



Do we qualify for mutual tax status?

Where a group of people contribute to a common fund, which is held on their behalf & controlled by them, HMRC may agree to treat surpluses as exempt from tax, and award 'mutual tax status' to the organisation that holds the common fund. Contributions to the fund are generally allowable expenses in the members' own accounts, and distributions to the members are taxable income.

Marketing cooperatives, where crofters own the sheep but the club markets these collectively, generally qualify for mutual tax status.

At the other end of the scale the typical Sheep Stock Club, which owns the livestock and is owned and controlled by its members, is unlikely to qualify for Mutual tax status.

The 'Rules' and any members agreements or operating procedures of sheep stock clubs, particularly those unincorporated bodies formed a long time ago, may not reflect current practices or there may no longer be copies available at all. It may therefore be difficult for Sheep Stock Clubs to ascertain where they sit on this scale without formal documentation.

Mutual tax status is at the discretion of HMRC and it is difficult for a club to achieve this if it previously traded on a non-mutual basis. In such instances, the members would need to show there is a clear restructuring within the club, with a change of rules, members' agreements and operating procedures that reflect actual / intended practices.

Clubs may find they have built up significant reserves over a period of time, but if mutual tax status is being sought, they may be required to show this is necessary for the clubs' working capital. Reserves should thereafter be monitored and excess reserves distributed to members if not required.