

Charities and Trading

¹ Charities can trade under certain conditions. Some activities Sheds might engage in are not considered trading e.g. selling donated goods, for example as in a charity shop, is not considered trading so any profits would not be subject to tax.

There are two main types of trading for charities: 'primary purpose' and 'non-primary purpose' trading. These different types of trading have different tax implications.

Primary purpose trading is selling goods or services that directly further your charity's aims as they are stated in your governing document. Examples of primary purpose trading include:

- a care home charging to provide housing and care services for elderly people
- a charity for the disabled selling products made by its beneficiaries
- a charitable theatre selling tickets for its production

You might also sell goods or services that support your primary purpose trading – for example, selling food and drink to audience members in the café of a theatre. This is known as 'ancillary trading'.

Profits from primary purpose and ancillary trading may be exempt from tax, but only if the profits are entirely used to support your charity's aims.

Non-primary purpose trading: You can also sell goods or services purely to raise funds: this is non-primary purpose trading. This kind of trading has no direct link to your charity's aims. Non-primary purpose trading could include:

- selling greetings cards or similar items
- a charitable theatre running a café that sells food and drink to members of the public, as opposed to audience members

Charities can carry out non-primary purpose trading if there is no significant risk that the charity could lose money from this venture. Profits from non-primary purpose trading are usually taxable, even if they will be used to support the charity's aims. However there is a small-scale exemption, a threshold of turnover of £5000 below which profits are not taxable.

Some trading activities may mix both primary and non-primary purpose trading. For example, a museum shop may sell books relating to an exhibition (connected to their aims), and some promotional pens (not connected to aims at all). By law, you must record these sales separately in your accounts if you mix trading types in this way.

For the Charity Commission's booklet on the subject go to <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>
You can also find out more about charity trading and tax from HM Revenue and Customs

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