

## Charities with a trading subsidiary – donation or dividend?

For many years, it has been commonly accepted that the trading subsidiary of a charity will have no tax bill as they 'gift' all their profits to the parent charity. This 'donation' had to be gifted within 9 months of the end of the accounting period to be eligible for the tax relief.

However, recently guidance has been sought on Company Law which requires the payment to be shown as a dividend and not as a donation.

The implication of this is that the amount cannot be accrued in the accounts, resulting in an accounting profit. For tax, however if the payment is made within 9 months, there is still no tax liability.

This has been a source of confusion, since tax and deferred tax needs to be considered for the accounts. However, a recent update to accounting standards has identified that the tax in the accounts should be consistent with the treatment planned in the tax filings and as such no deferred tax liability need be recorded.

This applies for periods starting from 1 January 2019 and a prior year adjustment will be needed if you have not accounted for the payment correctly previously. There may be changes in the charity accounts also.

If you have any questions, or would like any help with your charity please contact Clair Dart on [cdart@sayersb.co.uk](mailto:cdart@sayersb.co.uk)

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**Sayers Butterworth LLP**  
Chartered Accountants, Tax and Business Advisors