

Changes to small trading exemption for charities comes into force

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The change affects how much trading profit a charity can generate from trading activities before potentially having to pay tax. Trading activities are endeavours which are carried out by the charity but which do not directly further the charitable objects of the charity (known as 'primary purpose trading') nor are so closely aligned to the charitable objects that they are exercised in the course of carrying out primary purpose trade (known as 'ancillary trading').

I.e. a charity which has 'the advancement of education' as its purpose – subscriptions received from adults attending literary classes would be primary purpose trading; payments from the sale of textbooks to those same adults would be ancillary trading. But the profits from the sale of teas and coffees to those adults through an on-site coffee shop would be trading activities and potentially taxable.

Prior to April 2019, charities with an income of over £200,000 received an exemption from tax on the first £50,000 generated from trading activities but from 5th April 2019 that threshold has been raised to £80,000 for charities with an income of over £320,000. Different exemptions apply for charities with smaller incomes.

Charities which are concerned about potential tax liabilities and how the changes may impact them should seek specialist advice.

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