



ADVICE AND GUIDANCE CORPORATION TAX FOR CHARITABLE CLUBS



CORPORATION TAX FOR CHARITIES

This guidance note provides high level advice to entities incorporating as charities and is targeted primarily at small sports clubs receiving advice from CDS. Please note that it is not applicable for other not for profit entities, which are not registered as charities, while there are different rules applicable to Community Amateur Sports Clubs ("CASCs").

Of necessity the advice set out herein is general in nature and users should therefore rely on it with appropriate caution. CDS can accept no liability for any claims arising from the use of the content of this guidance note.

OVERVIEW

The default position is that a charity will not pay corporation tax on any surplus of income over expenditure arising from its charitable activities. For example, this would be the case for all income generated from grants, members' subscriptions and donations as offset by expenditure incurred in furtherance of the charity's main purpose.

However, there may be a potential liability to tax on profits a charity makes from "trade" unless any of the following apply.

- All of its activity is to further the charity's aims and objectives, as stated in its governing document, known as "primary purpose trading";
- Its level of non-primary purpose trading is

below the charity's small trading tax exemption limit (see paragraph below);

- All non-primary purpose trading is conducted through a subsidiary trading company.

NON-PRIMARY PURPOSE TRADING

A charity may undertake a range of fund raising activities intended to raise money to allow it better to achieve its aims and objectives. Examples of such trading might include the sale of merchandise or the operation of a bar or cafeteria. Such activities are also subject to specific rules regarding VAT, explained in more detail in CDS's guidance note on VAT for Charities.

There is a specific exemption for charities fundraising by means of lotteries or fundraising events, such as jumble sales or dances. This exemption is conditional on the following.

- Any surpluses being spent on the charity's primary purpose;
- The fundraising event qualifying for VAT exemption;
- The lottery holding an operating licence.

Other non-primary purpose trading surpluses may be liable to tax unless either covered by the small trading tax exemption limit or carried on through a subsidiary trading company.

SMALL TRADING TAX EXEMPTION

Surpluses from non-primary purpose trading may be exempt from tax if the turnover is below the applicable small trading tax limits, set out in the table below. A charity's gross annual income is its total turnover before deducting tax and expenses.

Gross annual income	Maximum permitted small trading turnover
£0 to £20,000	£5,000
£20,001 to £200,000	25% of gross annual income
£200,001+	£50,000

If a charity's non-primary purpose trading turnover exceeds the exemption limits then it will be liable to pay tax on all of its surpluses from such activity, not just the amount in excess of the limit.

SUBSIDIARY TRADING COMPANY

Where a charity anticipates conducting a level of non-primary purpose trading in excess of the levels set out above, it may be prudent for it to set up a subsidiary trading company.

The subsidiary is likely to be a company limited by shares with the share capital being wholly owned by the charity. It would have a legal identity separate from the charity with its own board of directors and would have to comply with all applicable Companies House obligations.

Unlike a charity, all of the subsidiary's profits would be liable to tax. This can be avoided by the subsidiary donating any profits to its parent charity each year. The donation would have to be paid within nine months of the end of the accounting period in which the profits were made.

The charity would not pay tax on the donation

received as long as it uses the money for its charitable purposes.

It is possible that a trading subsidiary might register for VAT, indeed it would be obliged to do so if its taxable turnover exceeded £85,000 per annum. VAT for subsidiary trading companies is covered in CDS's separate guidance note on VAT for Charities.

Before setting up the subsidiary, the charity would have to be reasonably confident that it could generate a return from its trading activities to contribute towards the charity. If the subsidiary incurred losses and required the support of the charity, with funds being diverted away from its charitable activities, it could in extreme circumstances jeopardise charitable status.

Moreover, the charity would need to be comfortable that any surpluses generated by the trading subsidiary justified the additional admin and governance burden.

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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.