

Guidance for Referees Societies on Corporation Tax

Purpose of this Guidance

This guidance is on the possible exposure to corporation tax (CT) of Referees Societies in rugby union. It is based on the experience of a Referee Society which incorporated following which HMRC initially argued that it was liable to CT and should be filing CT returns.

Background

In common with many others, the Referee Society incorporated to obtain limited liability protection; its referees (match officials) became members of the new company. It came to the attention of HMRC who indicated that the Referee Society was liable to CT. Although members paid subscriptions, the majority of funding was provided by charges to clubs at whose home matches the Referee Society's referees officiated during the season. In addition to these charges and subscriptions, the Referee Society earned a small amount of interest from the bank and had some fund-raising activities.

The Referee Society was not-for-profit; it made fixed charges to clubs intended to cover its running costs based on matches where referees officiated. It was run by volunteers and the referees were also volunteers receiving only their out-of-pocket travel expenses. Nevertheless, it made surpluses in some years.

Tax analysis and HMRC conclusion

A Referee Society, whether incorporated or not, is liable to CT on its taxable income; the mutual trading tax exemption is not relevant to the majority of a Referee Society's income from clubs which are not its members. However, in order to be taxable such income must be from a trade. In this case HMRC needed to be convinced that the Referee Society was not carrying a trade in its dealings with clubs.

A review of the way in which the Referee Society operated was carried out. Specialist tax advice was taken by its Treasurer. A detailed letter submitted to HMRC presenting the full facts argued that the Referee Society was not trading; its fees from clubs did not constitute trading income and the Referee Society's operations were not of a "commercial" character. The letter mentioned the small amount of interest income and requested HMRC to treat the Referee Society as "dormant" for CT purposes. HMRC agreed for a period of 5 years since incorporation meaning no CT returns or tax were due unless circumstances changed.

Possible implications for other Referees Societies

Treasurers should consider their Referee Society's CT position; the facts might justify dormant status (which must be agreed by HMRC) or mandate the filing of CT returns. The experience of this Referee Society may be helpful.

Richard Baldwin MBE; FCA; CTA