

## Charities: tax and trading

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### An update from the Charity Commission

Your charity is trading if it sells goods or services to customers. There are rules on [what types of activities count as trading \(https://www.gov.uk/government/publications/trustees-trading-and-tax-how-charities-may-lawfully-trade-cc35/trustees-trading-and-tax-how-charities-may-lawfully-trade#trading-by-charities\)](https://www.gov.uk/government/publications/trustees-trading-and-tax-how-charities-may-lawfully-trade-cc35/trustees-trading-and-tax-how-charities-may-lawfully-trade#trading-by-charities).

### Overview

Your charity will not pay tax on profits it makes from trade if:

- you're making money to help your charity's aims and objectives, known as 'primary purpose trading'
- your level of trade that isn't primary purpose falls below the charity's small trading tax exemption limit
- you trade through a subsidiary trading company

Your charity must pay tax on any other profits.

### VAT

Your charity is not exempt from paying VAT when trading but it is [eligible for some VAT reliefs \(https://www.gov.uk/vat-charities/what-qualifies-for-relief\)](https://www.gov.uk/vat-charities/what-qualifies-for-relief).

If your charity's trading income is above the VAT registration threshold of £82,000, it must [register for VAT \(https://www.gov.uk/vat-registration/how-to-register\)](https://www.gov.uk/vat-registration/how-to-register).

### Primary purpose trading

Your charity's primary purpose is stated in your governing document.

Your charity won't pay tax on profits it makes from trading that:

- is part of your charity's primary purpose, eg an independent school charging students tuition fees for their education, or a care home charging residents for accommodation and care
- helps your charity's primary purpose, eg a college selling students text books or a museum running a cafe for visitors

You may have to pay tax on the profits from trading that has nothing to do with your primary purpose. However, if your turnover from this type of trading is below the small trading tax exemption limit, you don't need to pay tax.

#### Example:

A university rents student accommodation to the general public during the summer break. The university may pay tax on profits from the rent because its primary purpose is to educate.

### Workers who benefit

You may not have to pay tax on your charity's profits if your trading activity is carried out mainly by beneficiaries of the charity. This rule only applies if profits are used for your charity's primary purpose.

Examples of workers who benefit from your charity are:

- students that help to run a farm on an agricultural college
- disabled staff of a café run by a charity that helps people with disabilities

Not all of the workers have to be beneficiaries of the charity. You might, for example, need some supervisors or managers who could be employees, contractors or volunteers. But for all of the profits to be exempt from tax, the beneficiaries must do most of the work.

You need to pay tax on profits if most of your charity's trading is done by workers who don't benefit from your primary purpose. There's an exception to this rule if your turnover from this trading is below the small trading tax exemption.

You must operate PAYE on the earnings of beneficiaries of the charity and pay them the national minimum wage, unless they're volunteers.

### Fundraising and lotteries

Your charity won't have to pay tax on profits it makes from lotteries or fundraising events, eg jumble sales or barn dances.

This is as long as:

- all your profits go to your charity's primary purpose
- your fundraising event qualifies for exemption from VAT under the [VAT rules for fundraising events \(https://www.gov.uk/government/publications/charity-fundraising-events-exemptions\)](https://www.gov.uk/government/publications/charity-fundraising-events-exemptions)

- your lottery has an operating licence - if you don't, you'll need to contact the [Gambling Commission](http://www.gamblingcommission.gov.uk/Gambling-sectors/Lotteries/Getting-a-licence/Applying-for-a-licence/How-do-I-apply/How-do-I-apply.aspx) (<http://www.gamblingcommission.gov.uk/Gambling-sectors/Lotteries/Getting-a-licence/Applying-for-a-licence/How-do-I-apply/How-do-I-apply.aspx>)

When a subsidiary trading company organises a lottery to raise money for its parent charity, it won't pay tax on the profits it gives to the charity. All of its other profits will be taxed.

Lottery ticket sales are exempt from VAT.

## Small trading tax exemption

When your charity's trading does not relate to your charity's primary purpose, it may still be exempt from tax if the turnover is below the small trading tax exemption.

Some of your charity's profits may already be exempt from tax because they're from a trading activity that's part of your primary purpose trading.

You can still claim an additional exemption for other trading profits if they're below the small trading tax exemption limits.

If your charity's small trading turnover is higher than the exemption limits then you'll have to pay tax on all of your profits from that trade.

Your charity's gross annual income is the total turnover before deducting tax and expenses.

This table shows how the small trading tax exemption limits are applied:

Charity's gross annual income	Maximum permitted small trading turnover
Under £20,000	£5,000
£20,001 to £200,000	25% of your charity's total annual turnover
Over £200,000	£50,000

## Using a subsidiary trading company

One or more charities can set up a subsidiary trading company to trade on their behalf.

You may find this useful if your charity:

- makes profits on trading that's not linked to its primary purpose
- makes a profit that comes close to or is higher than the small trading tax exemption limit
- wants to protect its assets from any trading losses
- wants to have a separate organisation to carry out all its trading activities

## VAT relief

A charity's trading company won't have to pay VAT on:

- profits it makes from donated good sales (as long as it gives these profits to the parent charity)
- fundraising events it runs for its parent charity

Other types of VAT relief that charities get are not available for their trading subsidiaries.

Trading companies must pay tax and VAT on all their other income and profits in the same way as ordinary limited companies.

## Donations from a trading company

When a trading company donates its profits to its parent charity's main purpose, there is no Corporation Tax due on these payments. The trading company makes the donation without deducting tax.

Your charity won't pay tax on the amounts it receives as long as it uses the money for its charitable purposes.

The directors of a trading company can decide when to donate to their parent charity. The payment must be made within 9 months of the end of the accounting period in which the profits were made. They must show the payments in their tax return for the accounting period in which the payment was made.

## Investing in a trading company

Your charity could make a number of small investments in a trading company rather than one big investment to reduce risk. You must regularly look at all your charity's investments to make sure they're performing as expected.

To avoid losing out on tax exemptions, your charity must only invest in a trading company if:

- you can show evidence that the investment was made to benefit the charity
- there are terms and conditions setting out how the company will pay you back (this should include a rate of interest and the date when the repayment is due)
- your charity gets a fair return that's actually paid, which is then spent on your charity's primary purpose

Other investment in a trading company is classed as a **non-charitable expense** (<https://www.gov.uk/charities-and-tax/tax-reliefs>) and your charity must pay tax on all its profits.

Your charity must keep records of:

- all the investments it makes, eg in a business plan or a document projecting future profits

- the details on why it decided to choose each particular investment, eg a record of your cash flow forecast

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