

# Getting ready to trade

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Over the last decade an increasing number of voluntary and community organisations have started to trade. In the past, many of us have relied on grants, gifts, and donations as the principal sources of income. However, selling goods and services can be an important part of income generation and help to increase self-sufficiency as an organisation.

## The first steps

Getting ready to trade can be a big step, with many barriers to overcome and risks to manage. This factsheet is a starting point of things to consider, the first step being the potential benefits and likely challenges:

Benefits	Challenges
It can improve your reach and raise awareness of your work	It exposes your organisation to risks and liabilities
It can reduce dependency on grants and loans and improve financial sustainability	It may broaden your core purpose as a charity and require an amendment to your governing document
Any money made is unrestricted – which means you decide how to use any profit/ surplus	It takes time and skill to develop your position in the market

Your trading activities should help you achieve your mission and social purpose and should aim to have the support of your management committee, staff and volunteers. Think about what skills and knowledge you may need, seek advice and learn from others, and think about setting up a sub-group to look at how trading will work within your organisation.

## Generating ideas for trading

- Who is your target audience and what are your existing products and services?
- Can you build relations with new customers or are there new products or services that your existing customers would pay for?
- What are your current skills and assets? Do you have under-used assets, such as meeting rooms, staff expertise, outdoor space, or even intellectual property that could be used in a new way?
- Is there potential to capitalise on new technologies or market trends that meet your mission and purpose?

When you are generating ideas, think about how they fit in with your mission, capacity, and ambition as an organisation. You also need to think about how it

### Voluntary Action Oldham

12 Manchester Chambers  
West street  
Oldham  
OL1 1LF

T: 0161 633 6222  
F: 0161 633 9328  
E: [admin@vaoldham.org.uk](mailto:admin@vaoldham.org.uk)



will fit in with the wider economy. Can you evidence a need for a potential product or service? Who are your competitors? What is your 'unique selling point' or USP (what makes you and your service different) and how much surplus could you realistically make?

Try to focus on one or two ideas when you are starting out. Once you have decided on what these will be, the next stage is to develop a business plan.

## Types of trading

Charities can undertake the following types of trade:

**Primary purpose trading** – trading that contributes **directly** to one or more of the objects of the charity as set out in its governing document. It includes trading activities which are mainly carried out by beneficiaries of the charity such as a café run by the trainees of a charity with educational objects.

**Ancillary trading** – trading that **indirectly** contributes to your charity's primary purpose such as an educational charity selling text books to its students, or a community theatre selling food and drink to its visitors. Ancillary trading is treated in the same way as primary purpose trading by both charity law and tax law.

**Non primary purpose trading** – activities that **intend to raise funds** for the charity, such as fundraising events, and sponsorship deals with commercial organisations. Charities may engage in this type of trading only where there is no significant financial risk and the activity is sure to generate profits.

Any non-primary purpose trading activity that involves significant financial risks should be only undertaken by a trading subsidiary.

**Trading subsidiaries or trading arm(s)** – If your organisation intends to take on financial risks or to trade for purposes beyond your primary purpose, you will need to set up a separate legal entity. Setting up a trading subsidiary manages the risk and profits may be passed to the parent charity in a tax efficient way under the Gift Aid scheme.

It is important to take independent legal advice if you are considering setting up a trading subsidiary. Remember to check the powers outlined in your governing document (or constitution) and whether

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## Key Words

**Ancillary trading** – trading that is not your primary purpose but occurs in the course of primary purpose trading

**Asset** – useful/valuable item e.g. a building

**Business plan** – detailed document describing the past, present and future financial and operational objectives of an organisation

**Constitution** – set of rules

**Feasibility study** – a detailed investigation of a proposed project to find out if it is worth doing

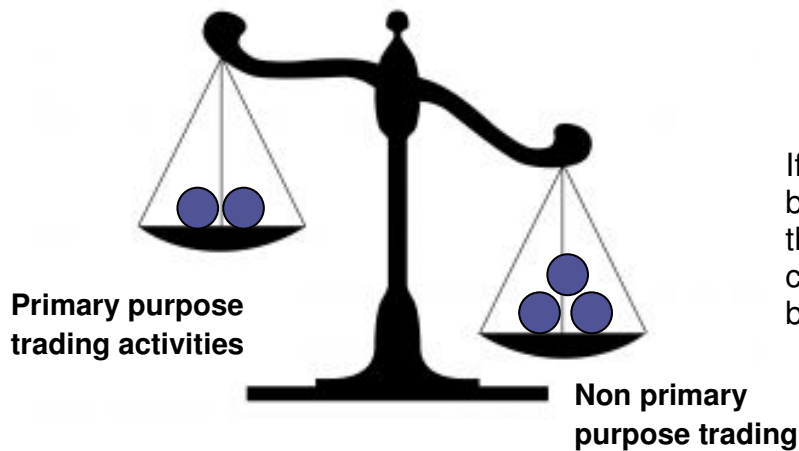
**Intellectual property** – ideas or information that is created by people or a group

**Primary purpose** – the overall aim of your organisation

**Trading** – buying and selling, or the exchange of goods or services

**Trading subsidiary** - a company, owned and controlled by one or more charities, set up in order to trade

any amendments need to be approved by both your board of trustees and the Charity Commission.



If your organisation is weighted by non primary purpose trading then you are becoming less charitable and more like a business.

## Tax and VAT

Charity law allows primary purpose trading and any of its profits to be exempt from tax (but not necessarily VAT). There are special rules around tax exemptions and VAT for Charities, see the '[Charities and VAT](#)' factsheet or the [Charity Commission](#) website for more information.

## Further links and support:

- For more detailed information on trading for voluntary and community organisations, visit Get Legal - [www.getlegal.org.uk/the-legal-journey/before-setting-up-your-organisation/trading.html](http://www.getlegal.org.uk/the-legal-journey/before-setting-up-your-organisation/trading.html)
- More details on the Charity Commission website - [www.charity-commission.gov.uk/publications/cc35.aspx](http://www.charity-commission.gov.uk/publications/cc35.aspx)
- Recommended reading: 'The Good Guide to Trading', published by the National Council for Voluntary Organisations (NCVO) - [www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)
- For a handy step-by-step guide to setting up an enterprising community, 'Cultivating Enterprise', visit the Development Trust Association [www.dta.org.uk/resources/publications/cultivatingenterprise](http://www.dta.org.uk/resources/publications/cultivatingenterprise)
- For more information about Tax and VAT visit the Revenues and Customs website - [www.hmrc.gov.uk/charities-donors/](http://www.hmrc.gov.uk/charities-donors/)
- For any further information, guidance and support, please visit [www.vaoldham.org.uk](http://www.vaoldham.org.uk)

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