be careful consideration of the investment objectives of the charity. Investment strategy is the key financial decision that the Trustees will make and will be the main driver of long term performance.

Any strategy should fully reflect the following:

- the charities' investment objectives and goals;
- the plan for distributing assets among various investments;
- the timeline profile of the investments;
- any ethical criteria which are considered appropriate to apply; and
- the risk tolerances of each of the interested parties, namely the Trustees of the Charity itself

In setting a long term strategy, a natural starting point is to consider the long term goals of the charity and expected future income and outgos. There also needs to be active consideration of the level of investment risk the charity is willing to accept.

Having made a decision on a long term strategy, the Trustees will then need to consider the following:

- Benchmarks to be applied;
- Implementation of strategy;
- Appointment of the Investment Manager(s); and
- Ongoing monitoring

It is crucial that there are mechanisms in place to continuously monitor and measure the performance of the investments against the benchmarks and targets that have been set. A lack of effective monitoring can render the strategy ineffective and long term planning can be compromised.

Diversified portfolios and alternative assets

One fundamental decision in relation to investment strategy is the amount to invest in each asset class, and historically the primary asset classes considered have been equities, property, cash and bonds. Historically, the return seeking part of the portfolio has been focussed on equity markets only, which can lead to "all eggs being in one basket".

Over the past number of years there has been a significant increase in the number of alternative asset classes in the marketplace such as:

- Hedge funds;
- Private Equities;
- Commodities;
- Infrastructure; and
- High Yield Bonds

Each asset class carries its own inherent risk but combining assets with lower correlations means lower overall volatility as the portfolio becomes more diversified.



Home	Welcome	Taking control of investment strategy	Mind your tax heads	Benefits of Incorporation	IFRS Update	Accounting for your Heritage Assets	Community Matters	Of further interest	Key contacts
------	---------	--	---------------------	---------------------------	-------------	-------------------------------------	-------------------	---------------------	--------------

Internal controls and governance

In order to reap the benefits that are to be gained from employing this diversified approach, we would recommend that controls and corporate governance structures are put in place to ensure that strong oversight and review procedures are taking place on a timely basis.

The Trustees should ensure the following are in place:

Controls over strategy

- Has an investment policy and strategy been formulated?
- Does the asset profile meet the charities' long term objectives?
- Have key benchmarks been set to effectively measure performance?
- Are investments diversified to prevent one failure having a major impact on the charity?
- Is professional advice taken on selection or disposal of investments?

Monitoring controls

- Are full records held for all investments and records kept in a secure place?
- Are statements of investment performance sent to a nominated trustee and regularly reviewed by all trustees against agreed benchmarks?
- Is there segregation between safeguarding your assets (custody) and the parties who are managing your portfolio?
- Are investment managers clearly explaining the performance of funds they are managing?
- Is performance understandable based on any individual investment managers' approach and philosophy?

For more information contact

Munro O'Dwyer
+353 1 792 8708
munro.odwyer@ie.pwc.com

or
Ciara Quish
+353 1 792 8230
ciara.a.quish@ie.pwc.com



- Home
- Welcome
- Taking control of investment strategy
- Mind your tax heads**
- Benefits of Incorporation
- IFRS Update
- Accounting for your Heritage Assets
- Community Matters
- Of further interest
- Key contacts

Mind your tax heads

Like many commercial organisations, charities are often so consumed by the day to day running of their operations that they have little time or resources to consider the potential tax implications of their activities. However, they need to bear in mind that the Irish tax system operates on a self assessment basis that does not distinguish between different types of organisations in respect of tax compliance obligations. Ongoing compliance requirements for each tax head should, therefore, receive careful consideration because of the potential downside of getting things wrong. Not only are there risks of various Revenue sanctions i.e. interest, penalties, publication and, in extreme cases, prosecution, but there are wider implications for a charity being named as a tax defaulter. The resultant damage to its reputation would be likely to have a knock on impact on its fundraising ability. In addition, the reputation and credibility of the charity's board as well as of its individual board members may be impacted.

Although charities may obtain exemptions from the Revenue Commissioners in respect of many of their income streams (provided certain conditions are fulfilled), a charity is not immune from investigation by the Revenue authorities. In an environment where tax receipts are falling, the Revenue Commissioners are under significant pressure to consider all potential revenue sources. Taxpayers who have not complied with their statutory obligations are, therefore, prime targets for Revenue investigations. As a consequence, an appreciation of the regulatory environment is critical so that risks can be appropriately managed.

The greatest areas of concern for charities, from a compliance perspective, relate to the operation of taxes such as PAYE/ PRSI, Professional Services Withholding Tax (PSWT), Relevant Contracts Tax (RCT) and VAT. These are discussed further below. In addition, the organisation needs to establish the extent to which its income qualifies for exemption, with particular care needed in relation to commercial income.

