



Guidelines

For Club & Hut Managers

No. 17.1 March 2022



Members' Clubs and Corporation Tax

Scope and context

Mountaineering and similar clubs may be constituted as unincorporated member groups, incorporated companies limited by shares or guarantees or cooperative and community benefit societies. All these organisations are subject to corporation tax (CT). Therefore they are required to register with HMRC and submit a CT return annually if HMRC requests them to do so or if they determine that they have taxable profits.

CT returns are due within 12 months of a club's year end and CT payments are due within 9 months and 1 day of a club's year end. Penalties are levied for late returns and interest is payable on late payments of tax.

An incorporated company filing accounts at Companies House is currently prompted to use a link and file a CT return at the same time.

HMRC is aware that many clubs are not meeting their CT compliance obligation and as a result it provides a concessionary treatment for "small clubs". HMRC may treat such clubs with small liabilities as dormant for CT purposes and thus exempt from the requirement to file CT returns and to pay CT where:

1. the club's annual CT liability is not expected to exceed £100, and
2. the club is run exclusively for the benefit of its members.

Where a club contacts HMRC and shows that these conditions are met HMRC will not send a notice to deliver a tax return and will treat the club as dormant.

HMRC will carry out a review every five years at least. Small clubs that have never filed a CT return should consider contacting HMRC to confirm this status.

Clubs may well be unaware of their tax obligations. These are usually the responsibility of the club's treasurer who may be a volunteer with little knowledge of taxation. The treasurer may become liable for the club's tax debts.

- Taxable income
- investment income such as bank interest
- rental income from property
- trading income, e.g. hut fees from non-members
- capital gains from the sale of land and/or property
- sponsorship funding
- regular fund raising events – but these may not be relevant to many clubs.

Mutuality

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Clubs run by volunteers enjoy no special tax treatment. Provided members' clubs satisfy the mutuality rules they are treated favourably for CT purposes.

Basically you cannot make a taxable profit by trading with yourself. Therefore a club which is owned by its members and exists to provide them with facilities, any profit made from the income derived from members is not liable to CT, for example, from the payment of subscriptions and other fees payable for the use of club facilities such as hut fees in the case of mountaineering clubs. This applies to clubs whether they are unincorporated or limited by guarantee or a registered society. There must be no distribution of profits. The club's constitution should forbid the distribution of profits.

Guests treated as temporary members are not accepted as members by HMRC for the purpose of mutuality. Non-voting members of a club are excluded from the mutuality principles.

Mountaineering clubs may allow other clubs and outside groups to use their huts. Any profits made from fees paid by them for their accommodation will be liable to corporation tax.

Hut fees paid by members and their guests will be covered by the mutuality rules but members must pay the fees due from their guests.

Hut fees paid by members of other clubs and groups are outside the scope of the mutuality rules and therefore any profit resulting from this income will be subject to corporation tax.

Club hut expenses may include rent, rates, energy, water, insurance, repairs and maintenance of property and equipment, office costs – phone, postages etc., debts written off and professional fees.

HMRC

No corporation tax will be payable where the CT liability does not exceed £100.

Covid grants

Clubs operating huts and liable for business rates which were forced to close during the regional Covid lockdowns could claim Covid grants to compensate for the losses sustained due to the lockdown restrictions. The initial lockdown grants were £10,000 in England and Wales. All Covid support provided by the government, including these grants is taxable which means that many clubs may now have substantial tax liabilities.

Calculating Corporation Tax Liability

To calculate the CT liability incurred in running a hut(s) where a club allows other clubs and groups to use its hut the expenses incurred in operating the hut need to be allocated in some ratio between members and non-member guests (other clubs and groups) and then set-off against the fee income derived from members and non-member guests. This may pose problems. Should it be done in proportion to their fee income streams?

