



Community First  
Yorkshire

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## Charity trading – an overview

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## Limits on charity trading

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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.

If a charity is considering any kind of trading, it should always seek professional advice on when and how to set up a trading subsidiary.

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# What is trading?

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Whether the sale of goods or services by a charity is trading depends on a number of factors.

Indicators of trading include:

- the number and frequency of transactions
- the nature of the goods or services being sold
- the intention of the charity in acquiring the goods which are to be sold
- whether the goods are capable of being used and enjoyed by the charity selling them
- the nature and mechanics of the sales
- the presence or absence of a profit motive

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# Non-trading income

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- Grants, donations and gifts
- Sale of donated goods
- Letting out property
- Investment income

All can be received by a charity without incurring a tax liability as long as the income is applied for the charitable purposes of the charity as defined by the governing document.

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# When can a charity trade?

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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.

Including:

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

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## Primary purpose trading

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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
- Sales of tickets for theatrical production staged by a theatre charity
- Care home services
- Beneficiary trading – work mainly carried out by the charity’s beneficiaries  
For example:  
Café staffed by people with a learning disability run by an adult social care charity

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# Ancillary trading

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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
- Crèche for children of students at a college

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# Non-primary purpose trading

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Non-primary purpose trading is trading to raise funds which does not support the objectives of the charity.

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

For example:

- Lotteries

conducted in line with sections 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.



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# Non-primary purpose trading – Small-scale trading

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Small-scale trading ‘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

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## When must a charity set up a trading subsidiary?

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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.

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## When must a charity set up a trading subsidiary?

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Check your governing documents – there may be a clause preventing trading

If the charity carries out non-exempt trading above the small trades limit then the charity will be liable to pay tax on any profits.

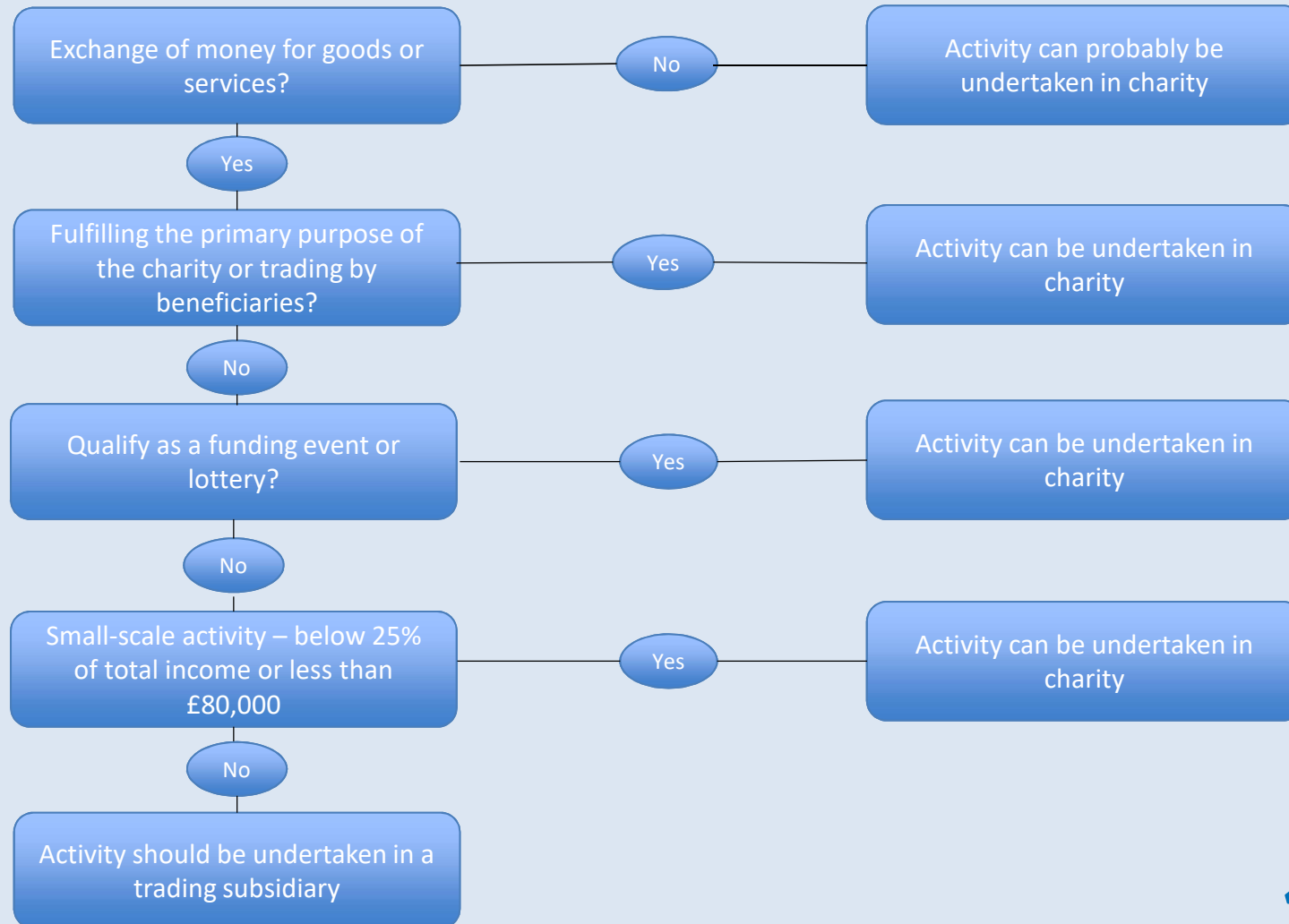
Can avoid paying tax by transferring the non-exempt trade to a subsidiary company.

The subsidiary company then gift aids any profit to the charity.

This is accepted and approved by both HMRC and the Charity commission.

# When is a trading subsidiary needed?

Extract from: Sayer Vincent, Trading issues made simple



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## Useful links

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**Charity Commission:** CC35 Charity reserves: building resilience

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/869136/CC35\\_PDF\\_v2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/869136/CC35_PDF_v2.pdf)

**NCVO:** Trading and charities

<https://knowhow.ncvo.org.uk/organisation/financial-management/tax-and-trading/trading-and-charities>

**Sayer Vincent:** Trading issues made simple

<https://www.sayervincent.co.uk/wp-content/uploads/2021/08/SV-MS-TradingIssues-Jan2021.pdf>



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