

Introduction

There are three types of activities that are commonly carried out in charity shops.

- Sale of donated goods
- Sale of new goods
- Gift Aid scheme

The sale of donated goods and the sale of goods via the Gift Aid Schemeⁱ both involve the sale of items that have been brought into the shop by people who wish to donate to the charity.

The sale of new goods, on the other hand, involves selling goods that the charity shopⁱⁱ has "bought-in" from a commercial retailer or manufacturer with the intention of selling those items in the shop to make a profit.

All three activities involve the sale of goods to members of the public, which means that a number of retail laws and regulations apply. If you require advice on any aspect of retail law and regulation, you should seek professional legal advice.

Sale of donated goodsⁱⁱⁱ

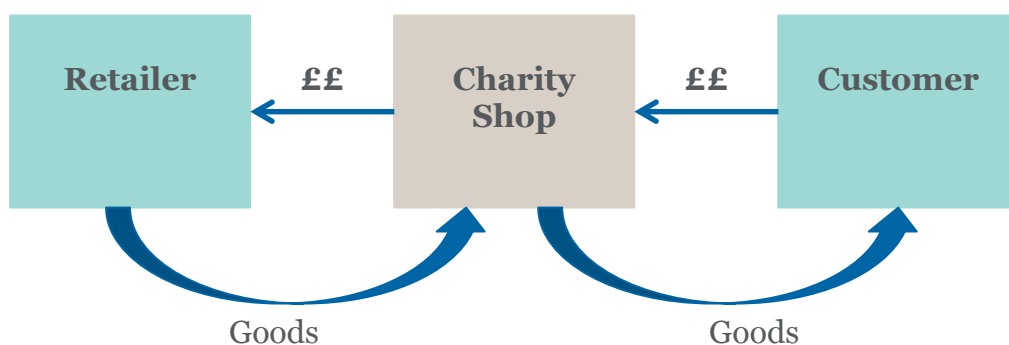


The sale of donated goods involves two simple transactions.

A donor brings goods into a shop and gives them to the charity as a donation. The charity does not pay the donor anything for the goods. Ownership of the goods transfers to the charity at the point of donation.

Assuming that the goods are fit for sale, they are put on display in the shop marked with a sale price. If a customer wishes to buy those goods, the charity sells the goods to the customer for the marked price. Ownership of the goods transfers to the customer at the point of sale.

Sale of new goods



The charity shop purchases goods from a commercial retailer or manufacturer. The charity shop usually selects new goods that it considers will sell well in the particular area where the shop is based. Ownership of the goods transfers to the charity shop at the point of purchase.

The new goods are put on display in the shop marked with a sale price, which must be more than the amount that the charity shop paid for the goods. If a customer wishes to buy those goods, the charity shop sells the goods to the customer for the marked price. Ownership of the goods transfers to the customer at the point of sale.

Unsaleable goods

It is very common for goods that are donated to a charity shop to be unfit for sale to the general public. There are some categories of goods that cannot be sold for legal reasons or to which statutory restrictions apply (for example, second-hand toys and electrical equipment, where safety testing is required before sale)^{iv}.

Are the donated goods fit for sale to the public, or should they be rejected, ragged or scrapped?

There are also goods that are simply too damaged or worn to be fit for sale to the general public, and some charity shops choose to refuse to accept goods that they cannot sell. In addition, there may be goods that the charity shop does not think will sell, or which remain unsold after a specific period, and the charity shop may choose to sell these to a rag or scrap merchant (if possible).

It is important to remember that any goods the charity shop is unable to sell, either to the general public or to a rag or scrap merchant, will need to be disposed of, which is an additional cost for the charity shop. It can be helpful to have a policy about types of goods that should not be accepted, although care needs to be taken to strike the right balance between simplicity for staff and donors so that the policy is easily understood, and the need to protect the charity shop's legal position.

Types of Goods and VAT

Regardless of whether a charity shop is selling new (i.e. bought-in) or donated goods (whether or not via the Gift Aid scheme) or combination of both, these activities are treated as "business activities" for VAT purposes. The VAT treatment varies depending on the specific goods and circumstances.

IMPORTANT

The sale of any goods in a charity shop is a business activity, so VAT treatment must be considered

Broadly speaking, the income from the sale of donated goods by a charity shop to the general public is zero-rated^v. However, there are some exceptions to this, including in particular if the donated goods have been used by the charity for some other purpose before being sold in the shop.

The VAT treatment for the sale of new goods in a charity shop depends on the type of goods being sold. Certain types of goods are zero-rated by law, for example children's clothes^{vi}. However, in general^{vii}, the income from the sale of any new goods that are not zero-rated by law will be subject to the standard VAT rates.

Disclaimer: Please note that this document is not intended to be legally or technically comprehensive and the Charity Retail Association cannot be held responsible for any errors or omissions, factual or otherwise, arising from reliance on it. This document is not a substitute for independent professional advice.

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- ⁱ The sale of goods via the Gift Aid scheme is not covered in this guidance note. Please see the Guidance Note entitled "Charity Shops and the Gift Aid Scheme".
- ⁱⁱ Many charities use trading companies for the sale of new goods and also for the Gift Aid scheme. Please see our guidance note entitled "Trading Companies". Within this guidance note, wherever you see a reference to "charity shop" this could either mean the charity or its trading company, depending on where the activity is carried out.
- ⁱⁱⁱ This section only covers the sale of goods that have been donated to the charity; it does not cover the sale of goods under the Gift Aid scheme.
- ^{iv} Please seek professional advice for guidance on the legal restrictions that apply to specific categories of goods.
- ^v Additionally, the income from the sale of goods to rag or scrap merchants or at qualifying fundraising events, such as auctions, is usually zero-rated. For further guidance on specific circumstances please seek professional VAT advice.
- ^{vi} There is more information available on the HMRC website or you may wish to call HMRC's National Advice Service on 0300 200 3700 if you have a specific query about VAT treatment.
- ^{vii} The sale of new goods by a charity shop at a qualifying fundraising event is exempt from VAT. However, it is important to remember that the charity shop may have paid VAT when it bought the new goods, and its ability to reclaim the VAT it has paid may be affected if it sells the goods exempt from VAT. For further guidance, please see HMRC's leaflet entitled "CWL4 Fund-raising events: exemption for charities and other qualifying bodies".