



# VAT for Charities

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# Introduction

VAT can be complicated for charities:

- No overall exemption for charities
- Uncertainty over the status of supplies
- Partial exemption often applies
- Problem of irrecoverable VAT



# 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 registration

- Taxable supplies exceed threshold (£85,000)
- Not retrospective
- Can claim back VAT on some purchases
- Voluntary registration
- Must have some taxable supplies
- Deregistration threshold £83,000



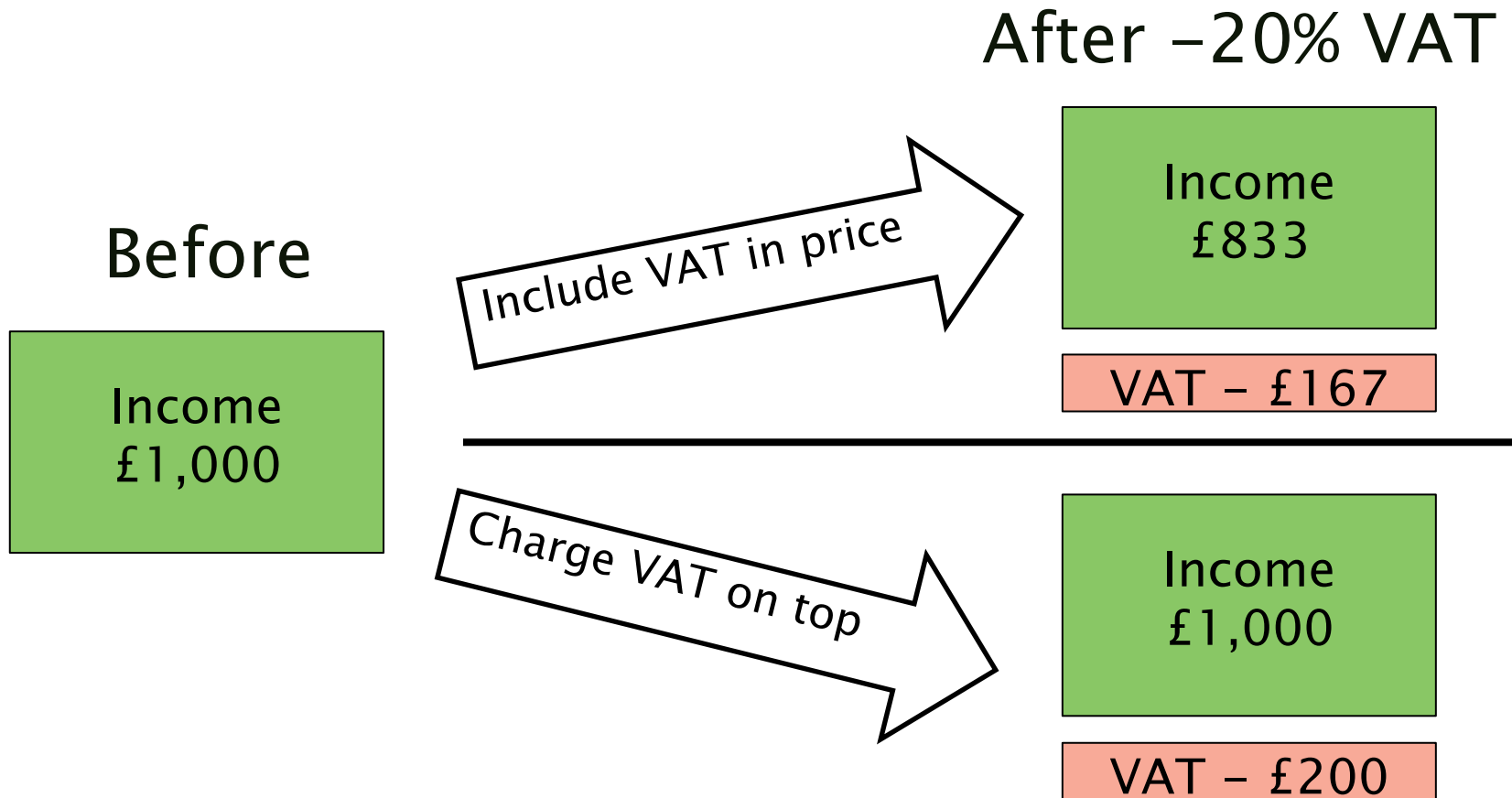
# When you register for VAT

A VAT registered business:

