

# Voluntary Action Merthyr Tydfil

Your local county voluntary council



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## 7. Finding and getting money

### 7.8.1 Charity Shops

#### **What is a 'charity shop'?**

Charity shops are retail outlets which raise funds for their parent charities, by selling primarily second-hand donated goods. They may also sell items which, when sold, constitute 'primary purpose' or 'non-primary purpose trading'.

#### **What is 'primary purpose trading'?**

'Primary purpose trading' is trading which contributes directly to one or more of the objects of a charity, as set out in its governing document. Examples relating to a charity shop could include the sale of goods manufactured by disabled people who are beneficiaries of a charity for the disabled, or the sale of tickets for a theatrical production staged by a theatre charity.

#### **What is 'non-primary purpose trading'?**

'Non-primary purpose trading' is trading intended to raise funds for the charity, as distinct from trading which in itself furthers the charity's objects. An example of such trading would be the sale of promotional pens, mugs and tea towels in a charity shop, promoting the charity which runs the shop with the intention of raising funds for that charity.

#### **Can a charity shop sell donated goods together with goods which amount to primary purpose or non-primary purpose trading?**

Yes. The sale of goods which have been donated to a charity is not trading. Where donated goods are sold together with other goods though, the sale of which is trading, the income from the sale of *donated* goods has to be separated from the *trading* profits. This is because there are different implications for corporation tax and VAT on the profits from trading. More detail on this can be obtained from the Charity Commission and HMRC (see 'Further Information').

## Is it easy to set up a charity shop?

The short answer is no. Charity shops are a good way of raising awareness and funds for a charity, but they are not a simple option. In setting up a charity shop you have to consider the same issues as someone does when running a small business - such as staff, security, health & safety, and trading law - as well as problems specific to the sector, such as where to get your stock (donations) and recruiting and managing your volunteer workforce.

## Can anyone set up a charity shop?

Charity shops can only be set up by charities (i.e. organisations who are registered as a charity with the Charity Commission); an individual cannot set up a charity shop. Money that is raised by a charity shop is then passed to the parent charity to further their charitable work.

## What do you need to look at before setting up a charity shop?

To start you need to follow these steps:

1. If you have not already done so already, you need to register as a charity with the Charity Commission.
2. Familiarise yourself with the statutory obligations that come with being a retailer, charity, employer, and occupier of property.
3. Familiarise yourself with the tax side of running a charity shop. Charity shops benefit from being exempted from corporation tax, zero rated VAT on the sale of donated goods, and 80% mandatory non-domestic business rates relief. Because these are significant concessions, the Charity Commission and Her Majesty's Revenue and Customs (HMRC) exercise controls to ensure that charities abide by their responsibilities and meet their obligations.
4. Approach your local council to arrange rates relief or exemption.
5. Create a budget for the shop, with likely income (from sales) and expenditure (from rent, wages, repairs, bills, insurance, etc.). Remember that 60-80% of a shop's income will go to running costs, such as rent and wages.
6. Raise your start-up capital. You will need at least £5,000 to pay the rental deposit, as well as money for the shop refit, essential building repairs, and staff recruitment (note that the average refit costs £10,000-£20,000).

## How do you set up a charity shop?

You need to do the following:

1. Choose an area to set up your shop. You will need to be in a good location with plenty of footfall, and preferably nearby car parking.
2. Find a property. It will need to have a good sized backroom for storage and stock preparation, as well as an attractive public area. In order to comply with Health & Safety legislation and the accessibility requirements under the Equality Act 2010 the shop will need to be safe, well lit, and accessible to those with disabilities. Go to the website for the [Equality and Human Rights Commission](#) for further details.
3. Fit the shop. The public area will need shelves, railings and a counter with a till, while the backroom will need storage and sorting facilities. A burglar alarm is highly recommended, along with other security equipment such as CCTV cameras.
4. Hire a shop manager, with retail experience. They will be responsible for all the shop's activities, including stock, volunteers and cash handling, as well as report writing on sales etc. [N.B. Shop manager is usually a paid position.]
5. Find volunteers. You will need a minimum of two people working in the shop at all times, for safety, security, and stock processing. Charity Finance surveys have found the average number of volunteers per shop is 19, working an average of around six hours a week to cover 12 morning and afternoon shifts over six days. [N.B. Volunteers are only paid their expenses.]
6. Train your volunteers and employees, so that they know about your charity's aims, retail law, product safety, stock preparation and spotting valuable goods, as well as issues like Health & Safety and Security.

