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Not for Profit eNews

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Welcome to the latest edition of MHA Not for Profit eNews.

As we progress through 2025, charities continue to navigate an evolving regulatory and financial landscape. This edition of MHA's Not-for-Profit eNews provides insights into some of the most pressing developments affecting the sector, from governance reforms to investment management and compliance challenges.

We begin by examining the emerging trends in charity service delivery for 2025. With demand for services continuing to rise and financial constraints limiting resources, charities are turning to artificial intelligence, collaborative working, and structured beneficiary feedback mechanisms to enhance operational efficiency. Additionally, there is a growing emphasis on centring service users in decision-making to ensure that services are more inclusive and tailored to beneficiaries' needs.

Investment governance remains a crucial topic, and we explore the new Charity Investment Governance Principles (CIGPs), introduced to help trustees navigate financial decision-making while aligning investments with charitable objectives. We also highlight updates on withholding tax on investment income, ensuring charities understand their tax relief entitlements and the processes for reclaiming overpaid tax.

In the area of financial compliance, we discuss HMRC's renewed focus on VAT regulations, particularly regarding the classification of business and non-business activities. With increased scrutiny from tax authorities, charities must ensure they meet VAT obligations to avoid financial penalties.

With these developments shaping the sector, staying informed and proactive is essential. We hope this edition provides valuable insights and practical steps to help charities remain compliant and financially sustainable in the year ahead.

Best Regards,
MHA Not for Profit team

Adapting to Service Delivery Trends in the Charity Sector (2025)

As the charity sector enters 2025, organisations are expected to navigate shifting service delivery models to meet increasing demand with fewer financial resources. The sector has been under continuous strain, with charities reporting both a rise in beneficiaries and challenges in securing stable funding. To remain sustainable, many charities are adapting their service delivery models to leverage technology, innovative funding structures, and localised community engagement.

Key Trends Shaping Charity Services in 2025

1 Exploring Artificial Intelligence in Service Delivery

Artificial Intelligence (AI) continues to be a significant focus, with charities exploring its potential to enhance service delivery. While the initial hype around AI is stabilising, organisations are cautiously integrating AI tools to improve efficiency and better serve their communities. However, challenges such as environmental impact and high costs are prompting charities to seek more sustainable and cost-effective AI solutions.

2 Embracing Collaborative Approaches

In 2025, charities are increasingly recognising the value of collaboration. By working together towards shared goals, organisations can pool resources, save time, raise more funds, and amplify their impact. Collaborative efforts not only enhance service delivery but also foster innovation and knowledge sharing across the sector.

3 Onboarding Beneficiary Feedback Mechanisms

Charities are placing greater emphasis on centring service users by implementing structured processes to collect, analyse, and act upon feedback from the people they serve. Beneficiary Feedback Mechanisms (BFMs) enable organisations to iteratively improve services, ensuring they meet the evolving needs of their users. This approach promotes inclusivity and empowers beneficiaries, leading to more effective service delivery.

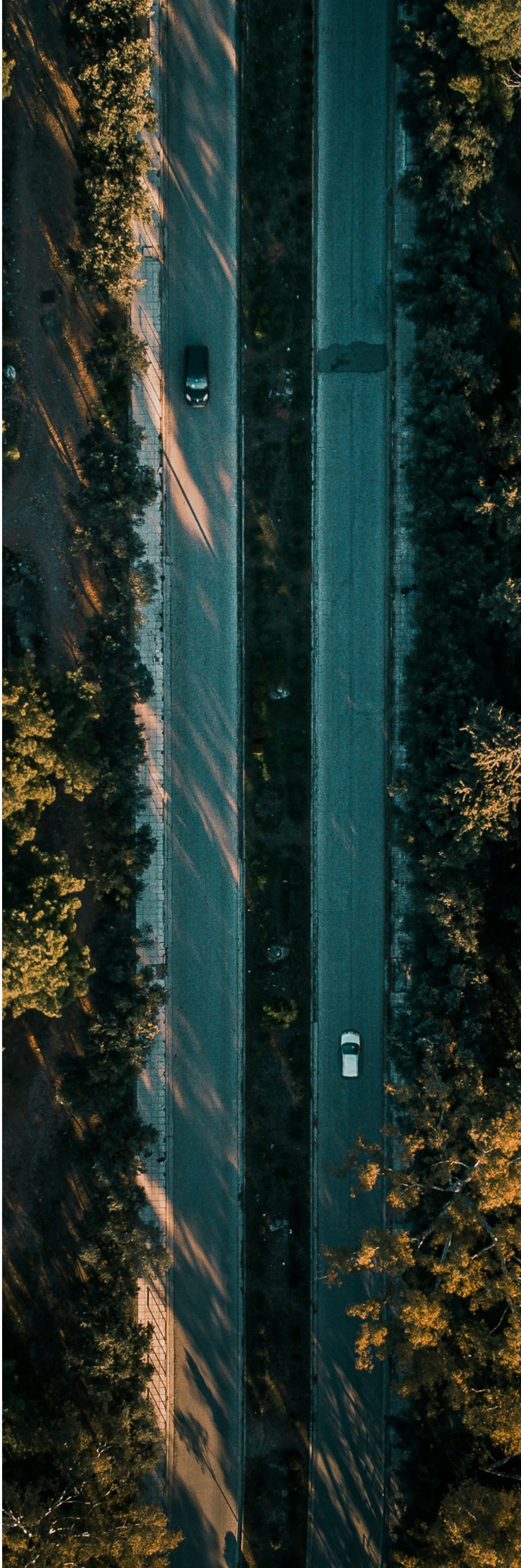
4 Centring the Service User

There is a growing movement towards placing service users at the heart of service delivery. Charities are involving individuals with lived experience in decision-making processes, hosting user-led design workshops, and facilitating peer-support networks. These strategies aim to empower service users, ensuring that services are tailored to their needs and fostering a sense of community and support.

