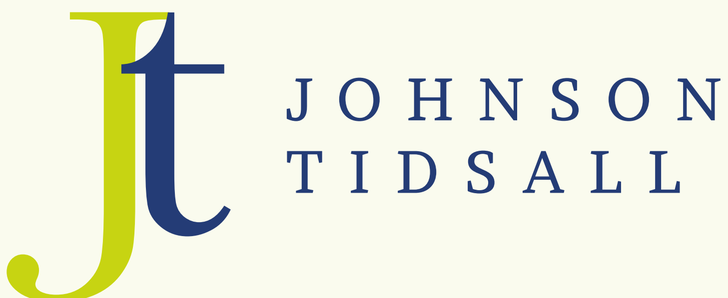

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Updates on Accounting, Tax, and Governance for Charities

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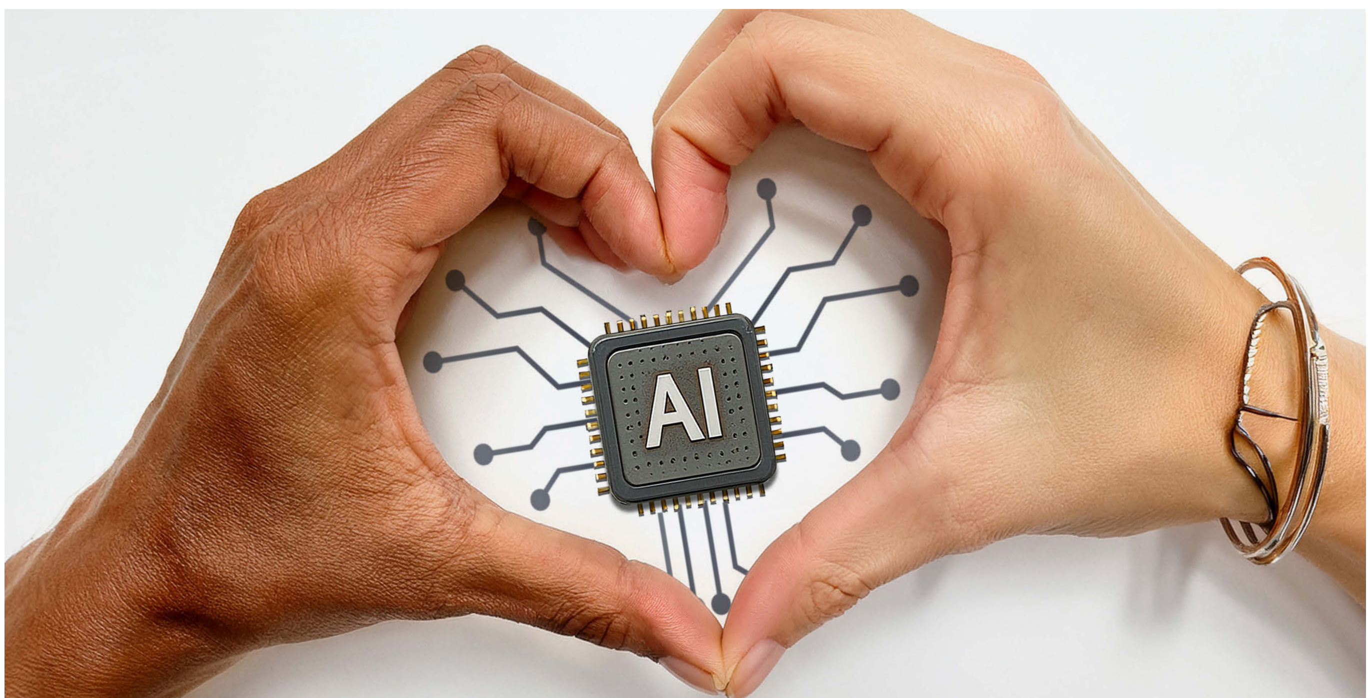
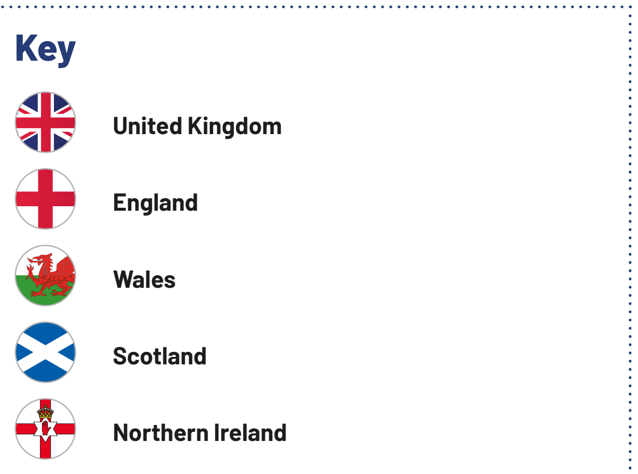
# Autumn Charity News 2025




