

# **KENT ARCHERY ASSOCIATION**

[www.archerykent.org.uk](http://www.archerykent.org.uk)



## **CLUB GUIDE**

## **NOT FOR PROFIT**

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## INTRODUCTION

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The concept of a “Not for Profit Organisation” (NfPO) is fundamental to the way that amateur sports clubs are run, but unfortunately it is widely misunderstood. There is actually no universal definition in English law of an NfPO, so for many purposes an NfPO is indistinguishable from a business; however it is recognised and defined by HM Revenue & Customs (HMRC) and this definition appears to be the most useful from the point of view of sports clubs such as most of those involved in archery<sup>1</sup>. It is this definition that we will use in this document.

In this context the definition of an NfPO actually has nothing to do with whether the organisation makes a profit, but rather on what it does with the profits it makes – we will come to this later.

Many NfPOs shy away from referring to “profit”, for fear that this word somehow attracts tax, and instead call it a “surplus”. From the point of view of HMRC it really makes no difference what you call it. They are however interested in where it came from and what was done with it - this makes all the difference to how they will treat the organisation. In the same way, there is no practical difference between the words “loss” and “deficit”. So, for the sake of simplicity and clarity, we will refer to “profit” and “loss” in the remainder of this guide.

Most NfPOs are likely to be simple membership clubs with a constitution, although it is perfectly possible to be constituted as a company, limited by guarantee (as in the case of GNAS) or a wide range of other legally recognised mechanisms. The simple membership club with a constitution is likely to suit smaller archery clubs, but there are limitations to what they can do – for example, if you want to own your own ground, you would have to set up a trust or a limited company to do so, because a simple club in England and Wales cannot own land.

Although tax and NfPO status are closely related, they have been dealt with in separate guides to make each a bit easier to read and understand.

## IMPLICATIONS

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### What Is It?

The simple definition is that for an organisation to be recognised as an NfPO, it must *retain* any profits it makes and that those profits may only be used to *further the aims and objectives* set out in the organisation’s constitution. Obviously those aims and objectives must relate to the promotion and pursuit of archery in our case, but there is no reason why archery could not be one of several activities for which the club exists (e.g. a multi-purpose club covering archery, rugby, ballet and stamp collecting).

### What You Must Do

Although you should state in your constitution that you are an NfPO, the final judgement will be based on your actual activity – from HMRC’s view-point, if you act consistently as an NfPO, then you are, but if you do things that are not permitted, then you aren’t, irrespective of what your constitution might say.

It is also *very* important that your constitution includes a statement on what will happen if the club is wound up for any reason – the reasons for this are explained below in What You Can’t Do.

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<sup>1</sup> Other definitions do exist, for example in relation to VAT, so it is important to take into account the context in which the term is used – it would be wrong to take the VAT definition, see that you qualify, then apply the term to a club’s corporation tax affairs.

## What You Can Do

You can receive:

- membership subscriptions<sup>2</sup>;
- income from trading, events, raffles, etc.;
- donations;
- investment income (e.g. bank interest, investment dividends).

You can make payments for:

- normal operational costs;
- reasonable<sup>3</sup> out-of-pocket expenses for members and volunteers in connection with the operation of the club<sup>4</sup>;
- salaries and associated employment costs in connection with the operation of the club<sup>5</sup>;
- pay members expenses for attending "away matches"<sup>6</sup>;
- reasonable hospitality costs of entertaining visiting teams and guests.

## What You Can't Do

You cannot distribute profits in the form of a dividend or any other mechanism, but it is permissible to reduce membership fees in response to previous profits that were larger than needed.

You cannot make persistent losses, particularly if they are funded by drawing on reserves that were accumulated from specific past events, rather than surplus membership income – to do so is likely to be interpreted as distributing the profits from those events.

You cannot distribute assets to your members if the organisation is wound up or ceases to operate – you must donate residual assets to another similar organisation or to charity. Another practical reason for this restriction, is that many organisations that provide development grants (e.g. for equipment, facilities and even running costs) require this as a condition of the grant – it prevents a club from receiving a grant, then winding up and distributing the grant to its members.

