CO-OPERATIVES UK

The network for the UK's co-operatives

A toolkit for financial advisers and decision-makers operating within, or on behalf of, societies

Finance Toolkit

Co-operatives UK

Contents

This toolkit has been produced in partnership with ***Third Sector Accountancy***.

Co-operatives UK also acknowledges the valuable input of ***Acorn Co-op Support's*** Andy Woodcock.

Produced in partnership with:

Third Sector Accountancy Ltd

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Introduction

Whether we like it or not, the financial rules, regulations and best practice for co-operative and community benefit societies are not exactly the same as those for companies. Financial advice for companies is relatively easy to access. It can be found online, in print, or face-to-face through professional services. For societies, the financial waters are not necessarily as easy to chart. Even financial advisors, accountants and/or auditors may have little to no experience of dealing with societies. And while some rules and regulations are the same or similar for societies and companies, others are very different.

About the financial toolkit

This toolkit is designed to rebalance the lack of financial guidance for societies across a number of key areas. The toolkit examines: **financial reporting**; **corporation tax**; **VAT**; **PAYE**; and **mutual trading**. It also covers the role of a **treasurer** within a society and – because we know there is so much involved in setting up any new business – we have also included a **checklist for new-starts**.

It is important this toolkit is not viewed exclusively as an internal resource for co-ops. The individual elements contained within the toolkit assume a level of business finance understanding and Co-operatives UK actively urges its members to distribute this toolkit to their financial advisers, accountants and auditors. The guidance will make it easier for those who deal with a society's finances to understand why rules and regulations for societies are different – and provide appropriate advice to ensure compliance.

Co-operatives UK's role is to promote, develop and unite the UK's co-operatives. It is viewed as an authoratitive source for advice on co-operatives and this toolkit focuses on the most common finance questions and topics fielded by Co-operatives UK over the past few decades. The toolkit is not all encompassing and co-operatives may have specific issues or questions not covered within this suite of advice materials. Co-operatives UK does offer a bespoke advice service, including our ***contact package*** which gives access to a co-operative finance expert who can help with queries ranging from dividend payments to tax reliefs to audit requirements. For more information email ***advice@uk.coop*** or visit: ***www.uk.coop/advice***.

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Financial reporting for co-ops

The basics

Accounts for businesses of all kinds, including co-operatives, charities and other non-profit organisations (collectively known as reporting entities) need to follow the requirements of the new financial reporting framework for accounting periods beginning 1 January 2015 (1 January 2016 for small entities[1]). For unquoted entities[2] which are not subsidiaries of quoted entities, this means *Financial Reporting Standard 102 (FRS102)*.[3] Small entities may adopt the disclosure exemptions in Section 1A of *FRS102 (FRS102 1A)*.[4] As an alternative to *FRS102*, micro-entities registered at Companies House may adopt *Financial Reporting Standard 105 (FRS105)5*.

There is very little about the presentation of accounts in the Co-operative and Community Benefit Societies Act 2014 (CCBSA2014) so societies only need follow FRS102 or FRS102 1A. Co-operatives which are companies need to comply with the Companies Act 2006 and the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008. All accounts software is set up to comply with these regulations.

This guidance does not examine the above company standards in detail. Instead it focuses on:

- Issues that are different for co-operatives and community benefit societies
- Difficulties commonly encountered by co-operatives of any legal form

The most complicated aspect of FRS102 relates to the treatment of non-basic financial instruments.[6] This guidance does not discuss non-basic financial instruments, but the vast majority of co-operatives will only have basic financial instruments.[7]

Co-operatives with non-basic financial instruments should take advice from a qualified accountant. A co-operative which operates in a specific sector (e.g. charities, social housing, education) or is registered as an LLP should follow the relevant statement of recommended practice (SORP) in order to comply with FRS102.

1 Small entities may adopt the disclosure exemptions in Section 1A of FRS102 (FRS102 1A). An entity is small if at least two of the following conditions are met: turnover is less than £10.2m; net assets are less than £5.1m; employees are less than 50
2 A quoted entity is one that has shares or securities listed on a regulated market such as the stock exchange. An unquoted entity is one that has no publicly listed shares or securities.
3 See: https://frc.org.uk/getattachment/e1d6b167-6cdb-4550-bde3-f94484226fbd/FRS-102-WEB-Ready-2015.pdf
4 See S382-384 Companies Act 2006
5 See: https://www.frc.org.uk/getattachment/fb775a35-08b0-41ad-b164-ff0414a61e33/FRS-105-WEB-READY-2015.pdf
6 Non-basic financial instruments are ones that are tied to an underlying asset that fluctuates in value. An example is a contract to buy Euros at a fixed future date at a fixed rate. The value of this contract fluctuates because the value of the Euro relative to sterling fluctuates.
7 A basic financial instrument is a contract to make or receive a future payment at a fixed rate that is not dependent on the value of any other asset. Examples of basic financial instruments are cash deposits and most loans.

What is different for societies?

Key differences between society accounts and company accounts

Societies need to comply with FRS102 or FRS102 1A, but not with the disclosure requirements of the Companies Act 2006 or the Small Companies and Groups (Accounts and Directors' Report) Regulations 2008. Accounts software will almost certainly produce company style accounts so will refer to the entity being a 'limited company' and will reference relevant sections of the Companies Act 2006 which do not apply to societies. Society accounts using standard company accounts software will need to make the following changes:

- All references to 'company' replaced with 'society'
- References to 'Companies Act 2006' replaced with 'Co-operative and Community Benefit Societies Act 2014'
- The 'profit and loss account' should be called the 'revenue account'[8]
- In the small company directors' report there is a statement: "This report has been prepared in accordance with the special provisions relating to companies subject to the small companies regime within Part 15 of the Companies Act 2006". This statement should be removed from society accounts
- In a small company balance sheet there are a series of statements at the base explaining why the company has not carried out an audit.[9] These statements should be removed
- Only one signature is required on a company balance sheet. On a society balance sheet and/or its revenue account the names and signatures of two directors and the secretary, as well as the date of signing,[10] should be included
- Company accounts usually include reference to share capital 'allotted, called up and fully paid'. These words should be deleted as there is no such concept in CCBSA2014. A society's accounts should just disclose 'share capital'
- Other specific company requirements should not be included in society accounts (e.g. capital redemption reserves and share premium accounts)

A template set of accounts can be found at: *www.uk.coop/resources/template-set-accounts*

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8 See: https://www.legislation.gov.uk/ukpga/2014/14/section/79
9 The statements are as follows: "For the period ending xx/xx/xxxx the company was entitled to exemption from audit under section 477 of the Companies Act 2006... accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime."
10 See: https://www.legislation.gov.uk/ukpga/2014/14/section/82

Groups

Where a society (the parent society) owns a subsidiary company or subsidiary society then the parent society should produce group accounts.[11] When a company (the parent) owns a subsidiary, then it also should produce group accounts if it is not 'small'. However, a parent company is exempt from the requirement to produce its own profit and loss account when preparing group accounts.[12] This is a company exemption and therefore does not apply to societies. Parent societies do need to produce their own profit and loss account when preparing group accounts.

