



Charity VAT

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Summary

- No overall exemption from VAT for charities
- Uncertainty over the VAT status of supplies

We will review:

- If income falls within the scope of VAT
- Exemptions and rates of VAT
- VAT Recovery
- Charity Reliefs



VAT registration

- Only charge VAT if you are VAT registered
- If not VAT registered – monitor taxable supplies
- Register if taxable supplies exceed threshold (currently £90,000)
- Voluntary registration is possible if below threshold
- Deregistration possible if taxable supplies decrease below deregistration threshold (£85,000)

Impact of registration

Charge £1,000 for delivery of service

Before – No VAT

VAT Charged

Usually used when

Income
£1,000

Include VAT in price

Income
£833

VAT – £167

Customer can't
recover VAT

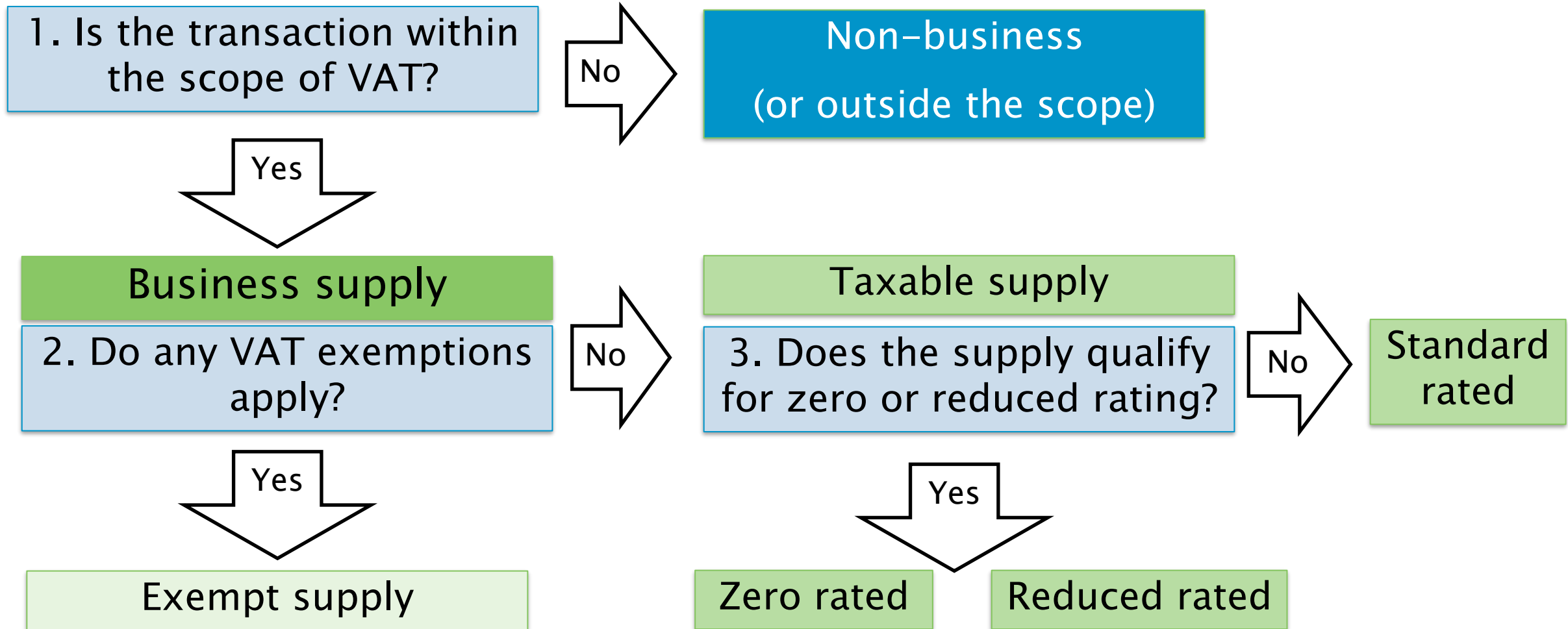
Charge VAT on top

Income
£1,000

VAT – £200

Customer can
recover VAT

Process for determining VAT status





Step 1 – Is the transaction within the scope of VAT

A transaction falls within the scope of UK VAT if:

1. It is a **supply** of goods or services
2. It is made in the **course or furtherance of a business**
3. It takes **place in the UK**
4. It is made by a **taxable person**
i.e. a person who is registered or required to register for VAT



VAT principles – Contract vs Grant

Generally:

- Contract – Consideration given usually in return for a supply of goods or services, so the supply test is met
- Grants are not usually in return for a supply of goods or services, so the supply test normally fails

HOWEVER – this is not always the case and there can be exceptions both ways



HMRC's Guidance

Differentiating between the two is potentially a very complex issue. HMRC list various factors that can be considered to:

Factor	Grant like	Consideration like
Initiation process	Grant application process	Tender for services
Beneficiaries	No link between beneficiaries and funder	Funder is direct beneficiary of service
Payment mechanism	Funding drawn down as reimbursement for costs incurred	Based on activity carried out
Failure mechanism	Clawback of funds inappropriately/not spent	Breach of contract – could include provision to sue for damages



Common non-business activities

Also known as outside the scope of VAT

- Donations freely given
- Grants
- Subsidised welfare activities
(charge individuals less than 85% of cost)
- Standard NHS hospice contract
- Overseas aid
 - FCDO & Overseas Governments – in country
 - EU or World Bank



Step 2 – VAT Exemptions

- There are a range of exemptions which can apply to supplies of services
- Many of these link to activities in the public interest
- Where an exemption applies, no VAT is charged on the income
 - **But** – generally there is no VAT recovery for that activity
- Where the conditions for an exemption are met – it is generally mandatory
- **May** be possible to structure activities so that conditions are, or are not met



Exempt activities

Activities in the public interest	Other activities
<ul style="list-style-type: none">• Health & welfare• Education and vocational training• Admissions to cultural events• Sport and physical education• Burial & cremation• Charity fundraising events• Membership	<ul style="list-style-type: none">• Financial services• Insurance• Selling and renting land and buildings*• Betting, gaming and lotteries



Exemptions – Charity fundraising events

- Can have up to 15 events of similar type in one year in one location
- Exclude small-scale events (<£1,000 per week)
- Primary purpose must be raising money and must be promoted as such
- VAT exemption covers sales at event, sponsorship, advertising in programmes etc
- Excludes events where accommodation provided eg: challenge events

Step 3 – What rate of VAT?

- Zero-rated (0%)
- Reduced-rate (5%)
- Standard rated (20%)





Zero-rated supplies

Not the same as exempt! Common examples:

- Sale of donated goods by a charity or its trading subsidiary
- Sale of certain printed and electronic publications
- Sale of children's clothing & footwear
- **Some food and drink**
- Water and sewerage services
- Export of goods by a charity



Reduced-rated supplies

- Gas & electricity for domestic or charity non-business use
- Welfare advice or information
- Contraceptives
- Smoking cessation products



Standard rated supplies

- **Most sales of goods and services**
- Consultancy fees
- Management charge to trading subsidiary
- Royalties
- Renting land & buildings (if opted to tax)
- Charity Shops – RGAS commission, new goods, cards



VAT recovery – summary

- Must be VAT registered! (unless s33 body) to recover VAT
- Just because you are VAT registered – doesn't mean you can recover all the VAT you incur!
- Irrecoverable VAT costs the sector ~ £2 billion per year