## Once the shop is set up, what is the best way to run it?

1. Encourage donations, whether through chatting to the public or doing house-to-house collections using donation sacks (see below for more information on your legal obligations in such collections).
2. Sort, clean and price your stock. Unsold textiles (i.e. too old or damaged) may be bought by a reprocessor, or 'ragman', who will recycle or export them. For more on textile reprocessing, visit the [Textile Recycling Association website](#).
3. Make sure the shop is a safe and secure place to be, and to work in. Paperwork, such as Risk Assessments, must be completed to prove this. Display the correct posters and notices, including:
  - employer's liability insurance certificate
  - Health & Safety law poster

- employer's Health & Safety policy statement
- fire emergency instructions, and
- the emergency aid notice.

The Royal Society for the Prevention of Accidents website has more information about this, and the [Health and Safety Executive](#) website also has details of how to carry out a risk assessment for a charity shop.

4. Make sure that the shop is welcoming to disabled customers and volunteers, so as to comply with the regulations under the Equality Act 2010. This involves practical things, like having a ramp over steps as well as training staff on how best they can help. In addition to ensuring that you comply with the requirements set out under legislation, is also essential for good customer care that you consider the needs of *all* customers which means that you need to cater for those of your customers with disabilities.

## What legal considerations and obligations are there?

Staff and volunteers will need to be aware of their legal obligations, beyond those relating to health and safety and the Equality Act regulations that have been mentioned above. These include:

- **consumer law:** shops must sell goods that are safe, of satisfactory quality, and feature the appropriate warning labels where necessary. For information go to the [Trading Standards](#) website.
- **electrical testing:** all electrical equipment sold must first be inspected and tested, ideally by a qualified electrician
- **furniture regulations:** new and second-hand upholstered furniture sold must be made of appropriate material and display certain warning labels
- **music licensing:** a charity shop which plays music, either in the backroom or in the public area of the shop, must have a licence to do so from [PRS For Music](#)
- **restricted age ratings:** films and video/computer games with age ratings may not be bought by children under the [British Board of Film Classification \(BBFC\)](#) classification age
- **smoking regulations:** charity shops and their business vehicles must comply with the no-smoking laws and display the appropriate signage; these rules apply throughout the UK and Northern Ireland
- **TV Licensing:** shops which sell televisions or associated equipment (such as DVD recorders) must register as a dealer with the [TV Licensing](#) body and notify them of buyers' details.

- **house-to-house collections:** Charitable collections are regulated so they need a licence or an exemption order, and the law regulating charitable collections is based on the House to House Collections Act 1939 and two related Regulations. The law covers collections of goods (e.g. unwanted clothes, bedding, CDs, jewellery) as well as money. You can refer to the [Institute of Fundraising's Code of Practice](#) for house to house collections for further details.

## **Can we use Gift Aid when we sell items donated to our charity shops?**

Yes. Gift Aid is a way for charities to increase the value of monetary gifts from UK taxpayers by claiming back the basic rate tax paid by the donor. It can increase the value of donations by a quarter at no extra cost to the donor, and is worth nearly £1 billion a year to charities and their donors.

Using Gift Aid involves three steps:

- (i) converting the item in to a cash donation by the charity acting as an agent for the donor;
- (ii) selling the item; and
- (iii) offering the cash back to the donor.

If the donor chooses to donate the cash to the charity, Gift Aid can then be used. A clear record linking donors to items and the cash that they have raised is essential, as is permission to Gift Aid the cash raised from that item. More information can be found by contacting HMRC (see 'Further Information' below).

## Further information

In addition to the website links highlighted throughout the above text, you may find the following publications helpful:

The Charity Commission's guidance

*Trustees, Trading and Tax: How Charities May Lawfully Trade (CC35)*

[www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

HM Revenue & Customs

[www.hmrc.gov.uk/charities](http://www.hmrc.gov.uk/charities)

The Charity Retail Association's publication

*The Code of Charity Retailing 2011-2012*

[www.charityretail.org.uk](http://www.charityretail.org.uk)

### Disclaimer

The information provided in this sheet is intended for guidance only. It is not a substitute for professional advice and we cannot accept any responsibility for loss occasioned as a result of any person acting or refraining from acting upon it.

### For further information contact

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