If preparing group accounts, a society can include the figures for the parent society as a separate column. Alternatively, it can prepare a separate set of parent society only accounts. If it prepares two sets of accounts (i.e. group accounts and individual society accounts), both should be submitted to the Financial Conduct Authority (FCA) with the AR30 (Annual Return).

Withdrawable shares

Withdrawable shares are a component of a society's share capital and therefore included within 'equity' on the balance sheet, which is exactly the same as with company shares. Occasionally, societies contract with members to repay shares at a certain date. Where there is a contract to repay shares, or where the society's rules do not allow it to refuse a request for withdrawal, the shares should be treated as a liability on the balance sheet and not equity. This is because the shares now fall within the definition of a financial instrument in Section 11.3 of FRS102.

In company accounts, share transactions can result in a share premium account or a capital redemption reserve in the equity section of the balance sheet. There is no equivalent in society law and societies should not include these in their accounts.

Dividends and interest

Some co-operative societies pay a dividend to members which relates to the amount of trade a member has with the co-op over a particular accounting period (The Co-op Group pays dividends in this way). These dividends are similar to a loyalty card payment and should be recognised in the revenue account before arriving at operating profit. Where the member has earned the right to a dividend that has not yet been paid out, then the value of this should be included in the co-operative's accounts as an accrual.

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11 See: https://www.legislation.gov.uk/ukpga/2014/14/section/98
12 See: https://www.legislation.gov.uk/ukpga/2006/46/section/408

Some co-operatives and community benefit societies pay interest on shares, where the amount of interest paid depends on the interest rate and the number of shares held. This interest is akin to a company dividend. It should not be included in the profit and loss account and should be disclosed as a movement in the section of the accounts called 'Statement of Changes in Equity'.

If a society has adopted FRS102 1A it is not obliged to include a Statement of Changes in Equity in its financial statements. However, inclusion of this statement is encouraged and the distribution of interest on shares as discussed above is a good reason for inclusion.

Share reduction

Some societies are empowered by their rules to reduce their share capital if this is in the interests of the society. This could be the case where a number of members wish to withdraw their share capital but the assets of the society are insufficient to allow this withdrawal. If every share has a nominal value of £1 prior to the reduction this could be changed, for example, to a nominal value of 50p per share after the reduction. In the accounts this would be dealt with in the Statement of Changes in Equity, which is one of the primary statements in FRS102. The reduction of share capital should be shown as a transfer from share capital to the revenue account. If a society has adopted FRS102 1A it is not obliged to include a Statement of Changes in Equity in its financial statements. However, inclusion of a Statement of Changes in Equity is encouraged and the presence of a reduction in capital is a good reason for inclusion.

Accounting reference date flexibility

If a co-operative is a company, then it is allowed to prepare accounts to any date within seven days of its accounting reference date without notifying Companies House to have the date changed.[13] For example, if the normal accounting reference date is 31 December, accounts could be prepared to any date from 24 December to 7 January. For example, a co-operative company may wish the accounting date to coincide with the most convenient date for a year-end stock take for example. Shops often choose to prepare accounts to the last Saturday in the year.

Societies have two options around accounting date changes:

- Societies incorporated on or after 8 January 2012[14] need to complete a change of year-end form[15] if they want to change the accounting reference date even by a few days
- Societies incorporated before 8 January 2012 can prepare their accounts to any date from 31 August to the following 31 January without having to complete a change of year-end form[16]

13 See: https://www.legislation.gov.uk/ukpga/2006/46/section/390 subsection (3)(b)
14 See: https://www.legislation.gov.uk/ukpga/2014/14/section/77
15 See: https://www.fca.org.uk/firms/mutual-societies-forms
16 See: https://www.legislation.gov.uk/ukpga/2014/14/section/78

Accounting principles on a change of legal form or transferring engagements between societies

Companies converting to societies

When a company converts to a society there is no change of legal entity. All trading and employment contracts remain in place; no conveyancing needs to be done and there is no transfer of assets. However, the registration of a society causes a new accounting period to begin.[17] For example, if a company prepares accounts to 31 March 2017, converts to a society on 30 September 2017 and chooses a March year-end there are two options.

Option 1

- Six month period ending 30 September 2017 – company accounts
- Six month period ending 31 March 2018 – society accounts showing figures for the comparative period when it was a company
- 12 month period to 31 March 2019 - society accounts as normal, with comparatives being the six months to 31 March 2018

This option creates a 'gap in reporting' since the accounts for the period to 30 September 2017 cannot be filed either at Companies House (because the company is marked as closed by the time the accounts are prepared) or the FCA (because the accounts are for a company). It is also unnecessarily onerous to prepare an extra set of accounts. The FCA therefore accepts the alternative option below.

Option 2

- Year ending 31 March 2018 – society accounts even though for half the period it was a company; comparatives for the year ended 31 March 2016
- Year ending 31 March 2019 – society accounts as normal, with 12-month comparatives

Because it is less onerous and provides a more continuous record, most companies converting to societies adopt Option 2.

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17 See: https://www.legislation.gov.uk/ukpga/2014/14/section/77

Societies converting to companies

When a society converts to a company, there is no change of legal entity. All trading and employment contracts remain in place, no conveyancing needs to be done and there is no transfer of assets.

What are the filing requirements?

- CCBSA2014 does not require a society to file accounts and an annual return for the period up to conversion, although it may do so if it wishes
- The new company can file accounts starting with the end of the last accounting period when it was still a society, up to the new accounting reference date of the company
- Accounting standards require comparative figures to be shown as normal

Transfer of engagements

Sometimes the business and assets of one society are transferred to another society.[18] In this situation the old society ceases to exist on the date of transfer. Unlike a conversion (where a company turns itself into a society) there is a change of legal entity carrying on the business.

- The old society should prepare accounts from its last accounting reference date until the date of the transfer
- The new society is simply acquiring assets and liabilities. The period for which it prepares accounts are not affected by the transfer
- New society: goodwill on acquisition
- If the net assets acquired exceed the amount paid, then the acquiring society will have negative goodwill which it should recognise in the profit and loss account
- If the net assets acquired are less than the amount paid, then the acquiring society will have goodwill which should be amortised over its useful economic life
- In calculating the net assets for this purpose any share capital transferred should also be deducted

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18 See: https://www.legislation.gov.uk/ukpga/2014/14/section/110

Issues encountered by societies

Loans

Under FRS102 the finance costs associated with a loan should be amortised[19] over the period of the loan.

Example

A co-operative takes out a 10-year loan of £9,000 and pays a £1,000 arrangement fee in 2018. The loan is at 5% per annum so the co-operative will pay £450 per annum interest and repay the loan in full in 2028.

In the accounts this is treated as a loan for £9,000 with the £1,000 arrangement fee spread over the 10 years producing an annual interest charge of £550 (£450 per annum interest plus £100 per annum amortised arrangement fee).

Non-arms length loans

It is common for members or funders to make interest free loans to co-operatives. If the loan is repayable on demand then it must be included in the section of the balance sheet titled 'Creditors: amounts falling due in less than one year'. It cannot be included in long term loans. It is included at transaction price – i.e. the amount of the loan.

If an interest free loan is made for a fixed period, then it should be discounted at a market interest rate. This is illustrated in the example given below.

Example

A member lends £10,000 to a co-operative interest free in 2017, repayable in 2027 (in 10 years). The market rate of interest is 10%.

