



ADVICE AND GUIDANCE TAXATION OF TRADING INCOME FOR MEMBERS' CLUBS



It is accepted that clubs are not liable to tax on surpluses generated from "mutual trading". HMRC's "Company Taxation Manual" provide some further guidance on mutual trading, inter alia:

"For a body to be engaged in mutual trading there must be complete identity, as a class, between the contributors to the mutual surplus and the participators therein (see BIM 24105)."

In layman's terms this mean that the club will generate all of its income from its members, including fees and subscriptions or by members buying goods and services, and will then spend those resources on providing benefits to its members.

This guidance is especially relevant for clubs which operate bars and run events which may be open to non-members. The guidance states that, whereas the net profit (after allowing for both direct costs and an appropriate proportion of indirect costs) from trading with members is exempt from taxation, trading with non-members will be subject to taxation and should be disclosed in clubs' annual corporation tax returns.

A question has arisen as to whether members' guests, members of other clubs or other visitors, who may meet the licensing criteria for a club's bar facility, can be deemed to be "members" for trading purposes. HMRC's Business Income Manual (BIM 24220-24240) provides guidance and can be accessed at the link below.

- <https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim24220>

Relevant extracts from this guidance include the following.

"Any surplus arising to a members' club from transactions with its members is not normally taxable. Payments by members in respect of their personal guests even when these are described as 'visitors' fees' are normally regarded as part of that [non-taxable] surplus.

- Receipts from visitors who, in return for payment on a commercial basis, are allowed to use a club's facilities will be receipts from a taxable trade in the club's hands.
- A 'guest' who had to pay their own way should be treated as any other 'visitor' - the income arising should be brought into account in computing the club's trade profit.
- The description of such visitors as 'temporary' members does not prevent receipts from being taxable.
- Similar receipts from 'associate' members for their use of the club's facilities is also trading income unless it can be shown that their rights (i.e. right to vote at meetings, participate in club activities and generally to exercise control over the running of the club) are equivalent to those of full members."

This guidance is quite unequivocal that a club's net profits from income received from non-members is taxable. By contrast, where members directly meet the cost of their guests' attendance at the club, such income is not taxable.

It is also clear that designating visitors as "associate" or "temporary" members, in an attempt to avoid a liability to tax, will not be effective unless those visitors are granted material rights equivalent to full membership: a move likely to be unacceptable to the club's members.

Clubs should ensure they can distinguish between member and non-member income within their accounting records to enable them to declare the net profit on the latter within their corporation tax returns.

[@ClubDevScot](http://www.clubdevelopment.scot)

OTHER SERVICES:

Club Development Scotland offer a range of services to help you grow a winning club. This includes:



Social Impact & Reporting



Club Lottery Setup & Management



Crowdfunding & Community Shares



 @clubdevscot

 clubdevelopmentscotland

 www.clubdevelopment.scot

Club Development Scotland is a one-stop resource for clubs of any size and scale to help them best govern and develop their activities. While we can't guarantee success on the pitch, we can show you a route to succeed off it as one of Scotland's leading sport club consultants.

Club Development Scotland is a consultancy service offering guidance and support to enable the development of sustainable sport clubs that win for everyone. We bring unrivalled experience in the community sport sector.