**Our Charity News summarises the latest key developments in the not-for-profit sector. Of particular interest to accountants, auditors and other advisers to the sector will be the issue of the latest Statement of Recommended Practice (SORP) for the preparation of charity financial statements, which takes into account a number of key amendments to the underlying financial reporting standard as well as changes to charity specific reporting. Meanwhile, charitable organisations face continuing cost pressures, donor fatigue and changing legislative and reporting requirements. There are also opportunities for the sector in embracing digitally enhanced tools and ways of working, and data driven decision making. Our report provides links to guidance, support and further information on each of these topics.**

The newsletter is applicable to the whole of the United Kingdom and makes reference to the Charity Commission for Northern Ireland (CCNI), the Office of the Scottish Charity Regulator (OSCR) and the Charity Commission for England and Wales (CCEW).

All the articles may be of interest; however, to aid you we have included the following key:




# Hot topics

## Charity SORP 2025 Released

The Charity SORP Committee released the 2025 Statement of Recommended Practice (SORP) in October, following a public consultation on draft proposals featuring a number of significant changes to charity financial reporting.

One of the most notable changes is the introduction of a three-tier reporting framework based on charity size, which aims to reduce the burden on smaller charities while maintaining transparency and accountability. The tier system drew a substantial amount of focus in the original consultation, with respondents both keen to ensure that the bands were set at the right levels and generating considerable dialogue around whether the tiers should be named in ascending or descending order, to ensure that the system is clearly understood. In the end, the

following outcome was agreed upon; tier 1 entities (charities with less than £500k in income) will be permitted to apply simplified accruals accounting and reduced disclosures. Tier 2 (comprising bodies with income between £500k and £15m) will be expected to comply with all tier 1 requirements, as well as some additional disclosures. The remainder will fall into a third tier, which will require compliance with tiers 1 and 2, as well as enhanced narrative reporting on sustainability, governance and social impact.

The SORP also introduces further significant updates beyond tiered reporting and FRS 102 alignment. A major focus is on fund accounting clarity: charities must now provide enhanced disclosures on the nature and purpose of funds, including clearer explanations of restrictions and transfers between funds. Guidance strengthens transparency around designated funds and endowments, with improved requirements for reporting total return investments. The SORP also updates grant-making disclosures, heritage asset accounting, and related party transactions. Going concern reporting is reinforced, requiring trustees to provide a more explicit assessment of financial sustainability and any material uncertainties. Impact reporting becomes mandatory in Trustees' Annual Reports, covering environmental, social, and governance matters. Overall, these changes aim to improve accountability and comparability across charity financial statements.

The revised SORP also includes several changes to the accounting treatment of key items such as leases and contracts with customers, in order to align the document with the underlying reporting framework, FRS 102. These changes are discussed in detail below.

**Further information:** Click here

# Financial Resilience and Outlook

## Charity Sector Risk Assessment 2025

The Charity Commission's inaugural Charity Sector Risk Assessment has highlighted growing concerns around financial resilience and the ability of charities to deliver public benefit. With over 42% of charities reporting expenditure exceeding income, the sector is facing mounting pressure from rising costs (including an increased taxation burden from changes such as the recent increase in the rate of employers' National Insurance Contributions (NICs)) and increased demand for services. This assessment serves as a call to action for trustees and finance teams to reassess their financial strategies, risk management frameworks and sustainability plans. It also encourages charities to engage more proactively with regulators and funders to ensure long-term viability.

