

Mutual associations fact sheet

If you are a club, society or organisation that exists for the benefit of your members, you may need to review your income tax obligations.

Some organisations qualify for an exemption from income tax because they are registered as a charity with the Charities Commission or they qualify for a small number of other specific exemptions. Organisations that do not qualify for an exemption may be taxable under so called “mutual association” rules.

The Government has recently clarified how these rules apply.

In general, a mutual association is not subject to tax on any profits derived within the circle of membership. For example, income from members such as subscriptions is not taxable. This is an established common law principle known as the mutuality principle.

However, this principle is overridden by the income tax rules and requires associations, whether they are incorporated or not, to include in its income profits arising from certain types of member and non-member transactions.

A common area of confusion is income from member transactions. Income from members must be included in taxable income if there is a transaction involving a two-way dealing between the association and its members and the transaction is taxable under the income provisions in the Income Tax Act 2007. In our experience, there are only a limited number of member transactions that aren't taxable.

It is important to review the basis for calculating income tax as the Inland Revenue charge penalties

and interest for getting it wrong (with the benefit of hindsight).

By applying the mutual association rules, an association's income may be categorised into three broad classes:

Income from “outsiders”

This income is assessable with a deduction allowed for expenses (apportionment may be required).

Income from taxable member transactions

This income is assessable where the tax rules override the mutuality principle with a deduction for certain expenses.

Income from non-taxable member transactions

Member income that is neither a “transaction” nor taxable under the income provisions in the Income Tax Act 2007 (such as subscriptions received) is not assessable.

There are a number of issues to consider when calculating taxable income, including choosing an appropriate method to apportion expenses between taxable and non-taxable transactions. Mutual associations also have specific rules for dealing with taxable profits which may assist to reduce the burden of taxation on the association.

Grant Thornton has experience in dealing with these issues and can assist you to review your organisation's income and expenditure to ensure your income tax obligations are met.

Need more information?

If you require further information on any of these topics or would like details on other accounting matters, contact your local Grant Thornton office:

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