A Guide to Corporation Tax for Unincorporated Associations

June 2016

This document was created by D&A Sports Development.

Please note that this document is for guidance only and independent advice must be sought before making any decisions based on the information herein.

*For further information, please contact your **scottish**athletics National Club Manager who can direct you to the appropriate expert support should you wish to gain further advice and support for your club.*

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Unincorporated Association

An ‘Unincorporated Association’ is an organisation set up through an agreement (usually in the form of a constitution) between a group of people who come together for a reason other than to make a profit, e.g. a voluntary group or a **sports club**.

You don’t need to register an unincorporated association in the same way you would register a company or charity, and it doesn’t cost anything to set one up.

Your main accountabilities as an Unincorporated Association are to your membership and any funders/sponsors you may have, **but and this is a very important but**, this guide spells out your legal responsibilities in relation to Corporation Tax.

Individual members are personally responsible for any debts and contractual obligations.

If the association does start trading (see Trading Activity on page two) and makes a profit, you’ll need to pay Corporation Tax and file a Company Tax Return in the same way as a Limited Company.

It is a common misconception that Corporation Tax does not apply to Unincorporated Associations including sport’s clubs but the guidance from HMRC on this issue is clear;

You **must** pay Corporation Tax on profits from doing business as:

- a limited company;
- any foreign company with a UK branch or office;
- a club, co-operative or other unincorporated association, e.g. a community group or sports club.

Corporation Tax is taxed at 20% on trading profits up to £300,000 and since 2006 the £10,000 allowance previously in place has been abolished.
Please Note: Tax thresholds are set by Government and are thus subject to potential future changes.

You don’t get a bill for Corporation Tax. There are specific things you must do to work out, pay and report your tax.

Profits you pay Corporation Tax on

Taxable profits for Corporation Tax include the money your company or association makes from:

- doing business (‘trading profits’)
- investment
- selling assets for more than they cost (‘chargeable gains’)

If your organisation is based in the UK, it pays Corporation Tax on all its profits from the UK and abroad.

Trading Activity

A commonly asked question is 'What constitutes trading?'

Generally, your club is considered to be active for Corporation Tax purposes when it is, for example:

- carrying on a business activity such as a trade or professional activity;
- buying and selling goods with a view to making a profit or surplus;
- providing services;
- earning interest;
- managing investments;
- receiving any other income. E.g. Compensation payment, sale of capital items etc…

There are a variety of different ways in which trade can be defined and the terminology can differ dependent on your legal status.

To work out your potential Corporation Tax liability you can start by distinguishing between member and non-member income. For example, if you organize a road race, you would require to distinguish between Member Participation and Non-Member participation with the latter being the potential focus of taxable profit.

What are clubs liable for?

The activities of many clubs may be exempt from Corporation Tax on the grounds of what is called *mutual trading* which is essentially the re-cycling of members' own money for the purpose of running the recreational, sporting affairs of the club for their benefit. Although income from mutual trading is exempt from Corporation Tax, income from non-members, including income from open races, and investment income, such as bank interest, is taxable. If a club thinks it might have income that is taxable, it should contact their local HMRC office.

Remember that tax evasion is an offence.

Another consideration is the change that took effect from 1st April 2011 in respect of all companies and organisations that have to complete a tax return; they are required to submit it online for any accounting period ending after 31 March 2010. Additionally, if you have to prepare accounts under the Companies Act 2006, you must submit your accounts and computations in a set format.

So, in a nutshell, (save for a concession regarding trading undertaken to raise money for charity (see next section), club incomes other than those protected by the mutual trading provisions are taxable. It must, however, not be forgotten that trading income will be subject to the deduction of related expenses and allowances. Combine this with the online reporting requirements and larger clubs would be well advised to consider taking professional advice.

Legal Structure and Tax Breaks

As mentioned above, dependent on your club's legal structure you may be eligible for certain tax breaks and/or exemptions. For example, a charity/qualifying body can have a certain number of fundraising events for which it may be eligible for exemptions.

As with an Unincorporated Charity, a Scottish Charitable Incorporated Organisation (SCIO), would be expected to invest all generated income back into furthering its purposes. They also receive small scale trading exemptions linked to turnover.

A Community Amateur Sports Club (CASC) gets up to £50,000 tax relief on Trading Income and up to a further £30,000 on property income giving full exemption on qualifying activities up to £80,000.

A Company Limited By Guarantee will often manage and minimize its Corporation Tax liabilities through donating profits to its Charity Account for the purposes of furthering its charitable purposes.

Reserves Policy

A good reserves policy can enable you to ring-fence funds which would not be taxed. It can be acceptable to set aside funds for things like contingency (e.g. financial crises, covering running and potential dissolution costs for up to six months), facilities development, projects and/or club vehicles.

HMRC

To register for Corporation Tax or to discuss Corporation Tax contact HMRC. Full details can be obtained online at www.gov.uk

Case Study 1

Club A has an annual turnover of £36,000 per annum.

The Club has operating costs of £14,000 per annum.

Club A's Income is broken down as follows:

- Membership Fees - £6.5k
- Race Events - £29.5k (Members - £12k, Non Members - £17.5k)

Club A is an unincorporated association and has no reserves policy in place. The Club may pay 20% Corporation Tax on the non-member income so would be looking at a maximum of £3500.00.

Please note:

It is likely that some of the event costs might be possible to offset against costs relating to the set-up of events.

Recommendations

- The Club should seek expert advice from an accountant. At a minimum, ensure that Member and Non Member income is recorded separately.
- Changing legal structure (Charity, CASC, CLG, SCIO) could be a means to protect all income at the referenced levels as well as minimizing the risks to the Club and its members. Seek further information from **scottish**athletics on Legal Structure options and the change process. An overview guide is available here: http://www.saclubs.org.uk/governance-resources/

Consider putting a reserves policy in place to provide the Club with a financial safety net to help manage challenging financial situations.

Case Study 2

Club B has an annual turnover of £111,000 per annum.

The Club has operating costs of £ 74,000 per annum.

Club B's Income is broken down as follows:

- Membership Fees – £12.5k
- Race Events - £43k (Members £17k, Non Members - £26k)
- Facilities Hire - £7.5k
- Sale of Kit & Equipment - £3k
- Sale of Health Food & Supplements - £2.5k
- Café Sales - £42.5k

Club B is a Company Limited by Guarantee and has a reserves policy in place currently protecting £8,000 for contingency planning. The Club will pay 20% Corporation Tax on remaining balance of £29,000 so would be looking at a maximum of £5800.00.

Please note:

Once again it is likely that some of the running costs might be possible to offset through the separation of Non-Member and Member Income.

Recommendations

- The Club should seek expert advice from an accountant (seek an accountant with knowledge of charity accounting *See bullet point 3). At a minimum, ensure that Member and Non Member income is recorded separately.
- Consider how before the end of the Club's financial year profits might be invested in the infrastructure of the Club, e.g. Facilities investment, new equipment, minibus, staff and other resources or services. This will develop the Club and help reduce tax liabilities.
- Applying for Charitable status could be a means to protect all income and divert profits into the furtherance of the Club's charitable objectives. Seek further information from **scottish**athletics on Legal Structure options and the change process. An overview guide is available here: http://www.saclubs.org.uk/governance-resources/