

The advantages and disadvantages of being a charity

Introduction

Consider whether joining an existing charity would be more effective for the following reasons:

- 1 Several charities doing the same work duplicates running costs;
- 2 Larger charities and those with an established reputation may have less difficulty attracting funding;
- 3 It is quite possible that there is an existing charity currently active in the area of work that you are interested in.

Advantages

1 Jurisdiction of Charity Commission

The public and sponsorship bodies can be confident that the charity is administered correctly and the funds will be used for the purpose for which they are intended. Fund raising may therefore be easier than for non-charitable organisations.

2 Advice

The Charity Commission can provide advice and information to assist charity administration.

3 Tax

- a Income earned by charities undertaking primary purpose or ancillary trading will be exempt from Income Tax provided the income is applied for charitable purposes.
- b Exemptions from Corporation Tax are available to charities.

- c Exemptions from Inheritance Tax apply on gifts and undervalue transfers to charities.
- d Stamp Duty Land Tax does not apply on transfers or conveyances to a charity.
- e Gains accrued when charities apply assets for charitable purposes are exempt from Capital Gains Tax.
- f Only 20% of the normal business rate is paid by charities on buildings which are occupied for their charitable purposes. An 100% exemption can be applied at the discretion of the local authority.
- g The Gift Aid scheme allows charities to reclaim the tax on donations from individuals. Businesses receive tax relief when they make donations to charity.

Disadvantages

1 Exclusively charitable

An organisation with a range of activities, including non-charitable activities, could find that charitable status restricts its current activities. The objects of a charity must be exclusively charitable.

2 Limited trading

There are rules limiting the fund raising and the extent of trading that can be carried on by charities. Charities therefore often require a separate charitable company to undertake their trading activities.

3 Limits on trustees

Trustees are not generally allowed to benefit financially from the charity, unless, in limited circumstances specified by the charity's governing document or the Charity

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The advantages and disadvantages of being a charity (continued)

Commission. They can only recover reasonable expenses. Trustees must also avoid personal interest, which would conflict with acting in the best interests of the charity.

4 Administration

There are administration requirements imposed upon charities including Annual Returns and financial reporting.

Compulsory registration

Organisations set up in England & Wales for exclusively charitable purposes and with an annual income of over £5,000 must register as a charity with the Charity Commission, unless they fall into the categories of excepted or exempt charities.

Disclaimer

This information sheet has been prepared to highlight some key issues relating to the advantages and disadvantages of being a charity. It is intended to be for general guidance only and is not a substitute for specific advice. It is based upon our understanding of the legal position as at May 2020 and may be affected by subsequent changes in the law. Should you require any specific legal advice on the issues covered, please contact Nicola Plant or Clare Morison on 01892 510000 or by email at:

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