



FINANCE & TAXATION FOR BOWLS CLUBS – FREQUENTLY ASKED QUESTIONS

Is it necessary for all clubs to prepare and file corporation tax returns?

All entities should complete corporation tax returns irrespective of their status (unincorporated association, limited company, charity, etc) or whether they have any tax liability. In many cases HMRC will send a reminder letter but clubs should file a return even when no reminder is received.

Clubs with a Government Gateway account should be able to file their returns online via this account.

Does my club have any tax liability if all its activity is with members?

Where a club receives all of its income from its members (including members' subs, donations, bar and event income) and then spends all those resources on providing benefits to members it is deemed to be undertaking "mutual trading" and no tax liability arises.

Where a club's income derives both from members and non-members it follows that only the trade with members will be deemed to be mutual trading and the trade with non-members will be subject to tax.

In these circumstances, clubs will need to apportion their annual profit between mutual and non-mutual trading, firstly by allocating the direct costs of trade with members and non-members against the income from those sources and secondly by apportioning general overheads on a "reasonable" basis between mutual and non-mutual trading.

- Direct costs would be likely to include the cost of bar supplies and wages as well as, for bowls clubs, the bulk of maintenance and upkeep costs and utilities.
- General overheads might include insurance, office costs, accounting, bank charges, etc.

A reasonable basis for apportionment of overheads might be simply pro-rata to respective income but clubs should consider alternative bases if they give a more favourable outcome which could be justified if ever challenged.

If a club serves members' guests or visiting club members in its bar can these individuals be treated as members for tax purposes?

Unfortunately HMRC guidance on this matter is quite clear and states the following.

"Receipts from visitors who, in return for payment on a commercial basis, are allowed to use a club's facilities will be receipts from a taxable trade".

If, however, a member directly meets the cost of their guests' attendance at the club (i.e. by paying for all drinks and food) such income is not taxable.

Moreover, treating visitors as "temporary" or "associate" members does not avoid the tax liability, as explained by this further HMRC guidance.

"Receipts from 'associate' members for their use of the club's facilities is also trading income unless it can be shown that their rights (i.e. right to vote at meetings, participate in club activities and generally to exercise control over the running of the club) are equivalent to those of full members."

It seems unlikely that clubs would wish to confer such rights on visitors.

Clubs may however wish to revisit any distinction they presently make between different categories of members in order to avoid the risk of income received from a category of members with limited rights being treated as non-mutual trading for tax purposes.



Where a club undertakes activity with both members and non-members how can it most efficiently account for the different sources of income?

Clubs needing to prepare accounts which differentiate between mutual and non-mutual trading will need to implement effective record keeping to enable them to do so. This is likely to be particularly important for low value/high volume activities such as bars or fundraising events.

An ideal solution would be a computerised till system with a price differential between members' and non-members' purchases (perhaps with the former enjoying a discount). In such circumstances, members might be required to present ID cards.

It is recognised that not all clubs will have access to such technological solutions. Other solutions might include manually recording member and non-member sales periodically or, at a more basic level, recording physical attendance (as opposed to actual spend) in the bar periodically. These records could then be extrapolated across the financial year.

Many clubs will require guests to be signed in and these records may be helpful, although of limited value unless a record is also maintained of members' attendances.

Care would have to be taken to ensure that these manual checks were representative of the year as a whole. For example, the checks should be undertaken both on days with limited non-member presence and those with a higher number of guests or visiting club members, perhaps weekends.

It is recommended that clubs explore a number of options to establish which gives the most satisfactory solution, i.e. minimising the taxable surplus from non-mutual trade while nevertheless relying on a method of apportionment that can be verified and would withstand challenge.

Our club received Covid grants in the last 18 months. Must it pay tax on these?

Since the onset of the Covid pandemic many clubs will have received Government backed grants including under the Small Business Grant Fund, the Retail, Hospitality and Leisure Grant Fund, Restart Grants and Local Authority Discretionary Grants.

HMRC has now issued guidance on the tax treatment of such grants. The general position is that these grants are fully taxable whether or not a club has been liable to corporation tax in the past and filed returns. The only possible exceptions are:

1. If the club is registered as a Community Amateur Sports Club or charity and is within the relevant corporation tax exemptions for property or trading income.
2. If the club is a mutual trader for tax purposes and then only if it has no other business income (i.e. from renting its facilities) in which case only part of the grant will be taxable, in line with the split between mutual and non-mutual trading income.

Where the grant is taxable, deductions will be available for relevant expenditure which may reduce the taxable amount of the grant. For example, the grants may help to offset losses which would otherwise have arisen or clubs may have used the grant income to fund refurbishment of facilities during lockdown.

It is feasible that the grant income may fall across more than one financial year and that relevant expenditure may not necessarily fall in the same financial year. In those circumstances clubs are advised to treat any unspent grant money as "deferred income" at the end of the earlier accounting period and only recognise it as income in the period in which costs can be offset so as to minimise any tax liability.

What are the most tax efficient structures for my club?



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Incorporated under the Co-operative and Community Benefit Societies Act 2014 as a Community Benefit Society (number 7681)

Many clubs will be structured as unincorporated associations and will have to balance the relatively low level of regulatory compliance required of such entities with the potential exposure to corporation tax if the club is undertaking non-mutual trading activity.

In such circumstances there may be merit in exploring conversion to charitable status, specifically a Scottish Charitable Incorporated Organisation (“SCIO”). Most clubs’ normal activities should be compatible with the charitable objectives required by the Office of the Scottish Charity Regulator (“OSCR”), the regulatory body for SCIOs.

As long as the club’s principal activity is consistent with charitable objectives, clubs incorporated as SCIOs are free to generate income from commercial activities (bar, events, fundraising) which can either be routed through the SCIO itself (if below certain financial limits) or through a wholly owned subsidiary company where the subsidiary pays any surplus to the SCIO by way of donation each financial year.

The additional administrative and regulatory burden of such a structure will hopefully be mitigated by the saving in corporation tax.

Club Development Scotland would be happy to support clubs with this process and provide assist with the following:

- A session outlining the implications and compliance involved with becoming a charity
- Drafting of a SCIO suitable constitution
- The application to OSCR for charitable status
- The transfer of assets from the unincorporated association to the newly formed SCIO upon approval
- The application to HMRC for gift aid recognition