What This Means for Charities

To keep pace with these emerging trends, charities should assess their digital readiness, explore collaborative opportunities, and implement robust feedback mechanisms. Adapting to these trends will not only help organizations manage demand sustainably but also enhance long-term impact and resilience in an evolving sector.

For a more detailed breakdown of anticipated service delivery trends in 2025, visit **Charity Digital**.



Charity Investment Governance Principles (CIGPs): A New Framework

The Charity Investment Governance Principles (CIGPs) were introduced to assist trustees in navigating their investment responsibilities more effectively. These principles align with existing Charity Commission guidance and reflect changes in the legal, ethical, and economic landscape (New Charity Investment Governance Principles Launched (CAF)).

Key Features of the Principles

1. **Trustee Duties and Decision-Making:** The CIGPs emphasize that trustees have a legal obligation to act in the best interest of their charity, including ensuring investments align with charitable purposes. Trustees are encouraged to balance financial returns with broader considerations, such as reputational risks and ethical obligations. Recent court cases, including Butler-Sloss, have reinforced the importance of documenting decision-making processes and ensuring investments reflect the charity's mission (Civil Society).
2. **Integration of ESG Factors:** Environmental, Social, and Governance (ESG) considerations are now central to investment strategies. With growing pressure from donors and stakeholders, charities are encouraged to adopt responsible investment policies. The CIGPs suggest that ESG factors can enhance long-term financial performance while aligning with the charity's values.
3. **Transparency and Reporting:** Transparency is a critical element of good governance. Trustees are advised to establish clear reporting mechanisms that outline the rationale behind investment decisions and provide regular updates to stakeholders. This practice not only builds trust but also ensures compliance with Charity Commission regulations.

Why These Principles Matter

The development of the CIGPs reflects the evolving expectations placed on charities. Increasingly, stakeholders are demanding that investments align with ethical and social values. Trustees are also expected to navigate financial risks effectively in an uncertain economic climate. These principles provide a framework for balancing financial returns with responsible investment practices.

Action Steps for Charities

1. **Review Policies:** Trustees should review their investment strategies and ensure alignment with the CIGPs and the broader expectations of stakeholders.
2. **Engage Professional Advice:** Seeking professional advice can help integrate ESG factors into strategies and ensure compliance with legal requirements.
3. **Strengthen Monitoring and Reporting:** Trustees should develop robust reporting mechanisms to enhance transparency and accountability.

For further information, consult the Charity Investment Governance Principles (Charity Investment Governance Principles Guide).

Investments: Navigating Withholding Tax Challenges

Early in September 2024, the Charity Recent updates have highlighted the complexities charities face regarding withholding tax on investment income. (Charity Tax Group – Jan 2025 Newsletter) Withholding tax, deducted at source on income such as dividends or interest from foreign investments, can significantly impact a charity's revenue streams.

Key Considerations for Charities

Charities may be eligible for reduced withholding tax rates. However, reclaiming this tax can be challenging due to varying procedures and time limits across jurisdictions.

Action Steps for Trustee

1. **Review Investment Portfolios:** Identify income sources where withholding tax has been deducted and assess eligibility for tax relief or exemptions.
2. **Understand Reclaim Procedures:** Familiarise yourself with the specific reclaim processes and deadlines of countries where investments are held.
3. **Seek Professional Assistance:** Engage with tax professionals experienced in cross-border taxation to navigate the complexities of reclaiming withholding tax.

By proactively managing withholding tax issues, charities can enhance their investment returns, thereby increasing the funds available to support their charitable objectives.

VAT Compliance: Addressing New Challenges

Recent updates from the Charity Tax Group have brought HMRC's renewed focus on VAT compliance into the spotlight. Charities must carefully navigate the complexities of VAT recovery, particularly when distinguishing between business and non-business activities. (Charity Tax Group – Jan 2025 Newsletter)

Increased HMRC Scrutiny

Smaller charities that claim 100% input VAT recovery based on their non-business status are now under closer examination. HMRC has expressed concerns that some charities may misclassify their income sources or overlook the rules regarding VAT recovery, particularly where activities such as property rental or paid services may constitute business operations. How VAT affects charities (VAT Notice 701/1) - GOV.UK

Key Risks for Charities

Incorrect VAT classification can result in financial penalties, reputational harm, and the potential need to repay previously recovered VAT. For charities engaging in both business and non-business activities, understanding the partial exemption rules is crucial to ensure accurate VAT reporting. How VAT affects charities (VAT Notice 701/1) - GOV.UK

Recommendations

To mitigate risks, charities should:

1. **Undertake a VAT Health Check:** Regularly review current classifications to ensure compliance with HMRC guidelines. This proactive approach can help identify and rectify potential issues before they escalate. Help with VAT compliance controls — Guidelines for Compliance GfC8 - GOV.UK
2. **Strengthen Documentation Processes:** Implement robust record-keeping practices to substantiate VAT recovery claims. Accurate documentation not only facilitates compliance but also serves as evidence in case of audits. Help with VAT compliance controls — Guidelines for Compliance GfC8 - GOV.UK
3. **Engage Professional Advisors:** Seek tailored advice on complex VAT scenarios to navigate the intricate landscape of VAT regulations effectively. Professional guidance can provide clarity and strategic direction, ensuring that the charity's VAT practices align with current laws.

For additional guidance, HMRC's VAT Notice 701/1 offers detailed information on how VAT affects charities. By proactively addressing VAT concerns, charities can safeguard their resources while avoiding regulatory pitfalls.

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MHA Not for Profit Team
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