From a PAYE perspective, examples of risk areas include: computing income tax deductions incorrectly, payment of emoluments without deduction of tax, non-compliance with published Revenue rules on expenses and the incorrect determination of whether an individual is an employee or a self-employed individual.

The obligation to apply PSWT is another issue that charities funded by the Exchequer must take into account. Most public bodies are obliged to deduct PSWT from payments made for professional services, including legal and accounting services as well as services of financial, economic, marketing, advertising or other consultancies.

Similarly, any charity involved in property development, which has been established under statute or charter, and is funded wholly or mainly by the Oireachtas, is obliged to register with the Revenue Commissioners as a "principal contractor" and to operate RCT on payments for construction services. Where this is the case, additional VAT obligations can arise for the charity, as a principal contractor. In such a scenario, the charity will be obliged to self-account for VAT (under the reverse charge mechanism) on the value of the sub-contractor's services. Consequently, if not already registered, the charity would be obliged to register for VAT.



Home	Welcome	Taking control of investment strategy	Mind your tax heads	Benefits of Incorporation	IFRS Update	Accounting for your Heritage Assets	Community Matters	Of further interest	Key contacts
------	---------	---------------------------------------	----------------------------	---------------------------	-------------	-------------------------------------	-------------------	---------------------	--------------

VAT can often be a significant cost for charities as most (but by no means all) are not registered for VAT. This non-registration is primarily because their activities are such that they are not typically seen to be in “business” for VAT purposes. “Business” for VAT purposes is very broadly defined as any economic activity, whatever the purpose or results. Technically therefore, charitable activities can come within the remit of VAT although in practice this has tended not to be pursued, with the notable exception of property development. The position appears to be changing, however, given the recent legislative amendments bringing local authorities and other public bodies within the charge to VAT. Consequently, charities should now consider their VAT status and the range of their activities in order to ensure that any potential tax exposure is minimised. It is also worth noting that opportunities may exist for some charities to deduct VAT on their purchases and ultimately reduce their overall running costs. Additional commentary on charities and their potential VAT obligations will be addressed in a forthcoming newsletter.

In summary, charities need to be able to demonstrate that they have appropriate policies and processes in place to manage their tax compliance responsibilities. They need to identify potential tax risk areas and take measures to reduce and manage these risks. In the event that a charity does become the subject of an audit by the Revenue Commissioners, those managing the audit will need to be familiar with the Code of Practice for Revenue Audits. We will cover the area of Revenue Audits in a later edition of this newsletter.



For more information contact

Teresa McColgan
+353 1 792 8613
teresa.mccolgan@ie.pwc.com
or
Eoin Carroll
+353 1 792 6197
eoin.carroll@ie.pwc.com



- Home
- Welcome
- Taking control of investment strategy
- Mind your tax heads
- Benefits of Incorporation**
- IFRS Update
- Accounting for your Heritage Assets
- Community Matters
- Of further interest
- Key contacts

Why Incorporate - Reduced risk, greater flexibility

Benefits of Incorporation

- The main benefits of incorporation for a charity include:
- Members will enjoy limited liability protection;
- Officers will enjoy the benefit of a modern, sophisticated legal framework under company law;
- Companies operate under a clearly established and transparent code of Corporate Governance; and
- Ease and familiarity in commercial dealings with other parties both in Ireland and internationally

Traditionally Irish charities have taken two main legal forms - charitable trusts established by Deed of Trust or unincorporated associations with a constitution or set of governing rules. These entity types have served the sector well. However, in recent times more and more charitable organisations have decided to incorporate and have transferred their operations to a particular type of corporate entity known as a Company Limited by Guarantee. The benefits of making this transition are clear and compelling, both for the charitable organisation itself and for its officers.

Recent reform of UK charity law led to the introduction of a new legal entity known as the Charitable Incorporated Organisation. While the Irish Charities Act 2009 stops short of introducing a similar new entity, it has effectively promoted the Company Limited by Guarantee as the default legal form of charitable organisation in Ireland.

The Company Limited by Guarantee allows the organisation's officers to run the charity in an effective, efficient and commercial manner but for a clearly and demonstrably charitable as opposed to commercial purpose. Incorporation allows the charity to adopt and project a modern and progressive outlook while at the same time underpinning, not undermining, its charitable, non-commercial objects and intentions.

Charities Act 2009 - New Reporting Requirements

Provisions of the Charities Act 2009 which are yet to be commenced impose for the first time broadly similar reporting requirements on unincorporated charitable organisations as charitable companies. In future all charitable organisations, whether unincorporated or incorporated, will have essentially equivalent reporting disclosure requirements.

