

Benefits of Charitable Protection

Charities are regulated by the Charity Commission in England and Wales, by the Office of the Scottish Regulator in Scotland and in Northern Ireland by the newly established Northern Ireland Charity Commission. The information below relates to England. Bear in mind that there may be some differences in Scotland and Northern Ireland.

Charities only need to register with the Charity Commission once their income is above £5,000 p.a. when they are given a registration number. (Charities who are too small to register with the Charity Commission but want to take advantage of the tax advantages should register with the HM Revenue and Customs, HMRC, who will provide an HMRC Charity number. This should be accepted by banks, local authorities and grant funders as evidence of your charitable status.)

There are a number of benefits which come with charitable status. There are also certain limitations and obligations, which are, in a sense, the price that a charity pays for receiving the benefits. They are therefore the costs of charitable status, though not necessarily a financial cost. They are essentially society's way of protecting the integrity of charity. There is a common misconception that all charities are exempt from taxes, including VAT and rates. This is not the case, although charities do receive a number of tax benefits.

These include:

- Income tax relief on investment dividends, legacies and covenants, rents and profits on land occupied by the charity. Relief from Corporation Tax on any surplus made by the charity provided that the surplus arises from income from donations, grants, membership subscriptions (in most cases), sale of donated goods and income from primary purpose trading.
- There is also an extra-statutory concession giving relief for any profits arising from non-charitable trading providing the income from this trading is less than 10% of all the trading income and the amount involved is 'small'. (For further information on trading, see the Inland Revenue's booklet CS2 Trading by Charities - Guidelines in the tax treatment of trades carried on by charities).
- 80% mandatory relief on Non-Domestic Rate on property occupied for charitable purposes. At its discretion the Rating Authority may give further relief up to 100%. Charities, whether registered or not, have the right to mandatory rate relief. Note however that these concessions do not extend to the Water Rate, (where it has not already been replaced by metering).
- There are Gift Aid benefits on donations and subscriptions of various types.



- VAT concessions: the provision of certain goods and services supplied to further the objects of the charity or particular classes of charity (e.g. new community buildings and certain equipment for use by disabled people) are zero-rated for VAT. VAT leaflet 701/l/95 gives further details.
- Relief from Climate Change Levy

There are also fundraising benefits. Many major trusts and statutory bodies will only make grants to registered charities, and other potential donors - e.g. local firms or people asked to give to a collection - may only give to a registered charity. A registered charity has more chance of gaining access to and securing funds from central and local government and the EU.

There are also public relations benefits. Charitable status is seen by supporters and donors alike as a symbol of probity.

Potential Issues

There are a number of real and perceived issues and benefits that a charity should bear in mind in relation to charitable status including:

- The property and income of the charity can only be applied for recognised and defined charitable purposes, the objects of the charity.
- Charities can only act within their legal powers as laid out in the 1993 and 2006 Charities Acts and their own specific charitable objectives.
- Charities cannot raise equity finance.
- Charities need to take particular care in organising the trading activities of the charity, as these may not be regarded as charitable.
- The property of the charity must be managed appropriately and protected.
- The sale of alcohol is a non-charitable activity, so bars can only be run during activities such as football matches or occasional fundraising.
- Sports clubs that have to charge entry fees for spectators cannot be based on charitable fields
- Charities cannot have political objectives, although they can properly seek to influence opinion on particular issues which are directly relevant to their objectives and experience. Charities must follow Charity Commission guidance on political campaigning.
- Trustees cannot usually be paid or benefit personally for their services, other than reasonable expenses. Ordinarily employees of a charity do not serve on its governing body, although in some circumstances the Charity Commission will allow this.
- In England and Wales charities with income of over £5000 a year are required to register with the Charity Commission. All registered charities must prepare a Trustees' Annual Report (TAR) and accounts. However the amount of information that has to be provided varies according to the size of the charity. The larger the income of the charity the more information needs to be made available. Different rules apply in Scotland and in Northern Ireland.



- Charity trustees are required to avoid conflicts between charitable and personal interests.
- Perceived increased administration, regulation and bureaucracy – there is a legal requirement to comply with charity legislation and all charities are subject to the jurisdiction of the Charity Commission as the regulatory body

Requirements under charity law which relate to disposal and land exchanges can be more onerous than under statutory law – that is disposal must, for example, be in the best interests of the charity, subject to independent valuation by a suitably qualified professional whose advice must be followed, be at open market value and in some circumstances require the permission of the Charity Commission

Financial Benefits

Direct Taxes

- 80% mandatory and 20% discretionary relief from uniform business rates
- Primary purpose trading income exempt from tax.
- Exemption from capital gains tax and from income tax and corporation tax on income other than from trading arising outside the primary purpose of the institution.
- The ability to recover income tax deducted from deeds of covenant and receipts under gift aid.
- Exemption from inheritance tax for donors.
- All rental income exempt from tax.
- Exemption from stamp duty

Incentives to give

- Gift Aid on individual and company donations.
- Gift Aid on subscriptions
- Payroll giving
- Income tax relief on gifts of shares
- Inheritance tax relief on gifts
- Gifts of assets on no-gain no-loss basis for capital gains

Fundraising

- Business: relief on gifts or trading stock.
- Grants available from other charities, e.g. community foundations, and other bodies supporting charities.
- Charity Commission regulation and audit.
- Public recognition of and trust in charity and Gift Aid concepts.

