

Charity tax returns factsheet: everything you need to know



If your charity has been asked to file a tax return by HM Revenue and Customs (HMRC), unfortunately this isn't a straightforward matter of submitting a nil return. Here, we distil why you might be asked to file a tax return and breakdown of what it entails.

Charities are only required to file a tax return if they have been given a notice to do so by HMRC, or if they have any taxable income to report for the accounting period.

Returns submitted incorrectly could lead to enquiries and penalties.

Why are charities asked to file tax returns?

Charities are asked to file tax returns so HMRC have an accurate report of the charity's activity and its claim to charitable exemption from tax on those activities. Charities are within the charge to corporation tax (charitable companies) or income tax (charitable trusts), and, while in practice, are often exempt from most (or all) income, due to the range of charitable exemptions available, there are conditions to these exemptions which some charities may fall foul of.

There is no blanket exemption for charities on income. Often activity that seems charitable in nature may not be exempt from tax.

For example, certain types of fundraising events often fall (unknowingly) outside the exemption rules and are incorrectly disclosed.

Common areas for additional HMRC enquiry

The tax return does not just focus on income. HMRC also use this opportunity to ensure your charity's expenditure qualifies as Charitable Expenditure for tax and you are making Approved Charitable Investments and loans.

Having the right level of disclosures within your charity's tax return can avoid detailed HMRC enquiries.

We're hearing of more enquiries into charities following submission of tax returns in areas such as:

- Grants to overseas organisations
- Funding and transactions with trading subsidiaries
- Other non-listed commercial investments and property transactions.

If there are potential taxable sources of income to report with the return, this is also the opportunity to reduce or mitigate any tax charges by applying a reasonable method of allocating overheads. Any disclosures of taxable income sources prior to HMRC enquiry would also reduce the charity's exposure to penalties.

What information is provided in a charity tax return?

The key part of a charity tax return is the supplementary charity pages where the charity's income, expenditure and assets are categorised under the relevant charitable exemptions.

This information is derived from the charity's accounts, and in many cases will need to be broken down into further detail from how it is presented in the accounts.

Get in touch

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Get in touch

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For example, if a charity's accounts report 'miscellaneous income' of £100,000 then HMRC will expect to see further information about this income to be satisfied that it falls within charitable exemptions.

We recommend always producing a tax computation which reconciles the information the accounts with the disclosures in the tax return and can provide further detail where needed.

Charitable companies with accounts prepared under the Companies Act and with a total income of more than £6.5 million are also required to convert their accounts into a machine-readable electronic format (iXBRL) for filing together with the tax return.

How often does a charity have to file a tax return?

HMRC usually request tax returns from charities on a rotational basis, typically about once every 3 to 5 years.

However, some charities may be asked to file tax returns annually – these tend to be larger charities as well as charities that make substantial Gift Aid claims.

HMRC may consider requests from charities to remove regular tax return notices, so it could be worth making such a request if the notice is out of line with HMRC's typical policy. However, it is entirely at HMRC's discretion to determine whether a tax return is required or not.

How can Buzzacott's dedicated Charity Tax team support you?

When submitting the tax return, an official of your charity must personally make a declaration on the tax return that all income and gains are exempt from tax (except where otherwise disclosed). If the disclosure is completed incorrectly, your charity may be exposed to detailed enquiries and potentially significant tax liabilities and penalties.

Our specialist charity tax experts can alleviate the pressure of preparing your charity's tax return, saving you the hassle.

Our tax returns are prepared using professional software and fully reconciled to your charity's accounts with a tax computation, and we can produce iXBRL tagged accounts where these are required. We will also highlight to you any tax risks and opportunities we have identified during our review of your charity's activities.

We have a good reputation with HMRC, and our tax returns have a low overall rate of enquiry, and if needed we can also assist with any cases where enquiries are raised.

We can also arrange a request for Buzzacott to be registered as your charity's authorised tax agent, allowing us to review your charity's online tax account and correspond with HMRC on your behalf.

If you would like support preparing and submitting your charity's tax return or think you may have a taxable source of income to report, then please contact our team today and we'll be happy to assist you in making the process simple and hassle-free.