

Main Points:

- **guidance on the implications of trading by local Churches (61)**
- **distinguishing between charitable and non-charitable trading (62)**

61 Implications of trading by local Churches

Churches can become involved in trading.

When any trading is undertaken Churches must consider especially three legal aspects: charity law, direct tax (income and corporation tax) and VAT.

A summary of the main issues is given in the table. As a general rule any trading which involves little risk, small outlay and sales under £5,000 is unlikely to be a problem. If the level of non-charitable trading sales is likely to be over £5,000 per annum it would be wise to obtain further advice before proceeding (see table in section 62 below and Appendix 8)).

The onus remains with the charity to establish its tax position where all or part of its income is not exempt from tax.

There may be changes in these guidelines and Churches are strongly urged to seek up-to-date advice if non-charitable trading is over £5,000 in sales a year.

62 Distinguishing between charitable and non-charitable trading

Generally, trading that a Church does in pursuing its objectives such as arranging coffee mornings or running a Christian bookstall is called charitable trading. Any other trading such as fund-raising activities is non-charitable. Selling Christmas Cards is likely to fall into this category.

| Type of Trading | Charity Law | Direct Tax | VAT |
|------------------------|---|---|---|
| Charitable Trading | No problem with this | Profit should be exempt from tax. | Turnover may be taxable (much charity trading is exempt). Unlikely to be a problem if trading is small amount. |
| Non Charitable Trading | Must be in the best interests of the charity. Charitable funds should not be put at risk (e.g. in buying stock which might not be sold) If losses may be made trustees must consider how to protect the charity's funds (normally keep trading separate from the charity) | Profit may be taxable - New rules from 6 April 2000 mean most small amounts of trading exempt. Also relief for a certain number of events and ancillary trading | Turnover may be taxable. Unlikely to be a problem if trading is small amount. VAT is based on different rules from direct tax, though these are being harmonised. Relief is available for events. |
| Advice | Charity Commission (leaflet CC35) | Accountant or Inland Revenue (FICO) | Accountant or Local Customs offices |

see also Charity Commission leaflet CC35

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