Larking Gowen

Chartered Accountants & Business Advisors

Winter/Spring Charity Newsletter 2026

This edition of our charity newsletter brings together the key changes for charities from the past few months. From funding pressures to tax and regulatory changes, we highlight the key developments and what they could mean for your organisation.

We've recently hosted a number of well-attended, in-person charity seminars, which have sparked ongoing conversations around the issues raised. These included a session on proposed changes (now confirmed) to the charity SORP and thresholds, and an investment-focused event delivered in partnership with RBC Brewin Dolphin. These events reinforced to me that while we're individual specialists, we work best when we collaborate and build on each other's strengths – whether that's within Larking Gowen, where charity tax, VAT and financial reporting specialists frequently work in teams, or in partnership with legal and investment professionals from other firms.

We hope this newsletter offers useful insight and practical guidance to help your charity navigate an evolving landscape. As always, we welcome your comments and look forward to continuing the conversation.

For more information on how our Not for Profit team can support your organisation, please visit **www.larking-gowen.co.uk**

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Our Charity News summarises the recent 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:

Key

- United Kingdom
- Northern Ireland
- England
- Scotland
- Wales

Hot topics

Charity SORP 2026 released

The Charity SORP Committee released the 2026 Statement of Recommended Practice (SORP) in October, following a public consultation on draft proposals featuring a number of significant changes to charity financial reporting. We were pleased to see that several of the points in Larking Gowen's consultation feedback were actioned!

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 later on in this newsletter.

Further information: Click here.

Financial resilience and outlook

Charity Sector Risk Assessment

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.

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

NICs increase

From April 2025, the increase in employer NICs from 13.8% to 15% placed additional financial strain on charities (who were not exempted from these increases). With the threshold lowered to £5,000, many organisations have faced 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.

In the autumn 2025 budget, as was widely predicted, the value of salary sacrifice schemes for pensions which can benefit from national insurance relief is being capped at £2,000 per year from April 2029. There were also some minor changes to tax on other benefits.

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 accepted that VAT exemption can apply to fundraising events that have a dual purpose. This means that events being advertised as both fundraising for the charity and, say, providing education can fall within the fundraising relief with all income being exempt from VAT. If you consider that an event has more than one primary purpose, you will need to be able to evidence this and provide a clear explanation as to why they cannot be separated in terms of importance. HMRC's response to the case confirms its view that events that are not organised to raise funds, but which incidentally make a profit, will not fall within the exemption.

The further impact of the exemption for income is that VAT on costs relating to that event will not be recoverable and there might be occasions when a charity will not want this exempt treatment to apply so that it can claim back the VAT on expenditure. The preferred treatment for an event will need to be considered at the planning stage so that the VAT outcome is what you would like it to be.

Remember that your event still needs to meet all the other conditions in order for it to be treated as an exempt fundraising event, and that includes having clearly advertised it as raising money for the charity.

Further information: Click here.

Finance Bill 2025–26: Charity compliance measures

The 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. This change will have little impact on most charities. In broad summary, it is being introduced to facilitate the claw-back of tax in the event that a charity incurs expenditure for non-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 draft legislation requires an investment to be made for the **sole purpose** of benefiting the charity, which is quite a high bar. Guidance is expected from HM Revenue & Customs as to how this new rule will be implemented in practice.

- 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.

In addition, HM Revenue & Customs is looking at whether charities that persistently fail in their tax compliance obligations should not be regarded as managed by 'fit and proper persons'. The effect of this would be that charities that persistently ignore their tax obligations could lose their charity status for all tax purposes.

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 for accounting periods starting on or after 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.

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 ending on or after that date. The previous £1m threshold will now rise to £1.5m.

There is currently a further audit threshold at £250,000 income with £3.26 million in assets. This threshold will rise to £500,000 income with £5 million in assets.

The changes offer welcome relief to some smaller organisations. The option to reduce costs both directly (audit fees) and indirectly (resources deployed to support the audit process) will be welcomed by the sector. Some charities will, however, choose to keep the audit. Audit can add significant value to charities – commissioning a full external audit may well highlight internal control issues or other insights that may be missed by an independent examination. Other charities will decide that their resources deliver best benefit through charitable application rather than an audit fee. Trustees of charities newly falling below the thresholds will need to decide whether to adopt independent examination rather than audit based on their particular circumstances. If you want to know more about the difference between audit and examination, ask you auditor/examiner.

The consultation also reviewed several other key financial and regulatory thresholds. A number of these will remain unchanged. For instance, the £5,000 charity registration threshold will stay in place, and the requirements to file an annual return and submit accounts to the Charity Commission will continue to apply at £10,000 and £25,000 respectively.

Other thresholds, however, will increase in line with inflation. The independent examination threshold will increase from £25,000 to £40,000, while the limit for preparing receipts and payments accounts (for non-company charities only) will rise from £250,000 to £500,000.

Overall, although we believe in places the threshold rises could have been bolder, we welcome the changes and believe the sector does too.

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 previous audit threshold of £500,000 in gross income or £3.26 million in assets for charities preparing accruals accounts has been updated. The Charities Accounts (Scotland) Amendment Regulations 2025 have been laid and enacted, and the revised threshold of £1 million applies to financial years beginning on or after 1 January 2026. This would bring Scotland's audit requirements into closer alignment with those in England and Wales, except that the England & Wales threshold is rising from £1m to £1.5m, as noted above.

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); however, regulations introducing a £20k income and £100k assets registration threshold are in progress and expected to take effect from 2025–2026 and this would also exempt smaller charities from filing Annual returns and accounts. The independent examination threshold mirrors that of Scotland, applying to charities with income over £25,000. The audit threshold remains at £500,000 gross incomeand despite a 2024 consultation on the issue, there are no proposals to change this limit at this time.

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 provides clearer guidance on trustee responsibilities, board effectiveness, and stakeholder engagement. Charities are encouraged to review their governance frameworks to reflect 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. Over the 12 months starting 17 November 2025, company directors and Persons of Significant Control are having to register their ID verification. A requirement to verify identity for anyone looking to file financial statements or certain other documents with Companies House on behalf of a company, is expected to apply later in 2026.

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 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.