

Trade Associations

Introduction

An industry trade group, also known as a trade association or sector association, is an organisation founded and funded by businesses that operate in a specific industry. An industry trade association participates in public relations activities such as advertising, education, political donations, lobbying and publishing, but its main focus is collaboration between companies, or standardisation. Associations may offer other services, such as producing conferences or networking. Many associations are non-profit organisations and directed by officers who are also members.

Accounts

A significant proportion of established trade associations are unincorporated. In the short term this is the best option for newly established trade associations as it is the most flexible and least costly. Incorporation is most appropriate when there is a need to limit the liability of members, which is not normally the case.

If the trade association is not incorporated then accounts do not need to be filed with any official body.

Tax

Trade protection associations formed to protect the common interest of their members and funded by their annual subscriptions are normally non trading concerns and not subject to tax.

Other mutual trading associations are established for a variety of reasons with no overt profit seeking motive or may be required to apply their profits to particular ends. For them to not be subject to tax they will need to either be:-

- 1) non trading
- 2) or if they are deemed to be trading, that they are considered to be "mutually trading" with its members

What is a trade?

HMRC look for the common features or characteristics of trade. These "badges of trade" (eg profit seeking motive, number of transactions) should be considered when deciding whether or not the association is trading.

Mutual trading

If a group of people join together for a common purpose their transactions with the umbrella body can be seen to be a mutual trade if the entity's transactions are with customers who are also members and accord with its legal framework. Immunity from tax on the grounds of mutual trading applies only to transactions undertaken with the entity's members

HMRC have further guidance on what constitutes trading and mutual trading which should be reviewed against the activities of the association

Committee

A steering committee should be formed and a chairman and secretary elected. This steering committee can become the initial executive committee of the association until elections are held. The steering committee would arrange meetings, set fees/subscriptions and generally manage the trade association.

Constitution

A new trade association can work best with a short constitution, as a detailed constitution would need to involve the help of solicitors, which can become costly.

A constitution should be drawn up that outlines the trade associations objectives, membership, associates, financing, meetings, executive committee, president, publicity and any other items key to the trade association.

To ensure that members can see where their money is being spent, it would also be useful to set out that accounts are to be prepared, and under what basis, eg:

An income and expenditure account and balance sheet will be made available to members three months after each year end. These accounts will be prepared on an accruals basis and will comply with UK GAAP'.

Costs

The costs incurred in establishing a trade association should be shared between the members of the steering committee. One large company may well be willing to fund the start up costs but the association should not be seen to be a creature of one of the founding members. The members of the steering committee should therefore each make a modest contribution, perhaps of equal size, or if the members are of widely differing sizes then with some appropriate differentiation.

The amount raised initially should be sufficient to cover any printing and distribution costs and modest promotional material, together with paid-for consultancy and secretarial support, but in no circumstances payment to members of the steering committee for their time. Depending on circumstances the start up costs can sometimes be recovered through an entry fee into the new association.