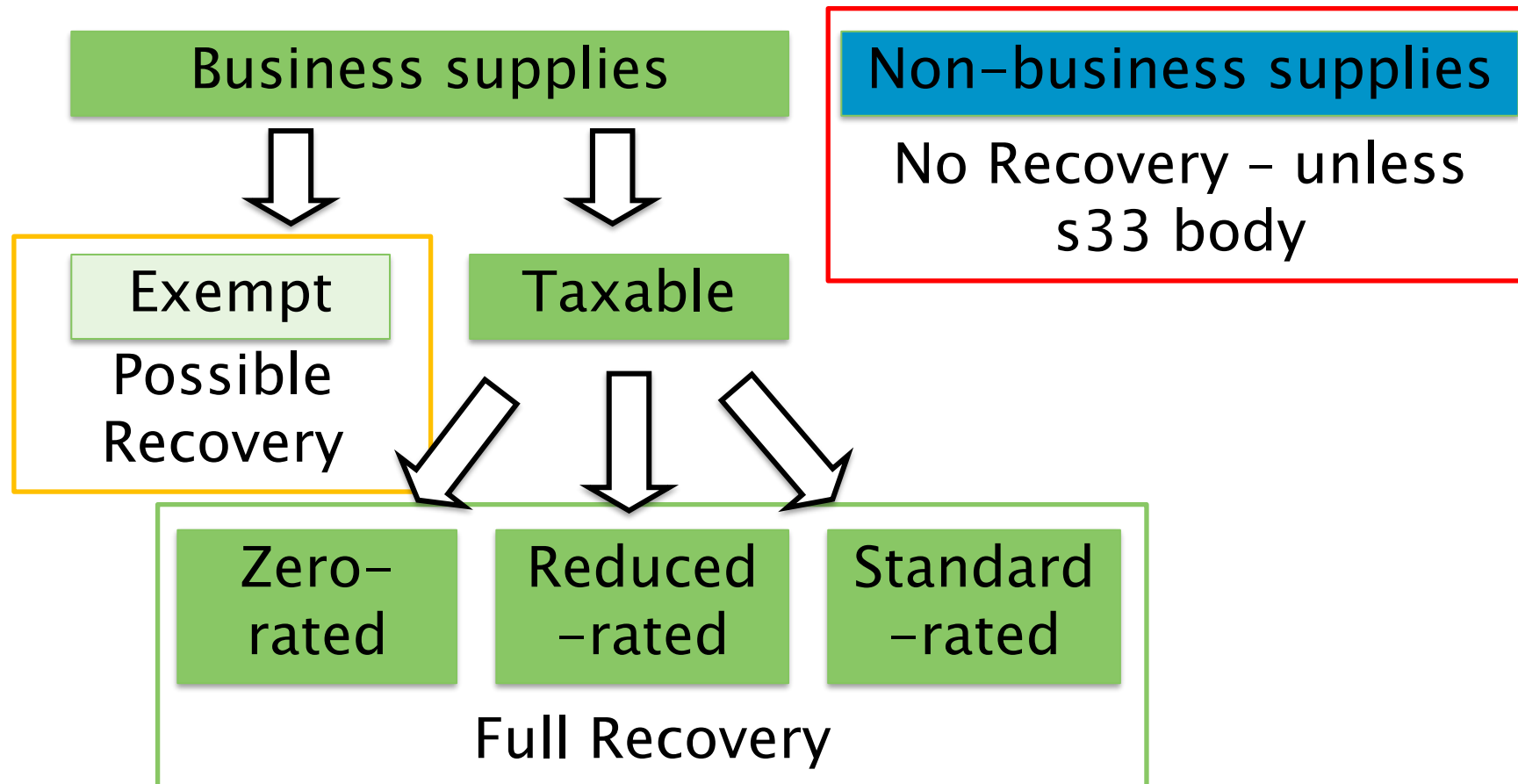


VAT recovery – principles

Depends on how the purchase is used – i.e. what activity does it support?

- Full recovery if used wholly for **taxable activities**
- No recovery if used wholly for **non-business activities** (unless hospice or academy or other s33 body)
- No recovery if used wholly for **exempt activities** – unless level of exempt activity is small ‘de-minimis’
- Special rules for mixed use purchases

Recovery of VAT on purchases





VAT recovery in practice

Apportion input VAT on purchases in relation to the VAT treatment of activities as far as possible

- Outside scope
- Exempt
- Taxable – (Standard, reduced and zero-rated)
- Non-attributable/residual



VAT Recovery – Example

Purchase – Input VAT incurred on	VAT status of activity	VAT recoverable?
Purchase of stock for shops	Taxable – Standard	Recoverable
Rental costs for centre to run welfare activities	Exempt	Irrecoverable (unless de-minimis)
Consultant review of grant funded project	Non-Business	Irrecoverable
Finance software costs	Non-Attributable	Partially recoverable

