



August 2013

Newsletter

This Issue

Funder Needs – Not-for-profit accounting is complex, and at least one funder has realised they need more training.

Processing Delays – Yup, we're behind. Here's why.

CCA Training – Don't wait for us to put on a workshop. Tell us your needs.

Income Tax Exemptions – Inland Revenue still provides Income Tax Exemptions to not-for-profits not on the Charities register.

Childcare Subsidies – Sorry guys, they DO have GST even if W&I tells you otherwise.

NFP Accounting Research – Our Interns are picking apart the up and coming Accounting Standards.

Coming Up

23 October 2013: Community Law & CCA Workshop: Reading and Understanding Financial Documents. 7-9 pm.

Targeted at Board members. Already almost full, but if overbooked there might be a second workshop.

Register via Community Law Centre, 0508 CANLAW or by emailing susan@canlaw.org.nz

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Funders are People Too

One of the problems of not-for-profit accounting is that the financial reports are created with accounting rules that are applied and understood by accountants, but that the rest of the world is struggling with a little. This is fine for businesses, because their stakeholders (investor or potential buyers of a firm, for example) would always seek the advice of someone qualified before committing themselves (or, if not, it's their own fault). The stakeholders of not-for-profits, however, do not have a financial interest high enough to employ a financial consultant. The users of financial information are ordinary members, Board members, funders, maybe possible

donors, and only a minority of them would have enough accounting knowledge to get a good handle on a Balance Sheet, for example.

The City Council's funding team had approached us to design some training for them that is geared towards providing them with better understanding of the financial information provided by community groups. The first round of this has happened now, and I was quite excited to be given the opportunity to de-mystify the Balance Sheet and address such issues as how different ways of accounting for grants can have a dramatic effect on Financial Statements (and therefore how funders perceive them), or how capital grants artificially inflate a community organisation's 'surplus'. Even to an accountant these can be quite technical issues, but a lot of community groups are highly dependent on grants and their work very much depends on their funders having a good grasp in these issues.

Personally, I'm ready for more, and I would be thrilled if one of CCA's longer-term contributions to the not-for-profit sector would be to have facilitated a better mutual understanding between where funders and community groups are coming from, at least where financial matters are concerned.

Harald

Hold the Line....

Our workload in those last five or six weeks has been exceptionally high, and some of you would have been waiting for quite a bit longer than you should. We do apologise for this, but at the moment there's no sign that the onslaught is letting off. Nice to be in demand, though.

We do prioritise all work that has a deadline, such as payroll clients, GST returns, or audits that have to be ready for an AGM, or have been demanded by a funder with a strict deadline. Our funding situation has also improved, and we're able to afford a few more staff hours to work through it. A long processing time does *not* indicate that we find your accounts particularly baffling, only that other more urgent work has been processed first. Our enrolled client count has now passed the 80 mark.

Thanks for your patience.

Make use of CCA Training!

As accountability and compliance requirements are set to reach new heights for small and medium not-for-profits in the next couple of years, it will be more important than ever that the people involved in governance, management and administration of not-for-profits know what they're doing, and that the main users of their financial information understand them.

CCA tailors training to your needs, and you don't need to wait for us to put on more seminars. Here's what we can do for you:

- **Boards:** Boards are ultimately responsible for everything that happens in a not-for-profit, and all Board members (not just Treasurers) need some financial knowledge. Get a 'private' Board training session or two from us to upskill in financial governance. This is free for those with a current CCA subscription.
- **Managers and Administrators:** If you have bought some accounting, payroll or other software that's great, but without some understanding of the accounting behind it you are likely to make mistakes that will take a lot of expensive accountant time to fix. If you think you'd like some more training in accounting and administration issues, don't wait for us to put on a workshop. Let us know your

interest now. Often we will sit down with you individually, or we can get small groups together for tailored workshops.

- **Funders:** Not-for-profit accounting is a quite technical area, and certain accounting requirements especially around grants and donations can have a distorting effect on financial information. Business-focused standard indicators for financial stability or profitability are of little use in not-for-profit situations. We can help funders understand some of the 'snags' in not-for-profit financial information, and can provide more relevant indicators to help analyse it.

Harald is an experienced Trainer, whose CV includes both training and training development in diverse settings such as conferences, social and health service provision or Census field enumeration.

Income Tax – What if you're Not Exempt?

Not all not-for-profits are able to get onto the Department of Internal Affairs' Charities Register, which automatically grants exemption from Income Tax. Certain activities, while not-for-profit in nature, are not considered charitable by the rules of the Charities Act. This generally includes organisations with a strong focus on advocacy for a specific outcome. The Department does not only consider an organisation's rules, but may also do some other research into an organisation's actual activities (web sites are a prime source of information for this).

Organisations who serve as national bodies for certain professions or activities are also not-for-profit in nature, but the professions forming the body may be commercial and therefore these are also unlikely to be registered.

Inland Revenue has a couple of other pathways, however, to exempt an organisation from Income Tax even if they are not a registered Charity.

Probably the most important one is the \$1,000 rule. If your organisation's net income (i.e. surplus) is below \$1,000 you may apply for an exemption from the requirement to file Income Tax returns. \$1,000 may not sound much, but Inland Revenue does not consider most income of not-for-profits taxable: donations, membership subscriptions, grants, interest and a few other income items are all tax-exempt and do not count towards your income. Most not-for-profits would post losses by those rules, hence no tax payable.

Another somewhat obscure exemption is available for 'District Improvement Societies'. For this exemption, an organisation's main aim needs to be to "advertise, beautify, or develop a city, borough, or other district to attract trade, tourists, visitors, or population, or to provide amenities for the general public".

To apply for either of these exemptions simply send your rules to Inland Revenue with a covering letter saying which exemption you would like to apply for.

GST and Work & Income

Childcare providers (Including OSCAR programmes) often have parents whose fees are subsidised by Work & Income. These fees **DO** attract GST.

Two of our clients have recently become very confused about this, as they had contacted Work & Income to enquire about the GST status of these subsidies. Work & Income has advised that their payments *do not* attract GST, as they are actually payments made on behalf of the parents, i.e. not registered private individuals.

This is correct from their point of view: the subsidy is to the parent (even though paid to the organisation), and therefore Work & Income could not claim any GST back on those payments.

However, a GST-registered OSCAR provider must charge GST on the entire fee, and cannot exclude a portion of it just because it comes from another source. Because Work & Income pays on behalf of the *parent*, and this is therefore not a grant to the *organisation*, GST must be applied. GST is a tax on private consumption. Inland Revenue has confirmed to us that this is the correct treatment of Work & Income childcare subsidies.

So sorry, folks. ☹

Research on New Accounting Standards

Three accounting students of CPIT's School of Business are working on different small research projects about the proposed new accounting standards for small not-for-profits as part of their degree studies.

One project looks at the effect the standards may have on micro-organisations with expenditure of a few thousand dollars per year or less. The project focuses on how big the additional administrative workload is likely to be for such small entities, and whether adverse effects on their operations are likely because of this. It will also look at whether stakeholders find the extra information useful and whether they can understand it.

The second project examines the possibility of small not-for-profits opting to report under a 'higher' tier under New Zealand's Financial Reporting Framework. While this requires stringent accounting practices, it would avoid the high additional reporting requirements in the lower tiers that do not exist in the higher ones and may be much more economical for many entities.

The third project deals with the possible implications of the standards on auditing. Because the new accounting standards depart from what auditors are used to, and require a lot of additional disclosures not usually included in Financial Statements, the obligation of auditors to verify this additional information is not clear and may lead to higher audit fees.