CT: Accountants Advisers

Small trading exemption

There are various exemptions allowed for charities that remove their income from tax, most common are the primary purpose exemption and investment income exemption. However, it is also relatively common for a charity to undertake some level of non-charitable trading. In this case the exemption that would often apply to that income is the small trading exemption.

Small trade exemption

In the UK, the small trading exemption is a provision that allows registered charities to carry out small-scale trading activities without incurring tax liabilities and filing annual tax returns. Under this exemption, registered charities can carry out trading activities with an annual turnover of up to £80,000 without being liable for corporation tax. The turnover threshold does depend on the charity's overall income, as shown below.

Total income of the charity	Maximum permitted turnover
Under £32,000	£8,000
£32,000 to £320,000	25% of charity's total income
Over £320,000	£80,000

The £80,000 limit is a maximum limit which would apply to the aggregate turnover of all taxable trades within a charity.

Should a charity's non-charitable income exceed the £80,000 limit in any given year, there will be a loss of the tax exemption on the profits generated from the trading activities. As such, the entire trading profits would be subject to tax and an annual tax return would have to be submitted to HMRC.

Reasonable Expectation

There is a reasonable expectation test that can be applied, where, based on forecasts, budgets etc a charity could not have reasonably expected to breach the threshold, and it therefore can continue to apply. HMRC would expect to see some evidence to support the reasonable expectation.

Trading Subsidiaries

Where a trade is growing, and the charity expects to breach the threshold, then it may be time to consider a trading subsidiary. This is a common structure where a charity sets up a private limited company, in which it owns all the shares, and undertakes non-charitable trading on the charity's behalf. Careful consideration is required on many aspects of establishing a trading subsidiary - the allocation of shared costs, the VAT implications of the new company and the board members, to name a few.

If you have any questions, you can contact Conall at: conall.boyle@ct.me and Seamus at: seamus.carrigy@ct.me

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