The report also highlights indirect threats to the financial resilience of the sector, such as those stemming from negative public perceptions of the sector arising from fraud cases or other abuses of charitable status. The Charity Commission notes a 23% increase in cases of alleged abuse of charities for private benefit. These instances, whilst representing a minority within an overwhelmingly compliant sector, can have a disproportionate effect on public trust and behaviours such as willingness to donate or otherwise engage with charitable organisations. Use of charities as a money laundering or terror financing vehicle is an ever present concern, as is the potential for override of controls where low numbers of trustees

and recruitment issues can lead to a risk of abuse by dominant individuals or those able to exploit a lack of experience and knowledge in areas with complex regulatory frameworks or legislation. Obtaining the right advice is more important than ever, though balancing this with unprecedented cost and demand pressures remains a precarious balancing act.

**Further information:** Click here

## Investment Outlook for Charities

Charity investment managers are cautiously optimistic about the future, with dividend growth expected to continue despite market volatility, though the number of respondents to a survey by charity investment managers Newton stating that their investment portfolio was due to provide sufficient income to meet their obligations fell to 61% (a second successive annual reduction) in response to increased demand for services. Political instability and concerns around levels of government debt and tax policy responses were also reflected in caution amongst survey respondents around what they deemed to be a safe portfolio withdrawal rate, with increasing numbers responding with sub 3% estimates or 'don't know' (though the most popular range remains 3 – 3.9%).

Despite the uncertainty, opportunities remain for charities to strengthen their financial base through strategic investment planning. The challenge lies in balancing the needs of current beneficiaries with those of future generations. Trustees are encouraged to review their investment policies, consider ethical and Environmental, Social and Governance (ESG) factors, and ensure alignment with their charitable objectives. The outlook suggests that while risks remain, there is scope for growth and resilience through prudent financial stewardship.

**Further information:** Click here

## Small Charities and Financial Vulnerability

Small charities play a critical role in supporting financially vulnerable people and communities, yet they face disproportionate financial challenges. Recent reports show that many are operating at a deficit and relying heavily on reserves. This raises concerns about long-term sustainability and service continuity. Research by Lloyds Banking Group, in conjunction with its charitable partners, finds that (unsurprisingly) the vast majority of charities cited additional funding as a key requirement to help them enhance financial wellbeing support services. However, funding was not the only requirement; a majority of charities surveyed also identified training for staff and volunteers, enhanced partnerships with private sector organisations and stronger referral networks with peers as key requirements.

Funders and policymakers are urged to consider targeted support for small charities, including simplified reporting requirements and access to emergency funding. For accountants and auditors, this trend underscores the importance of robust financial oversight and tailored advisory services to help small charities navigate economic uncertainty.

**Further information:** Click here

# Tax

## Employer NICs Increase

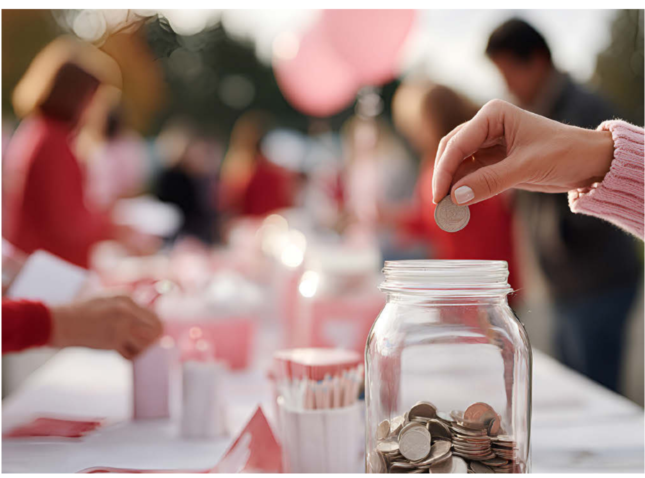
From April 2025, the increase in employer NICs from 13.8% to 15% has placed additional financial strain on charities (who were not exempted from these increases). With the threshold lowered to £5,000, many organisations are facing higher payroll costs, with the National Council for Voluntary Organisations (NCVO) estimating an annual cost to the sector of £1.4bn. This change clearly affects budgeting, staffing decisions and overall financial planning. Whilst additional increases in the rate or adjustments to the NI threshold are not expected at the 2025 Budget (though equally not ruled out), there is speculation that the Chancellor will look to go further and remove or otherwise alter NICs exemptions for pension contributions within salary sacrifice schemes, leading to additional costs for both employers and employees.