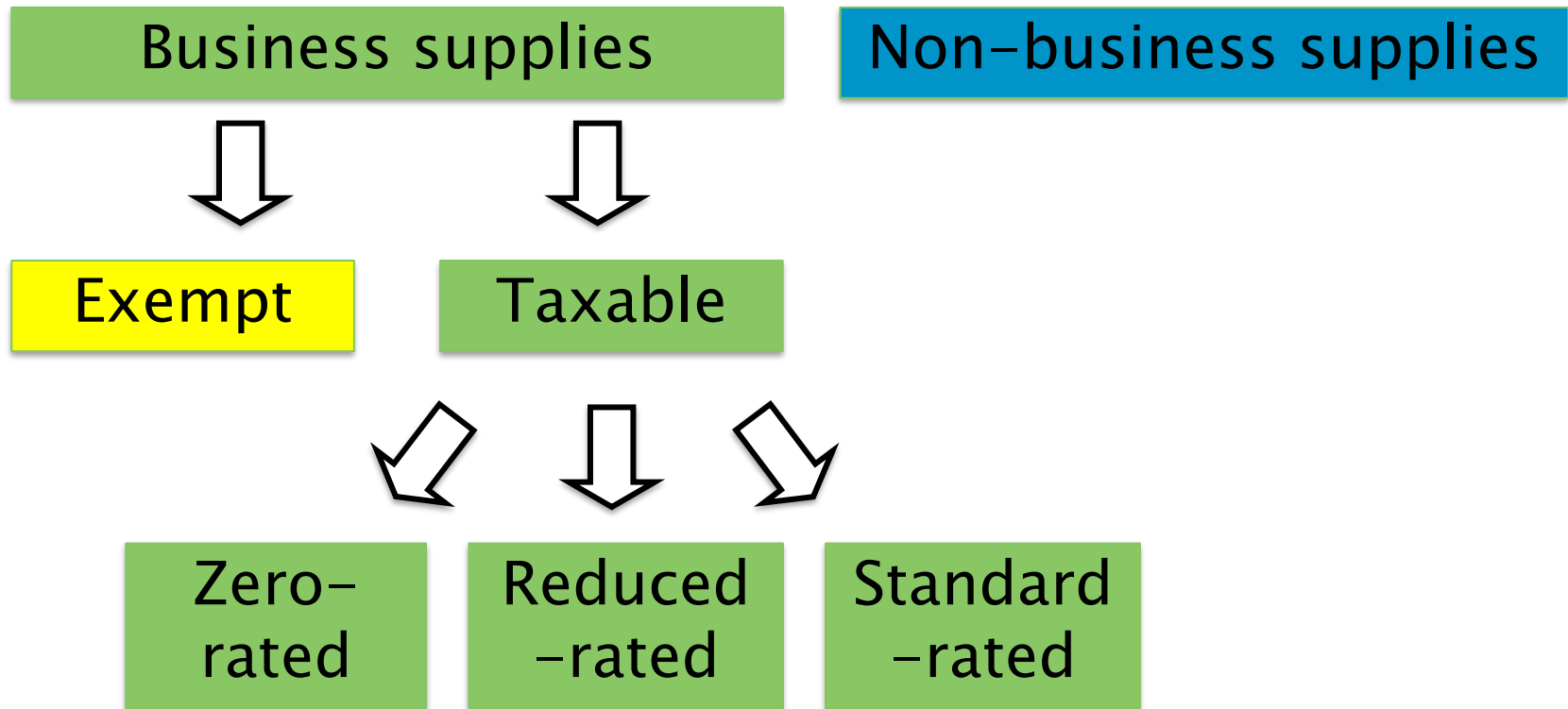
- Adds **output VAT** to invoices sent to customers
- Collects the output VAT and pays to HMRC
- Suffers **input VAT** charged on invoices from suppliers
- Can **recover** the input VAT incurred in making taxable sales by deducting it from the output VAT payable
- Only pay/receive the difference

# Impact of registration

Charge £1,000 for delivery of service



# Supplies for VAT





# Non-business income

Outside the scope of VAT

- Donations freely given
- Grants
- Subsidised welfare activities by concession  
(charge individuals less than 85% of cost)
- Standard NHS hospice contract
- Overseas aid – DFID/FCDO