This is as if the member had loaned £3,855 at 10% compound interest for 10 years. In the accounts in 2017, the receipt of the £10,000 would be recorded as a £3,855 loan, and a £6,145 contribution to capital (equity, and so another line in the equity section of the balance sheet). Every year interest would be added to the loan at 10%. This compounds so that in 2027 the loan stands at £10,000 when repaid.

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19 Gradually and evenly written off

Exemption for directors of small entities

An amendment to FRS102 has allowed small entities not to discount loans from directors.[20]

Fixed assets: what to capitalise?

Entities should capitalise any asset of enduring economic value that brings a future economic benefit to the entity, or reduces future costs. For example, a solar panel should be capitalised because it lasts a long time and produces a revenue stream. A database programme should be capitalised because it lasts a long time and reduces future costs by making office work less time consuming.

The costs to be capitalised include any costs directly related to the creation or installation of the asset, necessary to bring it to its present state and condition.

For example, many co-operatives have installed solar panels or wind turbines. The costs to capitalise typically include planning costs and all consultant fees needed to get planning permission, such as noise surveys, environmental reports, and traffic management reports. They might also include architects, landscapers, engineers, and design consultants. All these costs are directly related to the creation of the asset and so should be capitalised.

Share issue costs

The direct costs of raising finance, such as arrangement fees, should be amortised over the period of the loan. This cannot happen with share issue costs because there is no period of issue for shares – shares may or may not be repaid at a future date. Share issue costs must be written off to the profit and loss account when they are incurred. Other general costs associated with share issues, such as developing a business plan, must also be expensed, and cannot be capitalised as fixed assets because their connection to the asset is not direct enough.

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20 See: http://www.frc.org.uk/news/may-2017/amendment-to-frs-102-(may-2017)-directors%E2%80%99-loans

Grants

Revenue grants

Under FRS102 there is a choice about the treatment of grants; the performance model or the accruals model. Under the performance model the grant income is recognised in the profit and loss account, when any performance-related conditions are met. Under the accruals model the grant is spread over the period in which the related expenditure is incurred. This is illustrated in the example below:

Example

A co-operative with a December year end receives a revenue grant of £20,000 on 1 July 2017 to employ someone for the year ended 30 June 2018.

- *Under the performance model, the grant conditions might be met when the employment contract is signed. The co-operative could include the whole £20,000 in income in its accounts for the year ended 31 December 2017*
- *Under the accruals model the grant should be spread over the period of employment, so the co-operative would include £10,000 in income in the year ended 31 December 2017, and £10,000 in income in the year ended 31 December 2018. As at 31 December 2017, the co-operative would have deferred grant income of £10,000 on its balance sheet*

The co-operative should choose which accounting policy it is going to follow and should disclose this in its accounts. The policy should be applied consistently to all grants.

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Capital grants

As with revenue grants, capital grants must follow either the accruals model or the performance model. This is illustrated in the example below:

Example

A co-operative receives a grant to buy a building for £100,000 in 2017. The useful economic life of the building is 50 years.

- *Under the performance model the grant conditions are satisfied when the co-operative buys the building in 2017. In its 2017 accounts it recognises £100,000 of grant income. The building is depreciated over 50 years at £2,000 per annum*
- *Under the accruals model the grant income is spread over the useful economic life of the building. The grant is kept in deferred income (creditors) and released to income over the 50 year life of the asset. This means that £2,000 is taken to income each year. At the same time the building is depreciated by £2,000 each year*

The co-operative should choose which accounting policy it is going to follow and should disclose this in its accounts. The policy should be applied consistently to all grants.

Restricted funds

Charitable community benefit societies

A society recognised as a charity by HMRC has to comply with the Charities SORP. The Charities SORP only permits the performance model for the recognition of grants. Unspent grants are accounted for as part of restricted funds. Charity accounts are complex and a suitably qualified firm of accountants should be employed to prepare them.

Depreciation

Fixed assets in a business may consist of tangible fixed assets (for example machinery); intangible fixed assets (for example goodwill); investment properties (property not used in the business but held in order to generate a financial return in rent or capital growth); and investments (such as quoted shares).

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In FRS102 tangible fixed assets for use in the business are referred to as Property, Plant and Equipment (PPE).

- All assets held for use in the business – PPE and goodwill – must be depreciated over their useful economic life
- PPE (but not goodwill) can be revalued (unless FRS105 has been adopted[21]) and if it is revalued a fair value reserve should be created (another line in the equity section of the balance sheet). Revalued PPE still needs to be depreciated, so an upward revaluation (for example of a business property) will increase the depreciation charge
- Investment properties and quoted shares[22] held for investment purposes are revalued every year (unless FRS105 has been adopted) and the difference on revaluation is recognised in the profit and loss account. Investment properties are not depreciated

It is often believed that buildings need not be depreciated because their market value is increasing all the time. This is not the case. All PPE must be depreciated. However, the directors may estimate that the appropriate depreciation charge is immaterial[23] and therefore need not be included. This can be because:

- The bulk of the value of the building is actually the value of the land. The value of the building itself is low and depreciation of it is immaterial. Land should not be depreciated
- Depreciation is calculated on the cost of the building minus its residual value, divided by its useful economic life. If the directors believe that the residual value of the building is high, then depreciation may be immaterial

Sweat equity

It is common for founders to work long hours for no pay to set up a co-operative – this is known as 'sweat equity'. If this is never paid, then there is no impact on the accounts. However, the founders may want this sweat equity to be paid. In this section we set out the options for payment and the effect of this on the accounts.

Options for payment are:

- Issue shares to the founders
- Agree now to pay as wages at a future date

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21 See Page 5: The Basics. An entity satisfying the criteria for micro-entities may adopt FRS105, or may stay with FRS102. No revaluations are permitted if using FRS105
22 Shares that are listed on a regulated market such as the stock exchange
23 Immaterial means the amount is so small that it would not affect the view of the accounts in the mind of a reader of the accounts

Issuing shares to recognise founders' contribution

The co-operative (whether it is a private company limited by shares or a society) can issue shares to its founders to recognise their contribution, provided this is permitted in the governing document. However, the issue of such shares would be taxable on the individuals as 'employer related securities'. If such shares are issued they should be recognised in the accounts as fully paid in the balance sheet and as an expense in the profit and loss account. Where these shares have been issued by a society as withdrawable shares, the member can withdraw them and receive their value at a later date.[24]

Agree now to pay as wages at a later date

There are a number of ways to account for this which have different tax consequences:

- The co-operative could accrue for start-up costs in the accounts. This would be to recognise that the co-operative has incurred a cost which it will probably have to pay out in the future. Under FRS102 costs must be accrued if they are measurable, are likely to be paid in the future and are the result of a past event
- If the co-operative, instead of accruing for the costs, credits them to the directors' loan accounts, then for tax purposes Pay As You Earn (PAYE) tax and National Insurance Contributions (NIC) would have to be accounted for. This is because crediting a director's loan account has been deemed by the courts to be the equivalent of making payment to the directors. The money is effectively immediately available to the directors to draw down
- If the amount of the sweat equity cannot be measured, or if it is unlikely to be paid to the founder member, then no accrual should be made in the accounts. In this case the accounts should include a note of this contingent liability

Founders' costs

If the founders incur costs in setting up the co-operative and would like these to be repaid at some point, then the costs should be included in the accounts as an accrual.