In future there will be little if any advantage for a charity or its officers in continuing to operate as a trust or other form of unincorporated body. As a Company Limited by Guarantee, the charity's members will enjoy limited liability. The officers of the charity will be in a position to manage the organisation secure in the knowledge that they are operating within a modern, flexible and transparent legal framework with a well established and transparent code of governance.

Charitable donors will have the comfort of knowing that the charity is being run on a modern, commercial basis in accordance with its clearly defined and publically accessible charitable objects. Third parties dealing with the charitable Company Limited by Guarantee can do so on a certain and familiar basis, secure in the knowledge that transactions will be conducted in accordance with modern commercial norms.



Home	Welcome	Taking control of investment strategy	Mind your tax heads	Benefits of Incorporation	IFRS Update	Accounting for your Heritage Assets	Community Matters	Of further interest	Key contacts
------	---------	---------------------------------------	---------------------	----------------------------------	-------------	-------------------------------------	-------------------	---------------------	--------------

Incorporation Process

The process of transferring the operations of an existing unincorporated charity to a Company Limited by Guarantee is a relatively straightforward and painless one. We have assisted many organisations with this transition, ensuring that all required legal, taxation and accounting actions are fully and properly implemented. The costs of incorporation are modest relative to protections afforded to the charity and its officers and most charities should be able to complete the process in less than three months.

The arguments in favour of incorporation for an unincorporated charity are convincing. The process of incorporation is straightforward, cost effective and timely and the benefits of incorporation for the charity itself, its officers, its donors and third parties it has dealings with are manifest.

Charities, particularly those with substantial assets that employ staff and have long term objectives should consider incorporation. However, the additional costs of incorporation and compliance may place too high a burden on smaller charities, particularly those established for 'one-off' events or to avail of a specific grant or funding.



For more information contact:

Pauline Louth
+353 1 792 6524
pauline.louth@ie.landwellglobal.com
or

Karen Dunleavy
+353 1 792 6632
karen.dunleavy@ie.landwellglobal.com



- Home
- Welcome
- Taking control of investment strategy
- Mind your tax heads
- Benefits of Incorporation
- IFRS Update**
- Accounting for your Heritage Assets
- Community Matters
- Of further interest
- Key contacts

International Financial Reporting Standards

Whilst IFRS does not immediately have an impact on charities as presently charities are not permitted to adopt IFRS voluntarily, Irish/UK accounting practice is moving rapidly to converge with IFRS and changes to Irish/UK practice can be expected.

The IASB issued 'IFRS for SMEs' on 9 July 2009 and the ASB issued a proposed policy regarding implementation in the Ireland/UK. The proposed policy if implemented would, in effect, spell the end of UK/Irish GAAP as we know it; it includes a three-tier approach as follows:

- Tier 1** – Publicly accountable entities would apply IFRS as adopted by the EU ('EU-adopted' IFRS)
- Tier 2** – All other UK entities (except those in Tier 3) could apply the IFRS for SMEs
- Tier 3** – Small entities could choose to continue to apply the FRSSSE

Entities within Tier 2 and Tier 3 would have the option of using EU-adopted IFRS if they wished, and those in Tier 3 would have the option of using the IFRS for SMEs.

We are monitoring developments in this area which could have a profound impact on charities. We understand that the Accounting Standards Board hopes to present the first draft of a new accounting regime for charities and other public benefit entities by the end of 2010 which will address eight topics that are particularly difficult for public benefit entities.

For more information contact

Teresa Harrington
+353 1 792 8558
teresa.harrington@ie.pwc.com





FRS 30: Accounting for Heritage Assets

On 19 June 2009, the ASB issued FRS 30 'Heritage Assets' to improve the reporting of assets held by entities including charities, religious orders, museums and art galleries.

FRS 30, "Heritage assets", covers heritage assets which are defined as tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. Heritage assets are covered by the standard regardless of whether these assets are reported in the balance sheet. The standard introduces significant new disclosure requirements for reporting the content and value of collections.

The main features of FRS 30 are as follows:

- (i) the disclosures should apply to all entities that hold heritage assets. These disclosures will provide information about an entity's total holding of heritage assets and the entity's stewardship of these assets.
- (ii) The disclosures should make clear the accounting policies adopted for an entity's holding of heritage assets and the extent to which these assets are recognised in the balance sheet. The disclosures should provide readers with an understanding of the asset values being reported as well as the entity's policies for managing its total holding of heritage assets.
- (iii) The accounting in respect of the recognition and measurement of heritage assets should follow the requirements of FRS 15 (Accounting for Fixed Assets), as supplemented by the requirements of FRS 30.
- (iv) To encourage a valuation approach, the FRS 30 allows entities to use internal valuations without the need for a full valuation every five years.

