



**FRED 68: Draft amendments to FRS 102 - Payments by subsidiaries
to their charitable parents that qualify for gift aid**

RESPONSE FROM ICAS TO THE FINANCIAL REPORTING COUNCIL

17 October 2017

Background

ICAS is a professional body for more than 21,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business and in the not for profit sector; many leading some of the UK's and the world's great organisations. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854.

Introduction

ICAS welcomes the opportunity to comment on the FRC's FRED 68 – Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Payments by subsidiaries to their charitable parents that qualify for gift aid.

The ICAS Charities Panel has considered the proposed amendments to FRS 102 in FRED 68 and we are broadly supportive of the proposals

We have responded to both consultation questions and include additional comments in our detailed response.

Any enquiries should be addressed to Christine Scott, Head of Charities and Pensions, at cscott@icas.com

Comments on consultation questions

Question 1

Do you agree with the proposed amendments to FRS 102 and that this will improve the relevance of information provided to users of the financial statements? If not, why not?

Response

We agree with the proposed amendments to FRS 102. In particular, we note and agree with the comments in paragraph 17 that the proposals represent "...a pragmatic exception to the requirements of FRS 102...".

The amendments will provide consistency and transparency in respect of the recognition of the tax effects of expected gift aid payments to a charitable parent. However, we also note the position set out in paragraph 18 which acknowledges the case for not introducing a similar exception for the recognition of the expected underlying gift aid payment.

The consequence of the position set out by the FRC in paragraph 18 is that there will be variations in the recognition of the underlying gift aid payment depending upon whether there is a legal obligation for the trading subsidiary to make the payment. Therefore, while the proposed amendments will require the tax effects to be recognised in the current reporting period, the underlying gift aid payment may be recognised in the current or following reporting period depending on the nature, if any, of the subsidiary's obligation.

By creating a consistent approach to the tax effects of gift aid payments, the proposals should provide clarity to accounts preparers and more comparable information to funders and financial supporters of the parent charity. However, the decision not to provide similar consistency for related gift aid payments will limit the degree to which accounts' users benefit from the proposed amendments.

Question 2

In relation to the consultation stage impact assessment do you have any comments on the costs and benefits identified? Please provide evidence to support your views of the quantifiable costs and benefits of these proposals.

Response

We agree with the conclusion regarding the consultation stage impact assessment. The creation of a consistent approach to recognising the tax effects of gift aid payments should improve the consistency and quality of information available to users without any adverse cost implications for the preparers of the financial statements. Indeed, we would envisage that the consistent approach should reduce the amount of time spent by charities discussing this topic with professional advisers and other stakeholders.

Other comments

We accept the proposed amendments as a pragmatic solution to a matter which is important to many charities, their funders and other financial supporters. However, the proposals mean that the tax treatment is driving the recognition requirements. This is a more rules-based approach to setting accounting requirements rather than the principles-based approach which ICAS would normally support and expect the FRC to follow.

As scope remains for differences in the treatment of the underlying gift aid payment, we recommend that an additional disclosure requirement is introduced to FRS 102 which requires a subsidiary to disclose the treatment of both the gift aid payment to the charitable parent along with the associated tax effects.