# Does an agreement involve a supply?

Not always easy to determine – look at the facts

## Grants

- Freely given
- Timing, amount and frequency at the discretion of the donor
- Can be restricted
- Maximum liability is grant received

## Contracts

- Close link between service provided and funding
- Likely to be commissioned service
- Service specification and performance measures
- Liability could be more than contract income



# Exempt supplies

## Business supplies but no VAT charged

- Welfare services\*
- Residential care
- Nurseries
- Training activities\*
- Education\*
- Medical care
- Cultural activities\*
- Fundraising events\*
- Renting land & buildings (unless opted to tax)
- Lotteries and bingo
- + Others

\* in certain circumstances



# Fundraising events

All supplies for these VAT exempt if put on by charity or its subsidiary:

- Up to 15 events of similar type in one year in one location
- Exclude small-scale events t/o < £1,000
- Primary purpose must be raising money and it must be promoted as such
- Cannot compete with commercial providers – explicit fundraising purpose
- Include participatory events, not holidays



## Zero-rated sales (0%)

- Donated goods by a charity/its sub
- Printed publications: books, booklets, magazines, newspapers etc.
- Electronic books, journals etc from 1 May 2020
- Children's clothing
- Some food
- Export of goods outside EU
- Services provided outside the EU



## Reduced-rated supplies (5%)

- Welfare information and advice in a non-paper format (e.g. posters, DVDs)
- Smoking cessation products
- Contraceptives
- Fuel and power for domestic, residential or charity non-business consumption



## Standard-rated supplies (20%)

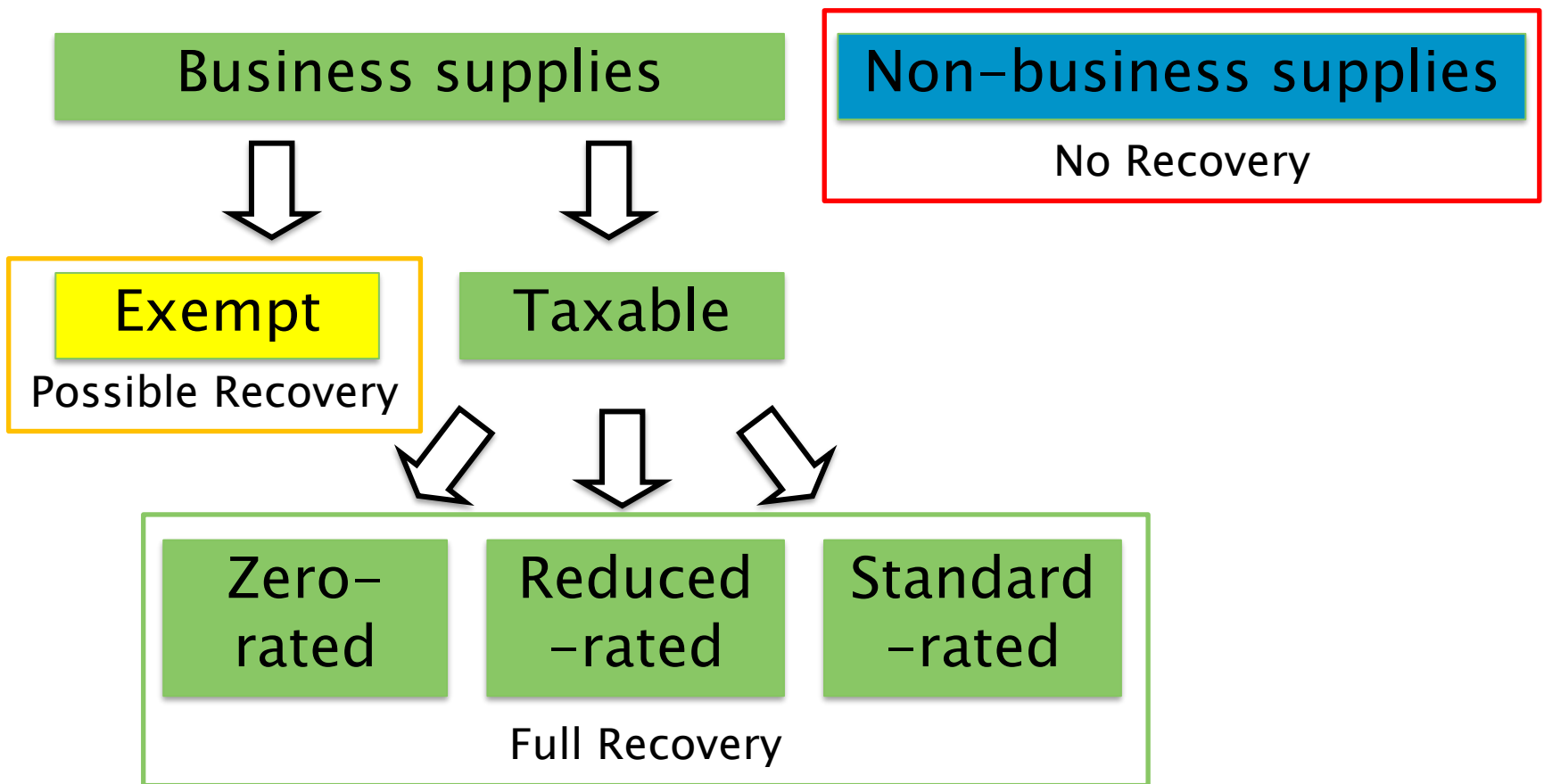
- Most sales of goods and services
- Consultancy fees
- Management charge to trading subsidiary (if not in a VAT group)
- Royalties
- Renting land & buildings (if opted to tax)
- Electronically supplied publications until 30 April 2020
- RGAS commission, new goods, cards