Charities must therefore prepare to reassess their employment structures and consider cost-saving measures. Accountants and other advisers will need to support clients in understanding the implications and exploring options such as part-time roles, outsourcing or restructuring to maintain service levels without compromising financial health.

**Further information:** Click here

## VAT Relief for Fundraising Events Expanded

Following the landmark Yorkshire Agricultural Society case, HMRC has broadened the scope of VAT relief for fundraising events. Charities can now benefit from VAT exemption even when events serve dual purposes, such as fundraising and education. Provided that fundraising is a genuine purpose of the event, organisations may claim VAT relief even for events that may also look to serve other goals of the charity. This change offers greater flexibility in event planning and could lead to increased revenue retention.



This development really highlights the importance of keeping abreast of tax rulings that impact operational strategy. Finance teams should review past and upcoming events to determine eligibility and ensure compliance with the updated guidance, whilst accountants, auditors and other professional advisers to the sector should look to actively engage with their clients to identify opportunities for efficiencies. With payroll tax increases and cost base increases eating into available resources for charitable purposes, this development offers a real opportunity for the third sector to offset some of that impact as well as potentially opening new channels of engagement with sponsors, service users and the general public.

**Further information:** Click here

## Draft Finance Bill 2025–26: Charity Compliance Measures

Released in July and still in draft at the time of publication, the Draft Finance Bill 25/26 potentially introduces significant changes to charity tax compliance. Proposed amendments include:

- Under the new legislation, legacies would be classified within the ‘attributable income definition’, meaning that the funds have to be used strictly for charitable purposes.

- HMRC is considering tightening the rules around qualifying investments (investments which are considered tax exempt under current legislation). Under the proposed changes, the requirement to demonstrate a clear benefit to the charity will be extended to all qualifying investments, as opposed to solely those classified as ‘type 12’.

- The revised tainted donations rules shift focus from donor intent to financial outcomes, tightening scrutiny. These measures aim to prevent abuse of tax reliefs and reinforce public trust.

Charities should review their financial arrangements and consult with tax advisers as appropriate to ensure alignment with the new requirements. Auditors will need to incorporate these changes into their compliance checks and risk assessments. Professionals and trustees across the sector will need to ensure they are up to date with the latest rules, assuming the draft Bill in its current form passes into legislation.

**Further information:** Click here

# Financial and other reporting requirements

## FRS 102 Revisions

The Financial Reporting Council (FRC) has published revisions to FRS 102, the financial reporting standard that underpins charity accounting. Effective from 1 January 2026, the changes include new rules for revenue recognition and lease accounting.

Under the revised standard:

- Charities will need to adopt a new 'five step' revenue recognition model for contracts with customers. This will entail identifying contracts, identifying 'performance obligations', determining and allocating a transaction price to performance obligations and finally recognising revenue as and when performance obligations are satisfied. There will also potentially be a requirement to recognise a contract asset based on stage of completion for individual projects or contracts. This will involve forecasting and estimating balances and, as such, can be a highly subjective area of accounting.

- Operating leases will now need to be recognised on the balance sheet via recognising a liability for future lease payments and a corresponding 'right of use' asset. For longer term leases there will also be a requirement to discount future cash flows to present value in order to account for the time value of money. These are potentially complex calculations which could significantly alter the presentation of financial statements, including balance sheet composition, for charities with substantial lease commitments.

- However, the updated rules on leases will still retain some options for exemptions. Short-term leases (those with terms of less than 12 months and without a purchase option), low value leases (note: the definition of 'low value' is a question of judgment for reporting entities) and service contracts with no identifiable asset or where the customer does not control or substantially obtain all economic benefits from the asset's use will continue to be exempt from capitalisation.

These updates aim to improve transparency and comparability across sectors. Charities will need to assess the impact of these changes on their financial position and consider updating their accounting policies and systems accordingly. It is also recommended that they engage early with auditors or other advisers as appropriate in order to assess the scale of change, identify any problems and avoid delays to publication of the financial statements.