Further guidance

Most accounting issues are dealt with by FRS102. Even if a co-operative adopts the disclosure exemptions of FRS102 1A, all the measurement rules of FRS102 still apply. FRS102 is clear and available here: ***www.frc.org.uk/getattachment/e1d6b167-6cdb-4550-bde3-f94484226fbd/FRS-102-WEB-Ready-2015.pdf***.

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24 Company shares can only be repaid subject to restrictions and a formal legal process

Corporation tax for co-ops

The basics

Corporation tax is payable on the profits made by businesses where their legal structure is a company limited by shares or guarantee, a registered society, or an unincorporated association. For every accounting period the entity has to prepare a corporation tax return and computation (calculation of tax) and submit them to HMRC.

Key Points to note:

- Corporation tax returns can only be filed online
- The tax computation and the accounts must be submitted together with the return and must be in iXBRL format. This means software must be used to prepare the return and computation and to convert the accounts into iXBRL format – either by accessing the free HMRC software or proprietary software (societies currently cannot use the HMRC's system to file corporation tax online)[25]
- The deadline for submission of the return is 12 months from the end of the accounting period (i.e. the entity's financial year end)
- If the accounting period is longer than 12 months a return is required for the first 12 months and one for the remainder of the period. The deadline for both returns is 12 months from the end of the 'long period'
- Tax is payable nine months after the end of the accounting period
- There are automatic penalties for late filing and for late payment of tax

Trading losses can be carried forward or back and set off against other income in some circumstances. The rules on loss relief are complex and changing.

25 HMRC filing software: www.gov.uk/guidance/corporation-tax-use-hmrcs-free-filing-software

Computing taxable profits

Assuming an organisation's activity constitutes a trade then, broadly speaking, it is taxable on its trading profit calculated in accordance with normal accounting rules. This means calculation of stock, debtors, creditors, accruals and deferred income and prepayments and accrued income is required in order to calculate taxable profits. In the tax computation, certain adjustments are made because some of the tax rules are different from the accounting rules. The most common adjustments are:

- Depreciation of fixed assets are disallowed, but capital allowances[26] are given instead according to different rules
- Business entertainment[27] is disallowed
- Fines (e.g. traffic fines) are disallowed

Non-trade income, such as income from property, investment income, and capital gains, is taxed according to different rules.

What is different for co-operatives?

Most co-operatives are registered societies, limited companies, or unincorporated associations and therefore will be subject to corporation tax in the normal way. The only exception to this is where a co-operative is constituted as a Limited Liability Partnership (LLP). An LLP is taxed as a partnership (i.e. income tax applies not corporation tax).

Differences arise for co-operatives in the following circumstances:

1. **Co-operatives are often involved in activities which are either:**
    - Mutual and carrying on a mutual trade
    - Not trading at all (non-business income)
2. **The co-operative pays dividends or interest on shares**
3. **Procedural issues**

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26 See: https://www.gov.uk/topic/business-tax/capital-allowances
27 See: https://www.gov.uk/government/publications/vat-notice-70065-business-entertainment/vat-notice-70065-business-entertainment

1 Mutual and non-trading

Mutual trading

The issues around mutual trading are dealt within a separate guidance note: www.thehive.coop/finance

Non-business

Many people involved in co-operatives and community benefit societies, or in community interest companies or companies limited by guarantee, are not primarily motivated by money, but by a social, ethical, environmental or artistic goal. As a result they are often involved in activities which fail the 'badges of trade' test, and so are not trading at all and are not subject to corporation tax. Examples of this are:

- The organisation exists to promote a philanthropic aim and is funded to do this by members or other organisations
- The organisation received a donation – a non-exchange transaction – in return for which no goods or services are supplied
- The organisation received grant funding to carry out a certain social activity
- The organisation is a club which holds a member funded social event

The badges of trade are described in detail here: ***www.gov.uk/hmrc-internal-manuals/business-income-manual/bim20205***

If the activities of the organisation are wholly or mainly non-business, it may only be taxable on tiny amounts of interest received. HMRC may agree to make a tax record dormant so filed tax returns are not required.

Housing co-operatives

Housing co-operatives are not involved in mutual trading for two reasons; renting is not classed as trading and the assets of the co-operative cannot be distributed to members past or present. However, fully mutual housing co-operatives are exempt from tax on their mutual income under S642 Corporation Tax Act 2010, as long as they are 'approved housing associations'[28] and comply with the conditions in S645 Corporation Tax Act 2010. These conditions are mainly that it is a registered society and that it is fully mutual.

28 Since the reorganisation of the Housing Corporation there is currently no mechanism for approving housing associations. However, HMRC seem to accept that the exemption in S642 applies as long as the conditions in S645 are satisfied

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2 Dividends and interest

Companies

If a co-op is a company limited by guarantee then it cannot pay a dividend. If it is limited by shares then it can pay a dividend, which is taxed and accounted for in the same way as a company dividend.

If a co-operative is a company it may have raised funds by issuing loan stock to supporters. These may include members or non-members and are often referred to as loan stock holders. If it pays interest on the loan stock then it is obliged to deduct tax at 20% from the interest payments.[29] The company must account for this tax to HMRC by completing form CT61 on a quarterly basis. The company must also give loan stock holders a certificate of tax deducted and the loan stock holder must declare the interest in the 'interest received net' section of their self-assessment tax return.

Societies

There is no guidance in legislation about what constitutes a dividend and what constitutes interest for societies. Both are payments by the society to holders of society shares, which are widely referred to as its members. In all cases the payments are made gross and are tax-deductible for the society that makes the payment.

Where a dividend paid to a member is based on the amount the member has traded with the co-operative, then the tax treatment for the recipient is the same as the trade on which it is based.

Examples

Groceries purchased in a co-op store are personal and not tax-deductible, so any dividend received is not taxable.

If a business buys telecommunications services from a co-operative then that expense is tax-deductible. If the telecommunications co-operative distributes a dividend based on the business spent with them, then that dividend is taxable on the supplier, as it is a reduction in tax-deductible telecommunications costs.

Interest paid to members is taxable on the recipient. As the interest is paid gross it must be included on the self-assessment tax return in the section 'interest received gross'.

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29 See: https://www.gov.uk/government/publications/corporation-tax-return-of-income-tax-on-company-payments-ct61

3 Duty to report payments to HMRC

When a society makes a gross payment to an individual member of more than £15 of interest, dividend or bonus, then the society must report this to HMRC.[30] A template for submitting payment details is available.[31] The return must be sent to HMRC within three months of the end of the society's accounting period, otherwise HMRC is empowered to deny tax relief to the society for the interest payments.