# VAT recovery

- Must be VAT registered
- No recovery for non-business purchases (unless hospice or academy)
- 100% recovery of VAT on taxable activity
- Possible recovery of exempt
- % recovery of VAT on shared expenses – non-attributable VAT or “residual pot”

# Recovery of VAT on purchases







## VAT recovery in practice

- Apportion input VAT on purchases in relation to income:
  - Outside scope
  - Exempt
  - Taxable – (20/5/0%)
  - Non-attributable/residual
- Recovery of part of non-attributable
  - Apportion non-attributable between activities
  - Recover apportioned parts in line with above
- Check if exempt is recoverable – ‘de minimis’



# VAT recovery: example

Purchase for	VAT Treatment of activity	VAT incurred	VAT Recovered
Printing and design services for magazine	Zero rated	£2,000	
Consultant to support grant funded delivery of support	Non-Business	£1,000	
Room hire for training courses	Exempt	£1,000	



# VAT recovery: example

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Printing and design services for magazine	Zero rated	£2,000	£2,000
Consultant to support grant funded delivery of support	Non-Business	£1,000	Nil
Room hire for training courses	Exempt	£1,000	It depends! Is exempt de minimis? Yes – £1,000 No – Nil



# Partial VAT recovery

This is a two step process

1. Apportion between business & non-business activities – **the B/NB method**
  - No set method. Must be “fair and reasonable”
2. Apportion business bit between taxable and exempt activities – **the partial exemption method**
  - Must use income based method (standard method); unless
  - Agree alternative in writing with HMRC



# Partial VAT recovery – example

A charity has the following different activities:

Activity	Income (£,000)	Staff Numbers
Restricted grant funded care work	200	6
Unrestricted donations	100	2
Consultancy work	100	2
Overheads	Nil	1
<b>Total</b>	<b>400</b>	<b>11</b>
Recovery rate?		