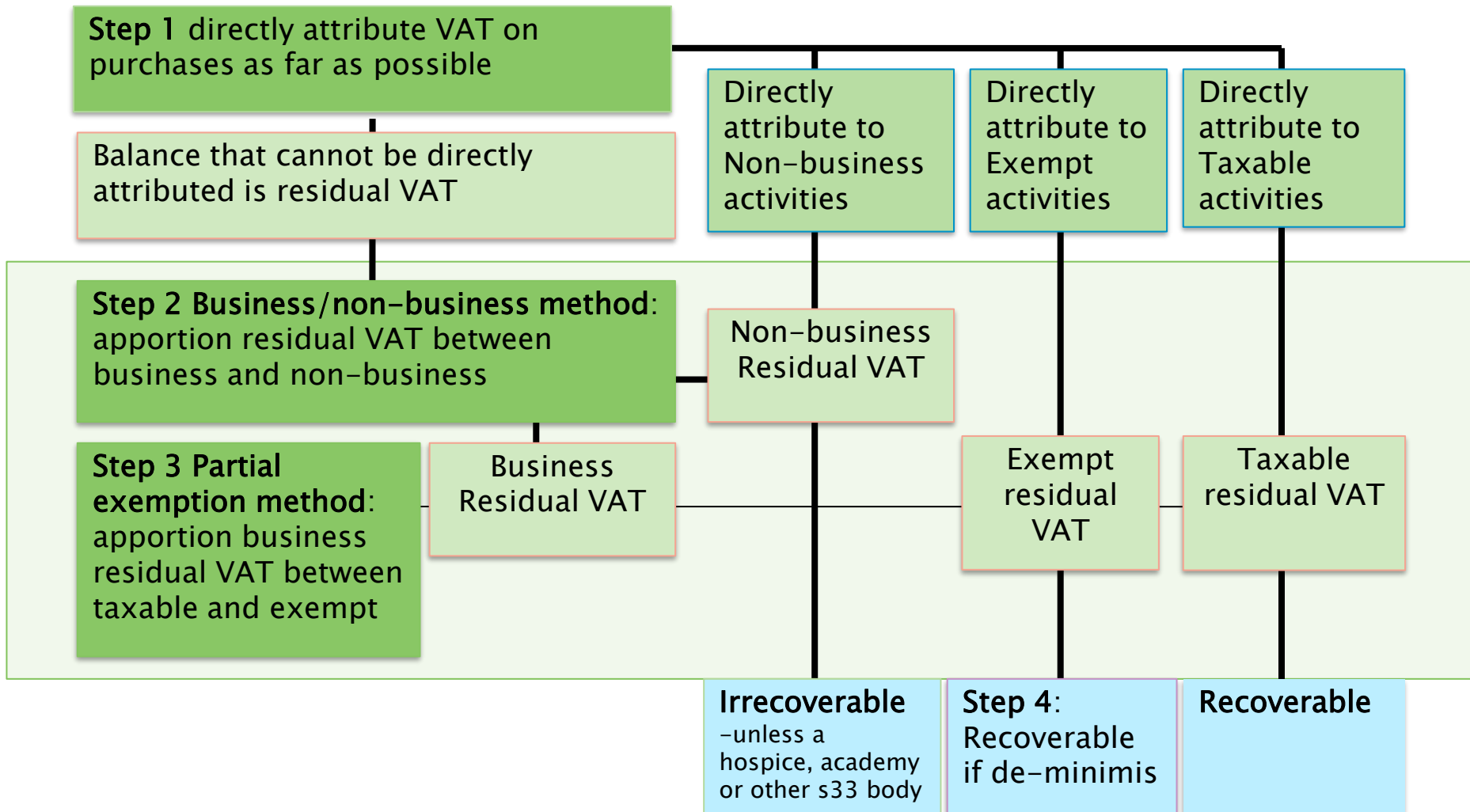


Residual VAT apportionment

Partial recovery calculation

- First apportion non-attributable VAT between business & non-business activities – **the B/NB method**
- Next apportion business bit between taxable and exempt activities – **the partial exemption method**
- From 1 Jan 2011 can do in one step – a **combined method**. But no de-minimis allowance for combined methods

VAT recovery flow chart





B/NB apportionment – methods

- No set rules for BNB method
- Must be ‘fair and reasonable’
- Common approaches
 - Income
 - Modified income – including/excluding certain types of income
 - Staff time
 - Staff cost
 - User headcount/usage
 - Direct expenditure
 - Floor area



Partial exemption– methods

Set rules for partial exemption method

- By default, must use ‘standard method’ – which uses income as basis of apportionment
- Round up to nearest %
- Can agree another method with HMRC (a ‘PESM’)

Partial Recovery – Example

Use income-based method

Total residual VAT = £5,000

Activity	Income earned (£)
Non-Business	200,000
Taxable	500,000
Exempt	300,000

Step 1 – B/NB:

Business Income (taxable + exempt)	$\frac{500k+300k}{1,000k} \times 100 = 80\%$	Business portion 80% x 5,000 =	4,000
Total income		Non-Business portion 20% x 5,000 =	1,000

Step 2 – Partial exemption

Taxable income	$\frac{500k}{800k} \times 100 = 62.5$	Taxable portion 63% x 4,000 =	2,520
Business income	round up to 63%	Exempt portion 37% x 4,000 =	1,480



Charity VAT Reliefs


Available to all charities – **even if not VAT registered**. Charity tells supplier not to charge VAT. Supplier may require a certificate from charity

- Disabled access, equipment, vehicles etc
- Medicinal products for health or care charities
- Advertising
- Some building services and purchases
- Gas and electricity – reduced rate

Relief works by applying a lower rate of VAT than usual:
i.e. zero or reduced, rather than standard-rated

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