There are considerable limitations on paying members to take part in the sport, but covering certain expenses is permitted, as is providing equipment – provided that the equipment remains the property of the club. There are circumstances where a club can pay a salary to members to compete, but advice should be taken from HMRC<sup>7</sup>.

This should not be confused with the situation where a member is receiving support or even a salary from another source to take part – what matters here is not what members receive, but what the club provides.

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<sup>2</sup> Community Amateur Sports Club (CASC) status provides considerable tax advantages for some clubs (see the KAA Club Guide – Tax for Clubs), but also requires that membership fees be set at a level that does not pose a significant obstacle to people participating.

<sup>3</sup> The expenses must be incurred **wholly** and **exclusively** for the club in pursuit of its agreed aims and objectives.

<sup>4</sup> HMRC imposes an upper limit on mileage allowance, above which it will be treated as taxable income for the recipient and not allowable against Corporation Tax by the payer.

<sup>5</sup> Large clubs might need to employ a ground-keeper, pay its members for the administration work they do, but you are not normally permitted to pay members to take part in the sport.

<sup>6</sup> This clearly includes sending a **team** to events like our Mid-Kent League matches, county matches and SCAS Inter-Counties, but it is unclear whether it is allowable to pay expenses for individual members to attend events, where there is no team context.

<sup>7</sup> The provision of frequent valuable prizes is not a workaround and may be interpreted as payment to compete.

## WHERE DO YOU GO FROM HERE?

First check your club constitution to ensure that you qualify as an NfPO at a theoretical level; model clauses for your constitution can be found at [www.cascinfo.co.uk/applyingforcasc/cascdocuments](http://www.cascinfo.co.uk/applyingforcasc/cascdocuments).<sup>8</sup>

Check the way that your club organises its finances to ensure that you qualify as an NfPO at a practical level.

- check your annual accounts to ensure that you do not make persistent losses;
- check that you only pay members out-of-pocket and other allowable expenses;
- check that you don't make payments to members that are not permitted.

## FURTHER INFORMATION

### Printed

Some of the following are available to download from [www.runningsports.org](http://www.runningsports.org) free of charge in PDF format, but registration is normally required – they publish information on a wide range of topics associated with sports club administration

Name	Published by:
Taxation and Sport <sup>9</sup> <a href="http://www.runningsports.org/club_support/all_resources/quick_guides/taxation_sport">www.runningsports.org/club_support/all_resources/quick_guides/taxation_sport</a>	RunningSports
The Role of the Treasurer <sup>10</sup> <a href="http://www.runningsports.org/club_support/all_resources/quick_guides/treasurer_role.htm">www.runningsports.org/club_support/all_resources/quick_guides/treasurer_role.htm</a>	RunningSports

### Workshops & Courses

Name	Published by:
Funding for your Club <a href="http://www.runningsports.org/club_support/all_resources/workshops/funding">www.runningsports.org/club_support/all_resources/workshops/funding</a>	RunningSports

### Internet

Address	Maintained by:
<a href="http://www.hmrc.gov.uk/ct/index.htm">www.hmrc.gov.uk/ct/index.htm</a> <sup>11</sup>	HM Revenue and Customs
<a href="http://www.hmrc.gov.uk/charities/casc/index.htm">www.hmrc.gov.uk/charities/casc/index.htm</a> <sup>12</sup>	HM Revenue and Customs
<a href="http://www.cascinfo.co.uk">www.cascinfo.co.uk</a> <sup>13</sup>	Sport & Recreation Alliance (formerly CCPR)

<sup>8</sup> These are not mandatory, but the sooner they (or something very similar) are included in your club constitution, the more prepared you will be when it comes to dealing with tax or grant applications.

<sup>9</sup> A highly recommended and easily readable introduction to tax, charitable status and the CASC scheme – an ideal starting point.

<sup>10</sup> Quite a basic guide, containing information about planning, end of year accounts and tax.

<sup>11</sup> Detailed information about Corporation Tax; not an easy read, but in plain English.

<sup>12</sup> Detailed information relating specifically to the CASC scheme; almost all is written in plain English.

<sup>13</sup> A very good overview of the CASC scheme – moderate detail and well presented.