Registering for corporation tax

- **Co-operatives registered as a company:** A record will automatically be created by HMRC and a CT41G will be sent to the registered address requesting information about the company. This CT41G will contain the company's Unique Tax Reference (UTR). The UTR can be used to set up the company's account with HMRC online services
- **Co-operative socities/community benefit societies:** HMRC should set up a record in the same way as for companies though it often fails to do so. New societies failing to receive any communication from HMRC should log onto the gateway[32] and 'register as an organisation'. The society is obligated to inform HMRC that it is involved in taxable activity and could be subject to significant penalties if it fails to do so
- **Limited Liability Partnerships (LLPs):** Co-operatives operating as LLPs need to register the partnership for self-assessment[33]
- **Unincorporated co-operatives:** HMRC will not have set up corporation tax records for uniciroirated co-operatives. As for societies (see above) the gateway should be accessed and the co-operative registered as an organisation, with HMRC informed that the organisation is active

Filing a corporation tax return

A corporation tax return may be filed using HMRC's online system[34] as long as the organisation does not fall into one of the categories listed (e.g. being part of a group or having income over £632k). However, societies cannot currently use this online system. A society filing a tax return must use commercially available software instead. The software can be purchased or a firm of accountants engaged to file the tax return.

Further guidance

There is plenty of guidance on HMRC's website about corporation tax generally, and most of it is equally applicable to co-operatives. For more information the meaning of trade see: ***www.gov.uk/hmrc-internal-manuals/business-income-manual/bim24000***

See also the separate guidance note for Mutual Trading: ***www.uk.coop/finance***

30 See: https://www.legislation.gov.uk/ukpga/2007/3/section/887
31 See: https://www.gov.uk/government/publications/notes-for-submitting-a-return-under-section-887-of-the-income-tax-act-2007-on-a-spreadsheet-industrial-and-provident-society-ips-5fa
32 See: http://www.gateway.gov.uk/
33 See: https://www.gov.uk/government/publications/self-assessment-register-a-partnership-for-self-assessment-sa400
34 See: https://www.gov.uk/guidance/corporation-tax-use-hmrcs-free-filing-software

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VAT for co-operatives

The basics

Value added tax (VAT) applies to co-operatives as much as it does to any other kind of business. There are no special exemptions for co-operatives. What follows is a guide to the basic principles of VAT, with particular regard for the kinds of activities that co-operatives are often involved with.

VAT is charged by business on goods and services sold to customers – in VAT law sales are referred to as outputs and VAT on sales is output tax. A business that is registered for VAT must charge VAT on all its sales, and can also reclaim VAT on all its purchases – in VAT parlance, it can reclaim input tax on its inputs.

For example, in a VAT quarter a business makes one purchase of £50 plus VAT (£60 in total) and one sale of £100 plus VAT (£120 in total). After the end of that quarter it would pay £10 to HMRC. This is because it would pay £20 in output tax (total VAT on sales) less the £10 VAT reclaimed in input tax (total VAT from purchases).

Example VAT return

The VAT return has nine boxes. Using the purchase and sales information above, a VAT return would look like this:

Box 1 – output tax - £20
Box 2 – VAT due on acquisitions from other EC member states - £0
Box 3 – Total output tax due - £20
Box 4 – VAT reclaimed on purchases (input tax) - £10
Box 5 – net VAT to pay - £10
Box 6 – net value of sales - £100
Box 7 – net value of purchases - £50
Box 8 – net value of goods sold to other EC member states - £0
Box 9 – net value of acquisitions from other EC member states - £0

Boxes 2, 8, and 9 are only used if you have bought or sold goods to or from another EC member state. Most of the time, you will only need to complete boxes 1, 4, 6 and 7.

The figure in Box 5 is calculated automatically.

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VAT compliance

Registering for VAT is done online.[35] As of 1 April 2019, VAT-registered businesses with a taxable turnover above the VAT threshold, currently £85,000, are required to use the Making Tax Digital service to keep records digitally and use software to submit their VAT returns.

Making Tax Digital (MTD) will mean one cannot log on to HMRC's website and file the VAT return. The VAT return has to be filed directly from accounting software. The accounting software must contain all transactions in digital form, or must be digitally linked to other software that contains all transactions. Usually VAT returns are submitted quarterly, but monthly and annual returns can be requested (the latter applies if the co-operative's total annual income is less than £1.35m). Monthly returns must be submitted within a month and a week of the quarter end date; annual returns must be submitted within two months of the year end date. VAT must be paid at the same time.

Registering for VAT

Registration is compulsory when taxable supplies exceed the threshold (currently £85,000). Failure to register can attract serious penalties, so it is important to know when to register.

The £85,000 threshold test is applied retrospectively. At each month end the previous 12 months' sales should be calculated to check if they exceeded £85,000. If the threshold is exceeded you must register a month and a day after that date. For example, if taxable sales reach £85,000 for the first time on 31 March, then the compulsory registration date is 1 May.

The following table summarises which income counts towards the VAT registration threshold:

Type of income	Example	Counts towards threshold?
Standard rates sales	Most sales of goods and services. The default position is that everything is standard rated	Yes
Zero rated or reduced rated sales	Food, childrens clothes, books	Yes
Exempt sales	Land transactions, sale of insurance; in some circumstances: tickets to cultural events, medical care, education, welfare	No

35 See: https://www.gov.uk/vat-registration/how-to-register

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Type of income	Example	Counts towards threshold?
Income outside the scope of VAT	Income that is not a UK supply of goods or services – donations, receipt of share capital money, grants	No
Purchase of services subject to reverse charge	Purchase of advertising from Google, or any service or digital supply (eg software) from a company not based in the UK	Yes
Purchase of goods from the EU, subject to the reverse charge	Buying a computer from a company in Germany, for example	Yes

Voluntary registration

A business that is below the threshold can register for VAT voluntarily, as long as it is making some taxable supplies, or intends to make taxable supplies. Registering may be desirable in the following situations:

- All sales are zero-rated (eg food) so registration enables recovery of input VAT
- All sales are to other businesses registered for VAT, or are able to recover VAT anyway (eg public bodies). The customer businesses (or pubic bodies) can themselves reclaim any VAT charged to them. Registering for VAT therefore does not increase the cost to the customers, but enables input tax recovery
- Businesses with a long period in which they are just incurring costs prior to making any sales – for example developing properties for sale. Registering enables input tax recovery and improves cashflow

First VAT return reclaim

When first registering for VAT an entity can reclaim VAT on some pre-registration purchases, but it does not have to pay VAT on pre-registration sales. Pre-registration VAT can be reclaimed on:

- Any goods purchased within the previous four years that still exist and are still owned by the co-operative on the date it registered for VAT. Usually, this means fixed assets (equipment, computers, machinery) and stock. An inventory should be taken on the registration date
- Any services paid for in the previous six months, such as rent (if VAT is charged), repairs, telecommunications, and accountancy fees

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The six month and four year limits apply even if the co-operative was not yet incorporated at the time the costs were incurred, as long as the costs were incurred for the purpose of making taxable supplies. The first VAT return is often, therefore, a repayment claim. In many cases this gives rise to an enquiry by HMRC in which they request copies of invoices, details of VAT calculations and reason for the reclaim.

VAT exemptions

Some income is exempt from VAT, regardless of who is earning the income. This is true of interest received, some kinds of financial services and insurance, and sales of company shares or land. Land can be 'opted to tax' but the default position is that rental charges and other charges relating to land are exempt. The regulations around VAT and land are complex and one should take professional advice if involved in construction; paying a construction company; or involved in any significant land transaction.

For other significant exemptions see: ***www.gov.uk/guidance/rates-of-vat-on-different-goods-and-services***

VAT exemptions are compulsory. If an organisation satisfies the conditions then the supplies must be exempt from VAT. One cannot decide to charge VAT and being exempt means an organisation may not be able to reclaim input VAT on the relevant supplies.

