Charities and Trading

As a charity, your ability to trade is limited, because making money is not in itself a charitable purpose, even if you are doing it to support your charitable activities.

If you want to make money for your charity through trading that isn't allowable, then you need to look into setting up a trading subsidiary. This is a separate company that is usually owned by the charity, and donates the bulk of its profits to the charity via gift aid.

What trading can charities do?

Charities may carry on trading activities which contribute directly to supporting their charitable objects, or which do not involve significant risk and the purpose is to raise funds for the charity.

Charity law permits charities to trade if it falls into one of the following trading categories:

- Primary purpose trading
- Ancillary trading
- Non-primary purpose trading which doesn't risk the resources of the charity

Primary purpose trading

Trading which contributes directly to one or more of the objects of a charity as set out in its governing document.

For example:

- Training delivered by an educational charity in return for fees
- Café staffed by people with a learning disability run by adult social care charity
- Sales of tickets for theatrical production staged by a theatre charity

Ancillary trading

Trading which contributes indirectly to the successful furtherance of the purposes of the charity.

For example:

- Sale of food and drink in a theatre café – the public would expect that to be part of the overall experience, so the food and drink encourages them to participate in the charitable activity, not just to raise funds for it

Non-primary purpose trading

Trading to raise funds which does not support the objectives of the charity.

Charities can only carry out non-primary purpose trading if it doesn't involve 'significant risk' to the assets of the charity.

The assessment of 'significant risk' will involve some judgement however examples of trading which are considered not to have 'significant risk' are:

- Lotteries
    - conducted in line with section 3 and 5 of the Lotteries and Amusements Act 1976
    - profits are applied only for the purposes of the charity
- Small-scale trading
  If non-primary purpose trading falls below the 'relevant threshold' then it is permissible as it is considered not to carry 'significant risk' to the charity.

The following table shows the 'relevant thresholds':

Charity's gross annual income	Maximum permitted small trading turnover
Under £32,000	£8,000
£32,001 to £320,000	25% of charity's total annual turnover
Over £320,000	£80,000

When must a charity set up a trading subsidiary?

A trading subsidiary must be used where there would be a significant risk to the assets of the charity if it were to carry on non-primary purpose trading itself.

As there are strict limitations on what trading a charity can do, you might want to set up a trading subsidiary to raise funds.

For example:

- Running charity shops
- Running a café
- Selling consultancy and services to people other than your beneficiaries.

How can a trading subsidiary pay funds to its parent charity?

Gift Aid is the most common means for a trading subsidiary to pay funds to its parent charity. This is because:

- Gift Aid payments reduce the trading subsidiary's taxable income by the amount of the payment
- Gift Aid payments to the parent charity from a trading subsidiary are exempt from corporation tax if they are applied for charitable purposes only