**Further information:** Click here

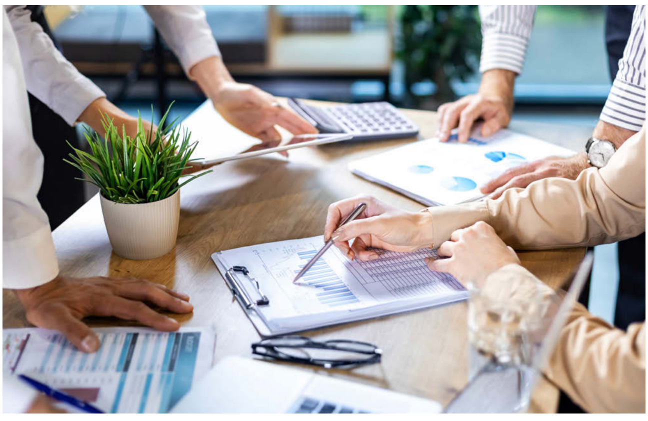
## Annual Return 2025 Updates

The Charity Commission has updated the Annual Return for 2025, introducing new questions designed to enhance transparency and improve risk assessment. The revised return includes tailored questions based on charity size and complexity, with larger charities required to provide more detailed information. These updates reflect the Commission's commitment to smarter regulation and data-driven oversight. Charities must complete the Annual Return within ten months of their financial year-end, and the new format is accessible via the My Charity Commission Account portal. Trustees should familiarise themselves with the changes and ensure accurate and timely submission to avoid compliance issues. The updated return also supports sector-wide analysis, helping regulators and stakeholders better understand emerging trends and risks. The Charities Commission has also prepared a question guide to provide further context and guidance to bodies completing the annual return. The new requirements are effective for reporting periods ending on or after 1 January 2025.

**Further information:** Click here

## Financial Reporting Thresholds to Change in England and Wales

A further consultation in relation to financial reporting thresholds in England and Wales has also concluded, including those that determine whether a charity requires an audit. Audit thresholds for private sector bodies have increased substantially. However, despite a period of sustained inflation, reporting thresholds for charities have remained unchanged since the introduction of the Charities Act (2011). In response to the consultation, audit thresholds will rise,reducing the regulatory burden for smaller charities. The changes require legislation but are expected to come into force from 30 September 2026 onwards, taking effect for periods beginning on or after that date. The previous £1m threshold will now rise to £1.5m.



While the changes may offer relief to smaller organisations, they also raise questions about maintaining assurance and accountability. Whilst doubtlessly any option to reduce costs both directly (audit fees) and indirectly (resources deployed to

support the audit process) will be welcomed by the sector, stakeholders and potential donors may take a different view. Given the level of sensitivity around the use of donated funds, particularly those being provided to smaller charities with weaker control systems or those operating in riskier geographic jurisdictions, both existing stakeholders and prospective donors alike may wish to see audited accounts before continuing to commit funds and to gain assurance over the use of previous donations. Audits can also add significant value to charities, particularly those without access to skilled professionals internally – commissioning a full external audit may well highlight internal control issues or other insights that may be missed by an Independent Examination (the alternative to an external audit for charities falling below the threshold). Therefore, charities should monitor developments closely and consider how changes might affect both their reporting obligations and strategic goals. For those on the cusp of the current thresholds, strategic planning may be needed to adapt to new requirements and ensure continued transparency.

In addition to changes to audit thresholds, proposals are also in place to review other key financial and regulatory limits. Registration thresholds are recommended to remain unchanged: charities with income under £5,000 are not required to register, and excepted charities must register if their income exceeds £100,000. Raising these thresholds was ruled out due to the benefits of registration and the administrative burden of system changes.

For annual return filing, the consultation aligns thresholds with inflation. Currently, charities must file increasingly detailed returns as income rises: over £25,000 (basic financial data), over £100,000 (governance and financial details), and over £500,000 (additional disclosures). These thresholds may be adjusted to reduce burdens on smaller charities while maintaining transparency.

Regarding independent examination, the current threshold requiring an audit is £1 million income or £250,000 income with £3.26 million in assets. The consultation considers raising these limits to reflect inflation, potentially reducing the number of charities needing full audits. This aims to ease compliance costs for smaller charities while ensuring sufficient oversight.

Overall, the proposals seek to balance regulatory efficiency with public trust, ensuring that financial scrutiny remains appropriate to charity size and resources.

