

## BULLETIN April 2008

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### Charities: Trading Subsidiaries

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For the purposes of avoiding the need to make public the costs of running a charitable trust or company, a **subsidiary undertaking** (SU) (such as a wholly-owned limited company) can do very nicely up to a point.

The two key questions are:

- a) can an SU make donations to a registered charity as tax-deductible charges or 'Gift-Aid'? The answer to that is broadly yes, courtesy of s339 ICTA1988, so long as it is a wholly-owned/controlled subsidiary. The SU does not incidentally have to be a company
- b) does a registered charity have to consolidate its accounts with any SU's? The answer to that is broadly no, so long as they altogether generate revenues lower than the audit threshold (presently £500k)

So one possible solution might be for a limited company (LC) to be incorporated, and owned entirely by the registered charity. The LC gets on with trading activities such as managing fund-raising events and projects, and of course pays for all costs. It then donates what it can to the registered charity at the end of each financial year.

It submits abbreviated accounts to Companies House so that no cost information is put into the public domain. It should also be left with a nil corporation tax bill.

The registered charity will at the same time receive donations without having to account for all direct costs in its own accounts. When it prepares its annual report and accounts, it shows the donations, and makes a disclosure about them being from a SU but again, no cost information need be given.

The bad news however is:

- c) the effect would be cancelled out when and if the charitable group, as a whole, achieves turnover collectively greater than the audit threshold, and therefore needs to prepare consolidated accounts. The threshold may of course go up going forward, thereby delaying this effect
- d) this structure can be quite costly to set-up and administer (but should not be prohibitively so), and so the registered charity and its Trustees would need to be sure it is worth the while

Incidentally, the Trustees should be aware that they cannot risk any of the assets of the registered charity, and may be personally liable if losses are incurred.

Please contact us if you'd like to discuss this or any other operational issues relating to charitable or not-for-profit organisations.

If we work out that there may be a situation that needs addressing, professional legal advice may be needed.

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