



Charities are not given a blanket exemption from tax based purely on their charitable status. However, charities in the UK benefit from a range of tax reliefs and exemptions to support their charitable activities.

**To qualify for tax reliefs, an organisation must meet the following conditions:**

- + Be based in the UK or a relevant territory;
- + Be established for charitable purposes only;
- + Be registered with the Charity Commission (or corresponding regulator, if required);
- + Be run by 'fit and proper persons'; and
- + Be recognised by HMRC as a charity.

Charities can claim reliefs on several taxes, including Income Tax, Corporation Tax, VAT and Stamp Duty Land Tax (SDLT).

## Income Tax and Corporation Tax

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Charities are exempt from paying tax on most types of income, provided the income is used for charitable purposes. This includes:

- + Donations;
- + Rental income from property; and
- + Profits from trading activities directly related to the charity's primary purpose.

Charities can engage in trading activities, but these are subject to specific rules:

- + **Primary Purpose Trading:** Profits from activities directly related to the charity's objectives (e.g., selling educational materials by a school charity) are exempt from tax.
- + **Non-Primary Purpose Trading:** Profits from unrelated activities (e.g., running a café) may be taxable unless they fall within the small trading exemption limits. The limit is 25% of the charity's turnover, up to a maximum of £80,000.

To manage non-primary purpose trading, it may be advisable to set up trading subsidiaries. These subsidiaries pay Corporation Tax but can donate their profits to the parent charity. As the donation is tax deductible in the subsidiary, the profit liable to Corporation Tax can be reduced to £nil. The payment must be made within 9 months of the end of the accounting period in which the profits were made.



## Value Added Tax (VAT)

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Charities are not automatically exempt from VAT but can benefit from specific VAT reliefs, such as:

- + Zero-rated VAT on certain goods and services (e.g. advertising, medical equipment, and construction of new charitable buildings);
- + Reduced VAT rates for certain utilities like fuel and power; and
- + Exemption from VAT on non-business activities (e.g. free services provided to beneficiaries).

## VAT Registration

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Charities must register for VAT if their taxable turnover exceeds the VAT registration threshold. The current threshold, which is subject to change, is £90,000.

VAT-registered charities can reclaim VAT on purchases related to their business activities but not on non-business activities.

## Business Rates Relief

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Charities are entitled to an 80% mandatory relief on business rates for properties used for charitable purposes. Local authorities may grant an additional 20% discretionary relief – contact your local council to see if this relief is available.

## Stamp Duty Land Tax

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Charities are exempt from SDLT when purchasing property or land for charitable purposes.

## Inheritance Tax (IHT)

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Gifts to charities in wills are exempt from IHT. From the donor's perspective, their estate may qualify to pay Inheritance Tax at a reduced rate of 36% if they leave at least 10% of their net estate to charity.

## Gift Aid

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Charities can reclaim basic rate tax on donations made by UK taxpayers under the Gift Aid scheme. For every £1 donated, the charity can claim an additional 25p from HMRC.

## Donations and Tax Relief for Donors

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**Gift Aid:** Donors who pay higher or additional rate tax can claim tax relief on their donations. They can claim back the difference between the tax paid on the donation and the amount the charity reclaimed when they completed a Self Assessment tax return.

For example, a higher-rate taxpayer donates £100 to charity – the charity claims Gift Aid to make the donation £125. The individual pays 40% tax so can personally claim back £25.00 (£125 x 20%).

**Payroll Giving:** Employees can donate directly from their salary before tax is deducted, providing immediate tax relief.

## Compliance and Reporting

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Charities must maintain proper records and submit returns to HMRC when requested to claim tax reliefs. HMRC normally request returns on a periodic basis, typically once every 3 to 5 years, however some charities may be asked to file returns annually.

Charities must ensure all activities and income align with their charitable purposes to retain tax-exempt status.



# Partners

## How M+A Partners can help

Our team of experts help charities understand how the tax rules apply to them, including how different income streams should be categorised and whether a trading subsidiary would be beneficial. Where charities are required to submit tax returns to HMRC, we assist with the reporting process, ensuring any applicable reliefs are claimed.

If you would like any further information on how we can assist your charity in meeting your tax obligations or are seeking advice on a specific tax-related issue, please contact our experts:



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