

Charitable social enterprise

Many social enterprises have charitable status. It is only possible to gain this status if the purposes of your organisation are exclusively charitable and are for the public benefit. Charitable purposes include advancing education or religion, and relieving financial hardship. There are a whole host of other charitable purposes that benefit the community and have been recognised as charitable by the courts or the Charity Commission over many years.

Organisational restrictions

- A charitable social enterprise must have exclusively charitable purposes, and those purposes must be for the public benefit.
- The directors or trustees are responsible for administration and management and generally must not be paid for this work. However, charities can now pay trustees (including the director) for providing goods and non-trustee or employee services to the charity. A range of safeguards accompany the new power, to prevent conflicts of interest or abuse.
- Any profits or surpluses made by the charity must be invested back into the charity and used to support its charitable purposes. They must not be paid out to members of the charity.
- Assets must always be used for the purposes of the charity.

Tax and rate relief benefits

- Profits of trade carried out by the charity are not subject to tax as long as the profits are used for the purposes of the charity and the trade is carried out for the main aim of the charity.
- Chargeable gains are tax-free, eg disposal of a property.
- Tax does not apply on bank interest.
- Stamp duty land tax does not apply to charities.
- Donations to the charity are subject to tax relief, eg donations made by UK taxpayers are subject to Gift Aid. This means you can reclaim the equivalent of the basic rate of tax on the total amount of the gift.
- Charities benefit from an 80 per cent discount on business rates. Local authorities have the power to offer a further 20 per cent relief.

Regulation and registration

Most charities in England and Wales are regulated by the Charity Commission. HM Revenue & Customs is the regulator in Northern Ireland and the Office of the Scottish Charities Regulator regulates charities in Scotland.

In addition to registering with Companies House or the Financial Services Authority, you must register with the Charity Commission if your organisation is set up under English and Welsh law and is established for exclusively charitable purposes. It must also have an annual income of more than £5,000 a year.