**Further information:** Click here

## Financial Thresholds in Scotland and Northern Ireland

In Scotland, currently all charities must register with the Office of the Scottish Charity Regulator (OSCR), regardless of income level - there is no minimum threshold for registration. Annual returns are required from all registered charities, with the level of detail increasing based on income. Charities with income over £25,000 must undergo an independent examination unless they meet the criteria for a full audit. The audit threshold is set at £500,000 in gross income or £3.26 million in assets for those preparing accruals accounts. However, proposals are in place to raise the audit threshold to £1 million from 2026, aligning Scotland more closely with changes in England and Wales. No changes are proposed to the registration or annual return thresholds at this time.

In Northern Ireland, all charities are currently required to register with the Charity Commission for Northern Ireland (CCNI), but a consultation is underway to consider introducing a registration threshold. This could exempt smaller charities from registration and associated reporting requirements. Annual returns are mandatory for all registered charities, although future changes may relax this requirement for those below any new threshold. The independent examination threshold mirrors that of Scotland, applying to charities with income over £25,000. The audit threshold remains at £500,000 gross income. Despite a 2024 consultation on the issue, there are no current proposals to change this limit at the time of writing.

**Further information:** Click here and click here

# Governance and compliance

## Charity Governance Code Update

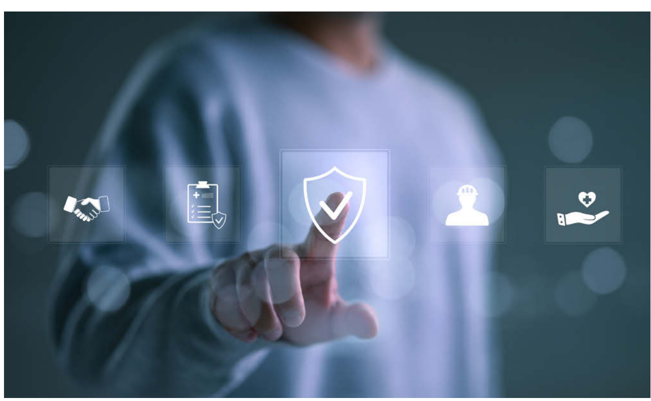
A revised version of the Charity Governance Code was published in Autumn 2025, following a sector-wide consultation in 2024. The update aims to reflect evolving best practices in governance, including diversity, digital transformation, and environmental responsibility as well as a focus on accessibility, proportionality and removing barriers to use. The new code will provide clearer guidance on trustee responsibilities, board effectiveness, and stakeholder engagement. Charities are encouraged to review their governance frameworks in anticipation of the changes and consider training for trustees to align with the updated standards. Strong governance remains a cornerstone of public trust and regulatory compliance, and the revised code will support charities in navigating complex operational environments.

**Further information:** Click here

## Economic Crime and Corporate Transparency Act

The Economic Crime and Corporate Transparency Act (ECCTA) introduces new compliance requirements for charities and charitable companies, including mandatory ID verification for trustees and directors. In addition to the extant Corporate Liability for Senior Managers offence (brought into effect in 2023), which introduced the possibility of criminal liability for charities of any size if a senior manager of the organisation commits an offence under ECCTA, as of September 2025 an additional Failure to Prevent Fraud offence exists for large charities (defined as those with two of; turnover > £36m, balance sheet > £18m, >250 employees). Under the new provisions of the legislation, an organisation can be held liable if a person 'associated with' the charity commits fraud (such as misappropriation of public funds or money laundering offences) with a view to benefitting either the organisation or somebody closely associated with it.

Similarly, new provisions of ECCTA brought into place as part of its Companies House reform program will have an effect on charitable companies or subsidiaries of charities needing to file financial statements with the public registrar. Beginning in spring 2025, there is now a requirement for company directors, or trustees or agents looking to file financial statements or otherwise interact with Companies House on behalf of a company, to verify their identity. The registrar also now has the option to reject or challenge filings which appear suspicious or contain errors, as well as annotate the register to highlight relevant information to the public. The latter could include disqualifications under sanctions law, non-compliance notices or details of strike-off proceedings.



These measures aim to enhance transparency and prevent misuse of charitable structures for illicit purposes. The Act also increases scrutiny of charity trading subsidiaries and strengthens governance expectations. Charities must ensure that their leadership teams are prepared to meet these new obligations, which may involve updating internal policies and systems. Similarly, charities must carefully review their anti-fraud measures and, importantly, ensure that an anti-fraud culture is embedded throughout the entity as a compliance failure in this area could result in penalties or even loss of charitable status. The Act underscores the importance of robust governance and due diligence in maintaining sector integrity.

