

Upcoming changes for Incorporated Societies

29 November 2018

The aim of the Incorporated Societies Act 1908 is to give guidance to the many New Zealanders who run societies. The Act is now more than 100 years old and needs updating to help volunteers govern and administer a society in today's conditions.

The Government has agreed to implement modern legislation that will help guide the sector into the future. The Incorporated Societies Bill, which was released for public comment from October 2015 to June 2016, aims to make societies more robust, help them govern themselves appropriately, and provide more constructive options when things go wrong.

This article looks at the current reporting requirements imposed on Societies and what the likely future requirements will be.

Do societies currently need to file annual financial statements with the registrar and in what format?

Every year an incorporated society is required to register a copy of its annual financial statement (accounts). This will usually happen after the annual general meeting (AGM).

The annual financial statements currently can be filed in any format and do not have to be prepared in accordance with General Purpose Financial Reporting standards and hence do not have to comply with NZ GAAP (Generally Accepted Accounting Practise).

If a society fails to send a copy of its annual financial statements to the Registrar, the Registrar may assume it is no longer operating and may then take steps to remove it from the register. Once an incorporated society is removed from the register it will no longer be a separate legal entity.

Annual financial statements can be filed online using the registry key or filed manually.

What changes are coming up?

The Law Commission commenced a review of the Incorporated Societies Act 1908. It published an issues paper in June 2011 with the main recommendation to replace the 1908 Act with a new Incorporated Societies Act.

In response to the issues paper, in November 2015 the Ministry of Business, Innovation and Employment (MBIE) issued the Exposure Draft (ED) of the Incorporated Societies Bill for public comment. The comment period was closed in June 2016.

Currently the MBIE is working towards the Bill being introduced into the House in 2018, with a view to enactment in 2019. The new legislation will then likely come into force in two steps – in 2021 and 2023.

In addition to other amendments to the 1908 Act, the ED proposed changes to financial reporting. The proposed changes will align with the current financial reporting requirements for registered charities. This will require societies to prepare financial statements that have been prepared in accordance with GAAP. For societies with annual expenditure of more than \$125,000, or the lower XRB format cash simple format reporting for all smaller societies.

There also will be a requirement to lodge them with the Registrar within six months of the end of the society's financial year.

How will this impact a society?

This means that incorporated societies will have the same preparation obligations as registered charities. Instead of preparing financial statements in any format:

- Societies with annual operating expenditure \$2 million or less in one or both of the two preceding financial years will be able to prepare a performance report in accordance with the XRB's simple format reporting standards for not-for-profit entities (Tiers 3 or 4)
- Societies that do not qualify for Tier 3 or 4 reporting will be required to prepare financial statements in accordance with the more extensive Tier 1 or 2 Public Benefit Entity (PBE) Standards.

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