In summary, the disclosure requirements are:

- an indication of the nature and scale of heritage assets
- the entity's policies for acquisition, preservation, management and disposal of heritage assets
- accounting policies adopted, including measurement bases used
- for heritage assets not reported in the balance sheet, the reasons why should be explained and the notes to the financial statements should explain the significance and nature of those assets not reported in the balance sheet
- where heritage assets are reported, the following should be disclosed:
 - carrying amount at opening and closing balance sheet dates
 - sufficient information about the valuation (e.g. date, method used, whether internal or external valuers)
- a five year summary of the following transactions:
 - cost of acquisitions
 - value of donated assets
 - carrying value and proceeds of disposals
 - any impairment recognised in the period



- Home
- Welcome
- Taking control of investment strategy
- Mind your tax heads
- Benefits of Incorporation
- IFRS Update
- Accounting for your Heritage Assets**
- Community Matters
- Of further interest
- Key contacts

Measurement and recognition

Heritage assets should be reported as tangible fixed assets and measured and reported as per FRS 15, although they should be presented in the balance sheet separately from other tangible fixed assets.

Valuations may be made by any method that is deemed appropriate and relevant.

Depreciation and impairment

Depreciation need not be provided on heritage assets with indefinite lives.

The carrying value should be reviewed where there is evidence of impairment.

Donations

Donations of heritage assets should be reported in the Statement of Recognised Gains/Losses or Statement of Financial Activities (SOFA) at valuation.

Effective date

FRS 30 is effective for accounting periods beginning on/after 1 April 2010, but early adoption is encouraged.

For more information contact

Will Fennell
+353 1 792 6754
william.fennell@ie.pwc.com



Community Matters

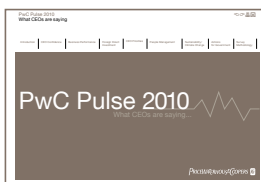
On Saturday 22nd May, Bob Semple, Partner, joined a group of 70 cyclists to partake in the tenth annual Mizen to Malin charity cycle. This spectacular event travelled through some of the most beautiful countryside in Ireland, taking a week to complete the 480 mile route – with the added bonus of only four minutes' rain during the entire trip!

Immediately before starting their cycle, the group visited the Irish Guide Dog centre in Cork where Pádraig Mallon, CEO, addressed them. He told the group that the amount raised from the cycle – over €100,000 in 2009 – was the largest donation received from a single event. Funds raised are used to train new guide dogs both for visually impaired and for children with autism. The group hopes to set a new record for funds raised this year.



Bob Semple, Partner (left) takes part in the Mizen to Malin charity cycle. The route takes the cyclists from the most south westerly point of Ireland to the most northerly, taking in some beautiful scenery along the way.

Of further interest



CEO Pulse Survey

The CEO Pulse Survey gives a snapshot of the views of over 200 CEOs on Ireland's business environment and the challenges and opportunities it presents for corporate Ireland.

[Click here for further information](#)



World Watch

World Watch is a regular Governance and Corporate Reporting newsletter. It contains opinion articles, case studies and worldwide news on the many initiatives to improve corporate reporting.

[Click here for further information](#)



Are you ready for the end of Irish GAAP?

Irene O'Keefe, IFRS Partner, PwC, answers some topical questions on the future of Irish GAAP, including the current proposals of the ASB on introducing IFRS for SMEs and charities.

[Click here for further information](#)



Hourglass - Enhancing value through people

This edition of Hourglass features an often sidelined but increasingly important topic - managing an aging workforce. It also considers opportunities from a range of angles including how young and older generations can work together successfully.

[Click here for further information](#)



- Home
- Welcome
- Taking control of investment strategy
- Mind your tax heads
- Benefits of Incorporation
- IFRS Update
- Accounting for your Heritage Assets
- Community Matters
- Of further interest
- Key contacts**

Key contacts



Teresa Harrington
Audit Partner
teresa.harrington@ie.pwc.com
+353 1 792 8558



Teresa McColgan
Tax Partner
teresa.mccolgan@ie.pwc.com
+353 1 792 8613



Pauline Louth
Landwell Partner
pauline.louth@ie.landwellglobal.com
+353 1 792 6524



Dervla McCormack
Consulting Partner
dervla.mccormack@ie.pwc.com
+353 1 792 8520



Ciara Whelan
Tax Director
ciara.whelan@ie.pwc.com
+353 1 792 8635



Munro O'Dwyer
Pensions Director
munro.odwyer@ie.pwc.com
+353 1 792 8708



Deirdre Martin
Audit Senior Manager
deirdre.martin@ie.pwc.com
+353 1 792 6114



Richard Sammon
Audit Senior Manager
richard.sammon@ie.pwc.com
+353 1 792 6477