Zero rating[36]

Some goods are zero rated. This means they are taxable supplies but the VAT rate is 0%. These supplies do count towards the registration threshold. The main categories of zero-rated supplies are:

» Children's clothes
» Food
» Safety equipment
» Books and other printed materials
» Energy saving equipment
» Passenger transport

When selling zero-rated goods the related input tax can still be reclaimed. This means bookshops and food shops usually make repayment claims every VAT quarter.

36 Further information on VAT rates and links to further guidance: https://www.gov.uk/guidance/rates-of-vat-on-different-goods-and-services

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Charities and VAT

There are many further exemptions and zero-rating reliefs that apply only to charities. These are not covered by this guidance. Information can be found at: ***www.gov.uk/vat-charities***

Partial exemption

Many organisations make both taxable supplies and exempt supplies. In this situation VAT can be recovered as follows:

- Input VAT relating to taxable supplies can be recovered in full
- Input VAT relating to exempt supplies cannot be recovered
- Input VAT on overhead costs must be apportioned between taxable supplies and exempt supplies, and only the taxable part can be reclaimed

The standard method for apportioning the overhead VAT is in the same proportion as the proportion of exempt income to taxable income. However, any other reasonable method can be used as long as it is first agreed with HMRC.

Partial exemption: de minimis

Input VAT relating to exempt supplies can be reclaimed if it if it satisfies **both** the following tests:

- It is less than than £625 of exempt input VAT per month on average
- It is less than than half the total input VAT

Non-business

Many co-operatives can be in receipt of non-business income, such as grants and donations. If the main business of the co-operative is taxable and the function of the donations is to enable sales to be made more cheaply, or to advance the development of the co-operative and its business activity, then the receipt of grants and donations does not affect VAT recovery.

Some co-operatives are engaged in activity which is essentially non-business. For example, they may receive grants which enable delivery of free training sessions to the public. In this case the activity is non-business and no input VAT relating to that activity can be recovered.

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Some co-operatives are essentially philanthropic clubs which exist to further a certain ethic or political aim. The members do not receive any goods or services for the subscriptions paid, and the activity is non-business.

Partially non-business

Some co-operatives may engage partly in non-business activities and partly in taxable activities. In this situation, VAT can be recovered as follows:

- Input VAT relating to taxable supplies can be recovered in full
- Input VAT relating to non-business activity cannot be recovered
- Input VAT on overhead costs must be apportioned between taxable supplies and non-business activity, and only the taxable part can be reclaimed

There is no standard method for allocating input VAT between business and non-business activities, and any reasonable method can be used without prior HMRC agreement. There is no *de minimis* for non-business input tax – it can never be reclaimed.

Further guidance

Other areas of VAT law which may be relevant include:

- Transfer of a Business as a Going Concern (TOGC) – allows a business sale to be treated as outside the scope of VAT in certain circumstances
- Group VAT registration – organisations under common control can register to be treated as one organisation for VAT purposes, and so only complete one group VAT return. This has the advantage that inter-group supplies do not attract VAT
- Reverse charge – purchases of services from overseas or of goods from the EC, attract the reverse charge. This counts towards the registration threshold. If the registration threshold is neared and overseas purchases made, then further advice should be sought. Those partially exempt or partially outside the scope are also affected
- Place of supply – the rules about where supplies are made are complex. If exporting goods or services further advice should be sought
- VAT Mini One Stop Shop – allows exporters of digital services to report all sales to one agency, rather than registering in multiple overseas countries
- Cash accounting – the cash accounting scheme can be joined if taxable turnover is £1.35m or less per annum. This means one may account for VAT when receiving money from customers (or paying a supplier) rather than when issuing an invoice to a customer (or receiving one from a supplier). Generally speaking, cash accounting is advantageous if trade debtors are usually more than trade creditors
- Flat rate schemes – if taxable turnover is less than £150k a flat rate scheme can be joined. This means instead of paying the difference between output VAT and input VAT, one applies a flat percentage to turnover. Further advice should be sought to help decide whether this is advantageous

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PAYE guidance for co-operatives

The basics

This is a brief guide to the basics of Pay As You Earn (PAYE). All income from employment is taxable under PAYE. This means tax and employee National Insurance (Class 1 Primary NIC) is deducted at source by the employer and employer's National Insurance (Class 1 Secondary NIC) is payable by the employer. The employee is paid the net pay – i.e. their gross pay less tax and Class 1 Primary NIC. The amount of tax deducted by the employer depends on the employee's tax code. The tax code tells the employer how much tax free earnings the employee can have.

Benefits

Any benefits (such as company cars) provided to the employee are also taxed under PAYE. Benefits are reported to HMRC after the end of the tax year on form P11D. The tax is collected by HMRC by adjusting the employee's tax code. Form P11D(b) should also be submitted, declaring any employer's NIC (Class 1A NIC) due on the benefits.

Setting up a scheme

It is easy and free to set up a PAYE scheme and can be done online[37]. Once registered two references are received – a PAYE reference and an Accounts Office Reference. The latter is only to be used when making PAYE payments to HMRC.

Paying HMRC

The tax and national insurance deducted by the employer, plus any student loan repayments and the employer's National Insurance, should be paid to HMRC by the 19th of the month following the month of the pay run (22nd if paying online). PAYE is calculated by month. The first month is 6 April to 5 May and is referred to as month one. HMRC should be paid by 19 May for any pay runs that took place in month one. This could be one monthly pay run on 30 April; four weekly pay runs; or pay runs on any other dates in the month. PAYE can also be paid quarterly if the amount per month is less than £1,500.

37 See: https://www.gov.uk/register-employer

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Real Time Information (RTI)

All PAYE is reported using the Real Time Information system (RTI)[38]. This means wages are calculated using software that reports the numbers directly to HMRC, by submitting a Full Payment Summary (FPS). The FPS has to be submitted on or before the day on which employees are paid.

Under RTI an Employer Payment Summary (EPS) may need to be submitted. This is to claim deductions from PAYE payments such as Employment Allowance[39], Contract Industry Scheme (CIS) deductions, and deductions relating to Statutory Maternity Pay (SMP).

Communicating with employees

Employers must provide employees with payslips and with a P45 if they leave. They must also provide them with a P60 at the end of the tax year.

How to operate PAYE

Individuals may operate PAYE by utilising relevant software. HMRC provides free software for employers with fewer than 10 employees.[40] If you have more than 10 employees other payroll software other software is required. There are many HMRC-approved products on the market.[41] The book-keeping software used may also include integrated payroll.

Alternatively, a payroll bureau can be used. Providers typically charge a few pounds per payslip.

38 See: https://www.gov.uk/running-payroll
39 See: https://www.gov.uk/claim-employment-allowance
40 See: https://www.gov.uk/basic-paye-tools
41 See: https://www.gov.uk/payroll-software

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Issues encountered by co-operatives

Minimum wage

The minimum wage does not apply to directors of limited companies, unless they have a contract of employment with the company which makes them workers under employment law.[42] This can be useful in the early stages of setting up a workers' co-operative where all the members are directors and can be paid a low wage. Later on members should be given employment contracts to bring them within minimum wage legislation.

The minimum wage also does not apply to directors of a society, as long as their rights and duties are defined in the co-operative's governing document, rather than in an employment contract.