**Further information:** Click here

# Fundraising

## Fundraising Income Outlook

Despite economic challenges, the Charity Pulse Report from events platform Enthuse estimates that 60% of charities remain optimistic about fundraising prospects in 2025. Growth is expected in corporate giving, individual donations and legacy giving, driven by renewed public engagement and strategic campaigns. Charities are leveraging digital platforms and storytelling to connect with donors and demonstrate impact. However, competition for funds remains intense, and organisations must

differentiate themselves through transparency and innovation. Building long-term donor relationships and investing in fundraising capacity will be key to sustaining income. The outlook suggests cautious optimism, with opportunities for growth amid ongoing financial pressures.

**Further information:** Click here

## Fundraising Code of Practice

The new Fundraising Code of Practice, effective 1 November 2025, marks a significant shift in UK fundraising regulation. Rather than listing prescriptive rules, the revised code adopts a principles-based approach, focusing on core values: legality, openness, honesty and respect. This makes the code more adaptable to emerging fundraising methods, such as online gaming and social media campaigns.

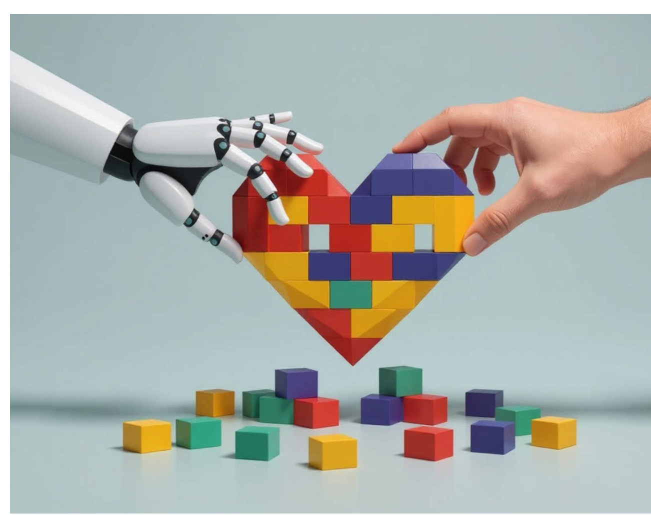
One of the most notable changes is the streamlining of content - the code is now substantially shorter, making it easier to navigate. It also places greater emphasis on ethical behaviour, including avoiding intrusive or persistent fundraising tactics and ensuring donor protection, especially for vulnerable individuals. Oversight of third-party fundraisers has been strengthened, with clearer expectations around due diligence, written agreements and ongoing monitoring.

Importantly, the code now requires charities to take reasonable steps to protect fundraisers from harm or harassment. While the legal framework remains unchanged, the new code increases accountability and encourages better governance. Charities and their advisers are urged to review internal policies and ensure staff and volunteers are trained to meet the updated standards.

**Further information:** Click here

## Digital Fundraising and AI Adoption

Digital fundraising continues to evolve, with charities increasingly adopting AI tools for donor targeting, grant writing and campaign automation. As it stands, the 2024 *Charity Digital Skills Report* estimates that 41% of charities rate themselves as poor at digital fundraising, but there is growing recognition of its potential to enhance efficiency and reach. AI can help personalise donor engagement, optimise resource allocation and improve decision-making. Data analysis can also give greater visibility and insight into fundraising trends, helping to identify better ways to engage with potential donors and key demographics, whilst a better understanding of the digital ecosystem in general (including use of new and social medial platforms) is paramount for staying in touch with younger demographics and staying relevant in the digital age.



However, implementation requires investment in technology and skills, which may be challenging for smaller organisations. The report identifies a key resource gap, with 64% of smaller charities identifying themselves as being at an ‘early’ stage with digital adoption, as opposed to only 26% of larger charities. Whilst it’s clear that access to digital expertise can be a game changer, trustees will need to balance the need to invest with their responsibilities as stewards of charitable funds in order to achieve best value and ensure funds are deployed appropriately. Charities should explore partnerships and training opportunities to build digital capacity and ensure ethical use of AI. Accountants, auditors and other advisers should consider how they can add value through both digital expertise and experience with related governance issues. Embracing digital innovation will be crucial for future fundraising success but, as with all technological advances, governance will be key to ensuring successful adoption.

**Further information:** Click here

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