Charity Tax Group and RSM

Key questions from Expert Insight Training session

Charity Tax Group (CTG) runs a programme of monthly webinars, open to all members, on topical tax issues for charities. Launched in 2021, the meetings take place in a virtual format and take place for an hour at the end of the day.

RSM's Tax Director, Andrie Kazamias, was delighted to join November's Expert Insight Training Session to discuss corporation tax returns and the challenges some charities are facing.

During the session there was several questions asked which have been detailed below for reference along with RSM's response.

Q1

For those charities that don't always outsource their corporation tax returns, or where you carry out a review function, do you see certain corporation tax software's being most popular for both or either of the tax comp and tagging?

I'm afraid we have no visibility over corporation tax return / tagging software used by charities themselves. However, charities with an annual turnover of less than £6.5m can use HMRC's free online service for this purpose.

Q2

How would you recommend dealing with a company which has received charitable registration during the year? Would you apportion the results between the CT600 and CT600E, based on registration date?

The charity wouldn't be eligible to claim the available charity tax exemptions prior to receiving charity registration, therefore in our view, the income and expenditure for the pre-registration period should be included in the CT600 and the income and expenditure for the post-registration period should be included in the CT600E supplementary pages section to claim the available tax exemptions.

Q3

Do you see situations in which charities complete the transfer pricing section of the CT600?

Where applicable charities should put a 'X' in Box 75 of the CT600 (company qualifies for SME exemption). There is no general transfer pricing exemption for charities, so charities may find themselves within the transfer pricing regulations if they are considered to be large (limits below).

Q3 Cont.

This is only likely to be a risk area where UK charities are transacting with connected parties which are "for profit entities". In particular, recharges between a charity and a subsidiary company can be a sensitive area from a transfer pricing perspective. If the related entities are also charitable entities, transfer pricing shouldn't be an issue from a UK perspective as there is unlikely to be a risk of loss of tax.

	Headcount		Annual turnover	Gross assets
Small	<50	And at least one of:	At least €10m	At least €10m
Medium	<250	And at least one of:	Up to €50m	Up to €43m
Large	At least 250	Or both of:	Over €50m	Over €43m

I **Do you consider that charities without any trading activities but with an overseas branch would fall within the transfer pricing reporting obligations on the CT600 if their grant income was over the current £750m revenue?**

No, we wouldn't consider the overseas branch would fall within the transfer pricing reporting obligations for UK tax purposes, as the branch effectively falls within the UK charitable exemptions. That said, if the branch is subject to tax in the overseas jurisdiction in which it is located, it might be necessary to apply transfer pricing principles to the calculation of the branch profits or losses, for the purpose of establishing any liability to overseas tax.

II **Alternatively, if those same charities did have a small amount of trading income below the current £750m revenue transfer pricing requirement, but if along with grant income, their total income was above the limit, would they then fall withing the transfer pricing reporting obligations on the CT600 on all their income or their trading income?**

If a charity is within the transfer pricing rules, then transfer pricing must be considered in relation to all transactions with related parties, whether trading or not (but see response to question 3 re: transactions with related charities).

III **And is it expected that more smaller charities will be expected to report on transfer pricing going forward as thresholds are reduced?.**

We are not aware of any proposals to reduce the thresholds but yes, if they are reduced then smaller charities would inevitably be subject to the transfer pricing requirements.

Q4

E70: would this include overseas charities?

RSM response: In our view, Box E70 is referring to charities that are recognised as charities for UK tax purposes, only.

Q5 **Box 65 Gift Aid - the HMRC guidance for this section says, 'details of any income received from the sources shown'. This implies the Gift Aid received to me. If we continue to show just Gift Aid received here, should we mention our interpretation in the notes?**

If only the Gift Aid amount is disclosed (and not the gross amount of the donation), we would recommend that a note is included so it is clear to HMRC what the figure in box 65 represents.

Q6 **Box E65: Do you include the gross donation or the tax amount?**

We would include the gross income included in the financial statements.

Q7 **Would governance include audit fees?**

We would include governance costs as disclosed in the financial statements and include a note to refer back to the financial statements.

Q8 **What could constitute non-exempt gift aid?**

This would include donations from individuals that are not eligible for gift aid. As this income is not subject to tax, there is no requirement to claim exemption from tax.

Q9 **Could you confirm where gift aid from the trading sub would be included?**

We include this is box 85 Other sources. The reason being that donations made by companies are not, strictly, Gift Aid.

Q 10 **Do you have any views on the Government's direction of travel regarding qualifying loans and investments since the mention in the budget?**

Legislation will be introduced with effect from April 2026 that will require all charitable investments (not just certain financial investments) to be made for the benefit of the charity and not for the avoidance of tax. There will be no clearance service, but HMRC will instead work with the charity sector to ensure that guidance clearly defines the terms used and sets out the records and documents required.

The purpose of these changes is to prevent abuse of the charity system (eg where land and buildings are purchased abroad - which would under the current legislation be considered to be a type 5 approved qualifying investment under s511 CTA 2010 - for the use of Trustees as a holiday home).

In our view these changes are unlikely to have a significant practical impact on charities that steer clear of abusive behaviour.

Q 11 **If you explain the very basics of how to register for corporation tax and make your first return. Thousands of newly formed CIOs and SCIOs are being sent notices to complete a corporation tax return even though in many cases there is no trading income at all, is this normal?**

It is not unusual for a request to be made from HMRC in a charity's first year - it is likely to be automatically generated. A request can be made to HMRC to see if they will accept ad-hoc filing post filing of the first return.

Q 11 Cont.

Charities with turnover of less than £6.5m can file their returns using HMRC's free online service. They will firstly need to register for corporation tax by adding corporation tax to their suite of services on their business tax account. To do this, simply go to the home page of your business tax account, click on 'add a tax to your account to get online access to a tax, duty or scheme', then click on 'corporation tax' and provide the information requested.

Charities that do not have a business tax account will need to create one (go to https://www.access.service.gov.uk/login/signin/creds, click on 'create sign-in details' and follow the instructions).

Q 12

We have a small trust about to convert to a Scottish SCIO i.e.. a company. Does a transfer of a building and assets to the SCIO constitute a sale and purchase? Potential issues also, as we are about to receive a legacy of quoted shares? We have not received an HMRC tax return request for four years for the Existing Trust. Is timing important here?

This should not be an issue if the existing trust is a charitable trust.

Q 13

What do you recommend for charities that seemly aren't on HMRC's radar i.e. have never been asked to complete a tax return? By that I mean those charities that don't have any non-exempt income and gains. Should they put their hand up to HMRC and tell them?

If the charity has registered as a charity with HMRC (which also constitutes the making of a claim for the exemptions), then if the charity has no taxable income, it is under no obligation to say anything more to HMRC.

If you have any questions regarding corporation tax, please contact:

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If you would like further information on Charity Tax Group, or wish to join please visit their website, click here.