Employment status

Employers often pay some individuals as employees and others as freelance or subcontractors. Freelance or subcontract workers are self-employed and account for their own tax to HMRC under self-assessment. The advantage to the employer of treating someone as self-employed is that the employer does not have to pay employers' national insurance, sick pay, or holiday pay. However, whether someone is employed or self-employed is a question of fact and cannot simply be chosen. HMRC and successive governments see bogus self-employment as a major source of tax evasion. If an employer incorrectly treats someone as self-employed then they may be subject to penalties and back taxes.

One way to determine an individual's employment status is to use HMRC's online tool.[43] If unsure regarding questions and/or HMRC's answers, it is advisable to contact an accountant, HR adviser, or employment lawyer. Co-operatives UK can also assist with advice. Contact ***advice@uk.coop***.

Directors of a company can never be treated as self-employed in relation to the work done for that company as a director.

42 See: https://www.gov.uk/hmrc-internal-manuals/national-minimum-wage-manual/nmwm05140
43 See: https://www.gov.uk/guidance/check-employment-status-for-tax

What is different for co-operatives?

Directors' national insurance

Class 1 National Insurance Contributions are calculated in a different way for directors of companies than they are for non-directors.[44] Directors do not usually pay more or less NIC than other employees, but the timing of their NIC payments may be different. This is why software asks if the employee is a director. If a co-operative is a company, then all co-op members on the board or management committee should be registered as directors at Companies House and should pay directors' NIC. In many cases this means all co-op members are directors and should pay directors' NIC. If a coo-operative operates as a #collective' (all members are directors) then all directors are subject to NIC.

However, this legislation does not apply to societies. This is because the legislation[45] only refers to directors of companies. If a co-operative is a society no members should be regarded as directors for PAYE purposes. Directors of community benefit societies are also not directors for NIC purposes.

Dividends and bonuses

Dividends paid by limited companies to their members are outside PAYE and do not attract National Insurance. The income is taxed on the individual as dividend income, and is subject to the dividend allowance so the first £2,000 (£5,000 up to 05/04/18) is taxed at 0%. Dividends in the basic rate band are taxed at 7.5%. If a co-operative is limited by shares it can take advantage of these reliefs by paying dividends to members. Such dividends need to be properly documented so it is clear that they are dividends – i.e. there should be board minutes and dividend vouchers issued. Societies can also pay interest on shares to their members. Such payments are also outside PAYE and do not attract National Insurance. These payments are not dividends for tax purposes and should be taxed as 'other interest received gross' on the self-assessment tax return.

In order not to be caught by PAYE anti-avoidance legislation, payments of dividends on company shares, or interest on society shares, must be:

» Properly documented: for societies this also means filing a return under S887 Income Tax Act 2007[46]

» Calculated by reference to the number of shares held (not by reference to the amount of time worked or length of service period). This should be reflected in the documentation (eg '£500 per share'). If they are calculated by reference to any contracted work, then they should be taxed under PAYE

44 See: https://www.gov.uk/employee-directors
45 See: http://www.legislation.gov.uk/uksi/2001/1004/regulation/1/made section 2 "director" definition
46 See: https://www.gov.uk/government/publications/notes-for-submitting-a-return-under-section-887-of-the-income-tax-act-2007-on-a-spreadsheet-industrial-and-provident-society-ips-5fa

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Difficulties registering a society for PAYE

If registering using the online form,[47] question three asks for the type of employer. Societies should tick the box *'charity or committee-run organisation'* (eg a working men's club or parish council). The next online form[48] requires the co-operative's Unique Taxpayer Reference (UTR). See ***corporation tax guidance*** on how to get a UTR.

Further reading

» **See CWG2 further guide to PAYE and National Insurance Contributions:** ***https://www.gov.uk/government/publications/cwg2-further-guide-to-paye-and-national-insurance-contributions/2016-to-2017-employer-further-guide-to-paye-and-nics***
This guide also signposts to other areas such as benefits and RTI

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47 See: https://www.gov.uk/register-employer
48 See: https://www.tax.service.gov.uk/shortforms/form/EMPREG_CharComm

Mutual trading

The basics

Mutual trading is a concept in tax law. The underlying principle is that a person cannot make a profit from a trade with him/herself; and so a group of people cannot make a profit out of trading with themselves. Where there is no profit, there is nothing to tax – and no taxable loss to relieve.

Mutual traders are sometimes referred to as having mutual trading status or mutual tax status. There is however no status conferred by HMRC or anyone else, and whether or not an organisation is engaged in mutual trading is simply a question of fact.

Trading and non-trading

Many activities, while mutual, are simply not a trade at all. An example would be a group of friends clubbing together to pay for the cost of a holiday. To be a trade, an activity has to be sufficiently business-like in the way it is carried on – it has to meet the six badges of trade.[49] The first requirement for mutual trading is that the activity be a trade.

Legal structure

There is no particular legal form required for mutual trading. However, where the organisation is a separate legal person (such as a limited company or society) then the governing document of that organisation, or the contract with members (such as a members' agreement) needs to guarantee the **essential requirements** (see overleaf), especially as regards the return of surplus to contributors. Mutual traders are usually either unincorporated, companies limited by guarantee, or societies.

Societies meeting the condition for registration as a community benfit society cannot be mutual traders since their asset lock prevents surplus being returned to the members. An asset lock is a restriction on distributing (or dividing) assets of an organisation to (or between) members (or shareholders), including on winding up.

49 Meaning of trade and the six badges of trade: https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim20000

Essential requirements for mutual trading

For a trade to be a mutual trade it must meet the following conditions. There must be:

- Complete identity, as a class, between the contributors to the mutual surplus and those that participate in it
- Arrangements which ensure that the business surplus is returned to the contributors and not transferred to anyone else, including in a winding-up
- A reasonable relationship between the amount a person contributes to the surplus and the amount distributed to them on winding up. This should include anyone who has been a member within the last five years
- Arrangements that entitled the contributors to the common fund and control it

Co-operatives UK has ***model governing documents*** for co-operatives that intend to operate a mutual trade.

Common examples of mutual trading

- A co-operative consortium (for example, artists running an office with costs shared among and met by the artists, who are all charged fees by the co-op which acts as their agent). Only co-op members can be represented by the agent and the agency only represents co-op members
- A housing co-operative in which all the members are tenants and all the tenants are members
- A members' sport club in which only the members can enjoy the facilities
- A secondary co-op, where a group of co-ops come together to form one co-op to share costs for example in back office services

What if your co-op is carrying on non-mutual trade?

It is common for organisations to have mutual and non-mutual trading at the same time. Examples include:

- A mutual student housing co-operative which lets to commercial conference providers in the summer holidays
- A mutual sports club which allows non-members to use facilities on payment of a fee

An organisation that carries on both mutual and non-mutual trading could still be exempt from paying corporation tax on the net surplus derived from trading with its members, provided that:

- Income from trading services is clearly identified as to whether it is from mutual or non-mutual sources
- Direct costs of providing these services are attributed to each income source
- General administration and other overheads are apportioned between each income source

Does a co-op need to apply for mutual trading status?