For example:

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Total hut fee income £15,000 – members £10,000, guests £5,000.
Expenses £9,000 so allocated in the ratio 2:1 £6,000 members, £3,000 guests.
CT liability £5,000 less £3,000 = £2,000 CT tax at *say 20% = £400. This allocation may not be acceptable for HMRC. In whatever ratio clubs decide to allocate expenses to their income streams they must be prepared to justify their methodology to HMRC. * The current CT rate is 19 %. The rate of 20% is used to simplify the calculation.

Note

CT rules do allow taxable losses from previous years to be offset against profits, but clubs will have to have maintained adequate records to prove them and additional tax returns may be required.

Valuation Tax (VAT)

Very few clubs will need to charge VAT on their hut fees because their turnover will not exceed the Registration Threshold of £85,000.

Reducing Corporation Tax

CASCs

A club however constituted may Register with HMRC as Community Amateur Sports Club (CASC)

Advantages:

Gift aid is available on donations.

Mandatory 80% business rates relief but many clubs will be entitled to small business rate relief currently at 100%. (SBBS rate relief in Scotland).

Exemption from CT on trading profits if turnover is less than £50,000 per year.

Full exemption from CT on interest received and capital gains.

Disadvantages

Club must be open to the whole community and at least half of its members must engage regularly in the sport. Club may have to keep records of the attendance of its members in the club's activities and may find it hard to meet the criteria consistently.

See BMC Huts Guideline G.1.1 Club Organisations & CASCs.

Charitable Status

A club may register as a charity. There are a number of legal structures a charity may take. These include a Charitable Incorporated Organisation (CIO – England and Wales) or a Scottish Charitable Incorporated Organisation (SCIO).

Advantages -Tax benefits:

- Gift Aid may be claimed for donation received.
- Mandatory 80% business rate relief (although many clubs will be entitled to small business rates relief at 100%; (SBBS rate relief in Scotland)
- Exemption from Corporation Tax provided the income is used for charitable purposes.

Disadvantages:

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- The need to demonstrate that the organisation has a charitable purpose, for example by encouraging public participation in sport at the club's recreational facilities. There must be a clear public benefit;
- Administrative and compliance burden associated with running a charitable organisation.

See BMC Huts Guideline G.9.1 Club Trustees & Charitable Incorporated Organisations (CIO – E & W; SCIO – Scot).

Making Tax Digital(MTD)

HMRC is currently undergoing a digital transformation. All tax payers will have to engage with them digitally now or in the future. HMRC is carrying a consultation on the second phase of MTD which will apply to CT from 2023/24. With a view In part to determine whether or not non-profit making organisations such as charities, CASCs and clubs should be within the scope of MTD for CT.

Useful Links

Registration with HMRC

<http://www.gov.uk/government/organisations/hm-revenue-customs/contact/corporation-tax-enquiries>

Unique Tax Reference (UTR) – may be obtained from: your agent, on letters from HMRC and online (sign in using the Government Gateway).

HMRC may be contacted by phone or by post quoting your 10 digit UTR reference if you have one at this address HMRevenue and Customs BX9 1AX. See HMRC Help sheet HS222 – How to calculate your taxable profits. See HMRC website.

Hut Guidelines

These guidelines have been produced by the Huts Group of the British Mountaineering Council and the Huts Advisory Group of Mountaineering Scotland to assist those operating mountain huts in Britain.

Contact the BMC Huts Group by e-mail – huts@thebmc.co.uk or telephone 0161 445 6111.

Contact the M.Scot Huts Advisory Group by e-mail – huts@mountaineering.scot

Websites: www.thebmc.co.uk and www.mountaineering.scot

URLs: If any of the URLs (web addresses) given on the preceding pages are found to be 'dead links' please notify huts@mountaineering.scot

Disclaimer: These guidelines were revised on the date shown below and the information herein is believed to be accurate at the time of writing. No responsibility can be accepted for any loss of benefit or entitlement arising through use of these guidelines – they are not intended to be definitive.

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These guidelines are updated periodically; to check on the currency of this version go to one of the websites above where the latest version will always be displayed.