

The Advantages and Disadvantages of being a Charity

The advantages and disadvantages of becoming a charity are considered below.

Preliminary Considerations

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

- Several charities doing the same work duplicates running costs;
- Larger charities and those with an established reputation may have less difficulty attracting funding;
- Over 118,000 charities are registered with the Charity Commission. It is therefore quite possible that there is an existing charity currently active in the area of work that you are interested in.

The Advantages of being a Charity

- **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.

- **Advice**

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

- **Tax**

Income earned by charities undertaking primary purpose or ancillary trading will be exempt from **Income Tax** provided the income is applied for charitable purposes;

Charities are not liable to pay **Corporation Tax** which is charged on clubs, societies and voluntary organisations;

Exemptions from **Inheritance Tax** apply on gifts and undervalued transfers to charities;

Stamp Duty does not apply on transfers or conveyances to a charity;

Gains accrued when charities apply assets for charitable purposes are exempt from **Capital Gains Tax**;

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;

The **Gift Aid** scheme allows charities to reclaim the tax on donations from individuals. Businesses receive tax relief when they make donations to charity.

The Disadvantages of Being a Charity

- **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.

Political or campaigning organisations are unlikely to be afforded charitable status.

- **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.

- **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 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.

- **Administration**

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

Compulsory Registration as a Charity

Under the Charities Act 1993, organisations with exclusively charitable purposes and an income of over £1,000 must register as a charity.

Further Information

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 October 2002 and may be affected by subsequent changes in the law. Should you require any specific legal advice on the issues covered, please contact Jeremy Passmore by email at: jeremy.passmore@ts-p.co.uk or call on 01892 510000.

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