There is no HMRC procedure for confirming mutual trading. Corporation tax returns are within self-assessment, meaning that it is up to the taxpayer to declare their income on an annual basis. When a co-op prepares its corporation tax return it should exclude all income and expenditure relating to mutual trading. It should also exclude any non-trading activity (e.g. a grant-funded activity).

If a co-op only carries out mutual trading and any other income (such as bank interest received) is trivial, then it may write to HMRC to request treatment of the co-op as dormant for tax purposes. This will save the co-op the cost of producing tax returns and save HMRC processing costs. HMRC usually agrees to reasonable requests and exempts organisations from returns for five years. If there are any changes in circumstances the co-op should tell HMRC immediately.

Further guidance

For further guidance on whether members' clubs trade, including discussion of mutuality and how to treat it for tax purposes see: ***https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim24215***

Apportioning expenditure between mutual and non-mutual trades: ***https://www.gov.uk/hmrc-internal-manuals/business-income-manual/bim24360***

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Co-op treasurer role profile

PURPOSE OF ROLE

To provide ensure that the co-operative complies with financial legislation [INSERT NAME OF CO-OPERATIVE] [and its subsidiaries], ensuring that the Board and [Committee members] receive(s) the support and advice necessary for them to understand the financial standing of the co-operative so that they are able to discharge their duties in relation to safeguarding the co-operative's finances.

KEY AREAS

Compliance	▪ To ensure the establishment of an adequate system of internal financial controls and to monitor its implementation and effectiveness ▪ To ensure the development of an appropriate reserves policy and to provide assurance that the financial resources of the co-operative meet its present and future needs ▪ To ensure that equipment and assets are adequately maintained and ensured ▪ To ensure the co-operative's compliance with financial legislation ▪ To ensure that accounts are prepared and disclosed in accordance with the requirements of statutory bodies and funders, reviewed or audited as required, and that the audit recommendations are implemented ▪ To understand the co-operative values and principles and how they are and can be integrated into the financial governance of the cooperative

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Member Services	▪ To make a formal presentation of the accounts at the AGM, drawing attention to any important points in a coherent and easy to understand way
Board (and Committee) Services	▪ To guide and advise the Board (and Committees) in the approval of budgets, accounts and financial statements ▪ To inform the Board about its financial duties and responsibilities and to assist in developing their financial skills and understanding (and in conjunction with the co-operative's finance staff, to develop a management accounts pack to assist the Board to understand the day to day finances of the co-operative) ▪ To advise on the financial implications of the co-operative's strategic plans and key assumptions in the operational plan and budget, especially those outside the agreed boundaries of management authority ▪ To ensure that the co-operative's ethical investment policy for its reserves is maintained
Board (and Committee) Development	▪ To develop financial skill and expertise on the Board [and Committees] and to keep the Board informed of its financial duties and responsibilities

Key Relationships	**Internal** Acting as a first point of contact in relation to the co-operative's financial matters for the: • Finance staff • Board as a whole as well as individual directors • Chair • Members **External** ▪ Regulators and registrars ▪ Auditors ▪ Professional advisors ▪ Co-operative stakeholders
Other	Carry out duties as may from time to time be allocated to ensure that an effective financial compliance function for the co-operative is delivered. The Board may decide that it is an appropriate fit for the Treasurer to carry out functions over and above those necessary to carry out this role. However, in doing so an appropriate role description should be drafted for each function and shall form part of a composite role portrait for the co-operative treasurer.
Qualifications	▪ Holds a financial qualification from a reputable finance institution ▪ Practical experience from having held a similar position in another body

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Key experience, knowledge and skills	▪ Knowledge of the business sector in which the co-operative operates and the relevant reporting requirements in relation to the co-operative's legal form ▪ Experience of organisation finance (and pension schemes) ▪ Experience in budget setting and monitoring ▪ Skills to analyse proposals and examine their financial consequences ▪ Skills to analyse and interpret financial data ▪ Strong communication skills both written and verbal and confidence to be able to present financial information clearly and make it understandable for non-finance people ▪ Takes personal responsibility for work produced, is prepared to stand by what is delivered and answer for own actions ▪ Demonstrates courage in their convictions and from an informed position questions established systems, norms and values as appropriate ▪ Excellent team player ▪ Able to prioritise and manage own workload ▪ Attention to detail and accuracy ▪ Demonstrated interest in co-operative values, principles and the wider social economy

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New co-op finance checklist

This checklist covers key tasks requiring action to ensure your co-op starts off on the correct financial compliance footing.

☑ Register with HMRC for corporation tax

All corporate entities (registered societies, companies, and unincorporated associations) have to register with HMRC, even if they are charitable or not-for-profit. If you are a company, HMRC will automatically register you and send you a CT41G asking for further information. If you are a society or an unincorporated association then you may not be automatically registered. You can register online and must provide the co-op's registration number, the date your co-op started to trade and its financial year end. Once registered, HMRC will let you know the deadlines for paying corporation tax and submitting returns. ***See corporaton tax guidance***.

LLP's do not register for corporation tax as they are taxed the same way as partnerships – i.e. under income tax self-assessment. However, the partnership should register for self-assessment, and the individual partners all also need to register.

☑ Set up a system to keep financial records

Co-operatives are required to by law to keep sufficient financial records and keep them for 6 years. The precise records your co-operative will need to keep will depend on the type of size of your co-op but the records must be adequate to enable you to know, at any given point in time, what the assets and liabilities and income and expenditure of the co-operative are. The records should also be sufficient to enable you to prepare the relevant tax or VAT returns, and to establish wither VAT registration is required (see below). While for very small organisations spreadsheets may be adequate, in general it is advisable to use an accounting package.

☑ Prepare for annual accounts and returns

All co-operatives, whether trading or not, must complete and file annual accounts for each financial year. There are different filing requirements depending on whether your co-op is a limited company or registered society. Find out more from Co-operatives UK guides on ***annual returns/confirmation statement and accounts***. You should make sure you know what returns are required and decide whether to appoint an accountant to help you with them.

☑ Register for PAYE

If your co-op has employees there are legal obligation to operate PAYE (Pay As You Earn) on payments to staff (if their earnings reach the National Insurance Lower Earnings Limit). This varies from tax year to tax year so it IS useful to check HMRC guidance for the most up to date information. You must register for PAYE before the first pay day and keep a record or all salary payments made including National Insurance Contributions (NICs). ***See PAYE guidance***.

☑ Register for VAT

If your co-op's turnover of taxable supplies is more than £85,000 in the last 12 months you must register for VAT. The £85,000 threshold is a moving feast, so you always need to keep an eye on whether you have exceeded £85,000. You must also register if you anticipate that your taxable supplies will exceed £85,000 in the next month. Co-ops may choose to voluntarily register if the co-op's turnover is under this threshold. Registration can be done online. Once registered, the co-op will receive a VAT registration number and certificate.

See also the separate VAT guidance note at: ***www.uk.coop/finance***

☑ Make sure you have insurance

If you have any employees it is a legal requirement to have employer liability insurance. In most cases you will also be required to have public liability insurance.

See also the template accounts guidance note at: ***www.uk.coop/finance***

CO-OPERATIVES UK

The network for the UK's co-operatives

Co-operatives UK is the network for Britain's thousands of co-operatives. We work together to promote, develop and unite member-owned businesses across the economy.

From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-operatives are everywhere and together they are worth £36 billion to the British economy.

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