



Charity and Not for Profit Trading

Did you know charities and not-for-profit organisations can trade to generate income?

Many people think that charities and not-for-profit organisations can only rely on donations and grants to fund their activities. But did you know that they can also trade to generate unrestricted income? Trading can be a great way for charities to diversify their funding streams and become more sustainable.

Trading can involve selling goods or services to the public or businesses, as long as the profits are reinvested back into the organisation to support its charitable purpose. So, how does it work and what do you need to consider if you're thinking about trading?

What is trading?

In simple terms, trading is the process of selling goods or services for money. For charities, trading activities can fall into two categories:

1. **Primary purpose trading** – This is when a charity sells goods or services that directly support its charitable aims. For example, a charity that provides training for young people might charge for those training sessions. Because the income is directly linked to the charity's purpose, this type of trading is allowed and the profits are usually tax-exempt.
2. **Non-Primary purpose trading** – This is where a charity sells goods or services that aren't directly related to its charitable purpose, such as running a café or selling merchandise. The key here is that profits from these activities must still go towards furthering the charity's mission. However, if non-primary purpose trading grows beyond certain limits, the charity may need to set up a separate trading arm to manage these activities.

How can trading benefit your charity?

Trading offers several benefits for charities and non-profits:

- **Diversified income:** Trading can help your organisation reduce its reliance on donations and grants. This creates a more stable and sustainable and unrestricted income stream, especially in times when traditional funding sources might be unpredictable.
- **Public engagement:** Selling products or services can raise your charity's profile and help you engage with new people who may not have heard about your organisation before.
- **Mission delivery:** If done strategically, trading can also become a way to deliver your charitable objectives more effectively. For example, by offering paid-for services that align with your core purpose, you can extend your reach and impact.

Practical Considerations

If you're thinking about starting to trade, there are a few important things to keep in mind:

- **Stay focused on your mission:** Any trading activity should complement and support your charity's goals. You want to make sure that trading enhances your ability to deliver your mission rather than distracting from it.
- **Understand the legal framework:** The legal rules around trading can be complex, so it's important to understand what is allowed and when you might need to set up a trading subsidiary. Setting up a separate trading arm can help protect your charity's assets and ensure that profits are reinvested properly.
- **Start small and test the waters:** If you're new to trading, consider starting with a small-scale project or a pilot scheme. This will help you gauge interest, test the market and make any necessary adjustments before committing significant resources.

At Durham Community Action, we understand that thinking about trading might feel like a big step, but we're here to help! We offer guidance and resources for charities and not-for-profits who want to explore new income-generating opportunities. Whether it's through training workshops, or simply getting advice on how to get started, we're here to support you.

If you're interested in finding out more, please email info@durhamcommunityaction.org.uk