

Becoming a Charity

A charity is an organisation set up for the benefit of the public.

All types of charitable organisations that have an annual income of £5000 or more must register with the Charity Commission.

To register as a charity the organisation must have exclusively charitable purposes – these are usually the objects or aims that are stated in an organisation’s constitution.

Charitable purposes can be grouped under four broad headings:

- The relief of financial hardship
- The advancement of education
- The advancement of religion
- Certain other purposes beneficial to the community

All purposes must also be for the public benefit (i.e. for the benefit of the community or a significant section of it).

Advantages

Tax relief

The main advantages of charitable status lie in the field of taxation.

Income and Corporation Tax	Capital Gains Tax
Stamp Duty	Inheritance Tax
Value Added Tax (VAT)	Donations and Gift Aid

Rate relief

A charity is entitled to an 80% reduction on the non-domestic rate on any building it uses wholly or mainly for charitable purposes (mandatory relief). The local authority has the discretion to waive the remaining 20% so that the charity pays no rates at all (discretionary relief). There is no statutory requirement to submit applications for mandatory rate relief but it is advisable to inform the rating authority.

Fundraising

Some funders, particularly trusts, have a policy of grant-aiding only registered charities. Having charitable status and, in particular, having a registered charity number (which registered charities are automatically given) also provides credibility when raising money from the public.

Advice

The Charity Commission can offer free advice on all aspects of charity law. Tel: 0870 333 0123 or minicom: 0870 333 0125. It also produces a number of free publications, available via www.charity-commission.gov.uk or from the publications line 01823 345427

Small Charities

The Charity Commission takes a 'light touch' approach to charities whose annual income is under £10,000. There are two Small charities Units which publish a number of information sheets specifically for small charities.

www.charity-commission.gov.uk/supportingcharities

Disadvantages

Liability for breach of trust

A charity's committee members can be personally liable if any losses result where they have acted in breach of trust e.g. stolen money, allowing the charity to carry out an activity not permitted under the terms of the organisation's constitution.

Providing committee members act sensibly and seek advice there should not be a problem.

Publicity and administrative requirements

Becoming a charity means that your organisation becomes much more open to public scrutiny.

Details about your charity are published in The Charity Commission's register which any member of the public can access.

All charities must make their annual accounts available to any member of the public on request.

Charities whose annual income or expenditure exceeds £10,000 must submit an annual return with information specified by the Charity Commission. Charities with income and expenditure below this threshold are advised to submit their annual return to the Charity Commission and must inform the Commission of any changes to the details held on the Charity Register.

Political Activity

Charities must not have directly political aims and are therefore restricted in the nature of their campaigning work. The law does, however, allow some political activity by charities as long as it is directly relevant to their work and does not involve party politics.

Trading

There are some restrictions on trading activities.

Users on the committee

Many voluntary organisations see user participation as a vital way of ensuring services are relevant and accessible. However, a charity that is considering having its service users on the management committee must take care to ensure there is no conflict of interest.

The Charity Commission advises that user committee members should be excluded from taking any part in decisions directly affecting their interests or those of anyone closely connected to them. For example, in a charity helping people in financial need, a user committee member may need to be excluded from decisions where grants are allocated.

There is no legal bar to all committee members being users, but as a guide the Charity Commission suggests that users make up no more than a third of the committee.

Payments to committee members

A charity can only make payments to its committee members for their services if the constitution allows this.

Expenses can be paid.