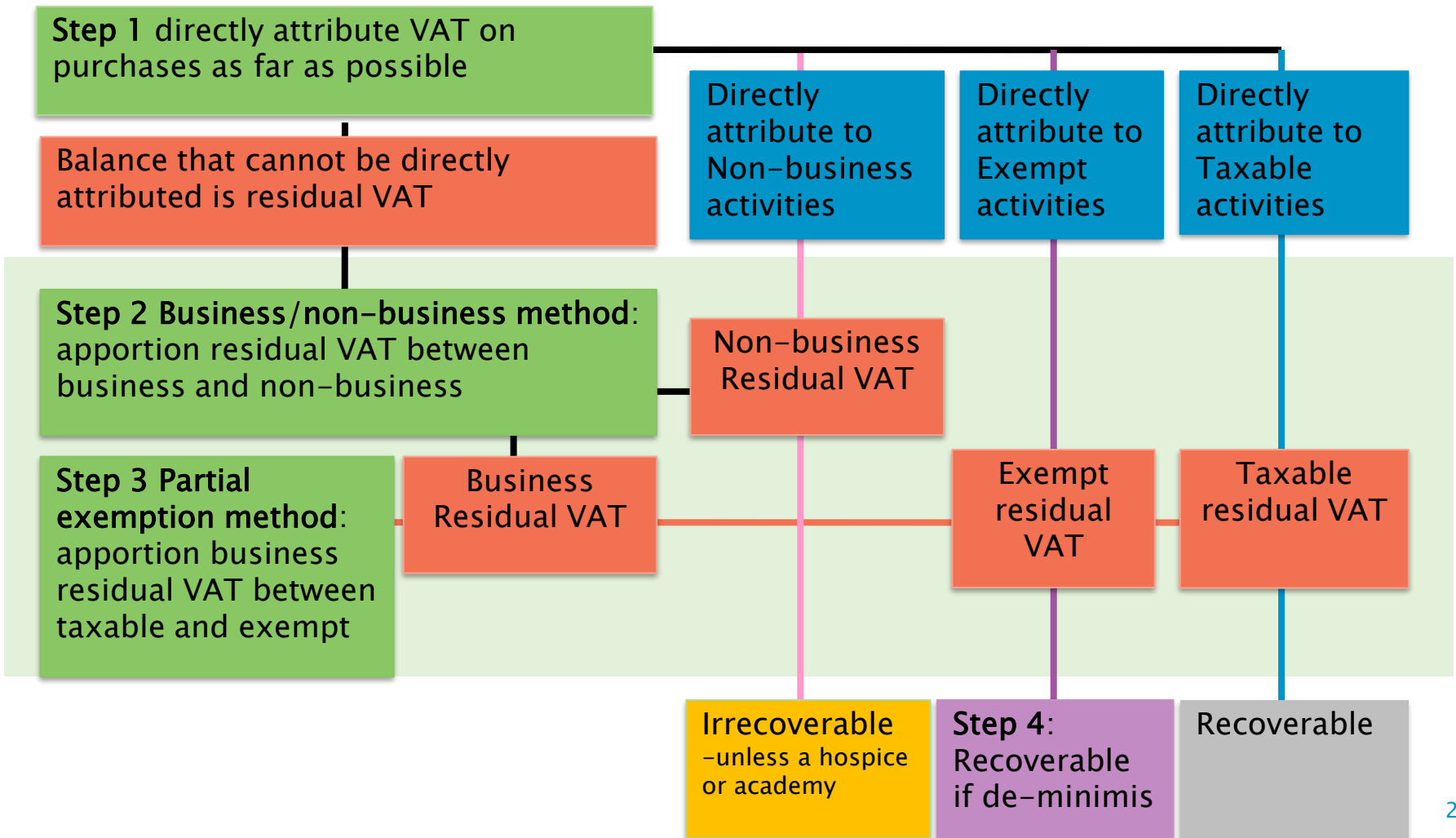


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Recovery rate?	25% (100/400)	20% (2/10) (ignore overhead staff)

# VAT recovery flow chart





## Purchase of services from abroad

- Likely to have no VAT on invoice
- You may have to self account for VAT due on supply (reverse charge)
  - This can result in additional irrecoverable VAT
- Counts towards VAT registration threshold if not registered





# Zero-rated purchases

**Available to all charities – even if not VAT registered**

- Aids for disabled
- Disabled access
- Ambulances and vehicles
- Collecting tins, badges
- Advertising



## Zero-rated advertising

- All advertising
- Includes recruitment advertising
- Any third party media
- Excludes direct mail
- Excludes charity's own website
- Pay per click adverts plus design & production costs
- Excludes Social Media/Membership sites



# Zero-rated construction

- Usually standard rated
- New buildings zero-rated if
  - Relevant charitable purpose
  - Relevant residential purpose
  - Dwelling
- 95% or more must be relevant use
- Extensions generally standard rated
- Always seek advice early



# Property & VAT

- Complicated!
- Normal rule – sale, rent is VAT exempt
- If property is “opted to tax” – usually standard rated
- Can disapply option to tax if for non business use and not as an office, for residential use or for conversion to residential use + others
- Landlord may not agree or lease wording may mean not effective

# Questions & further guidance

[ross.palmer@sayervincent.co.uk](mailto:ross.palmer@sayervincent.co.uk)

[www.sayervincent.co.uk/resources/made-simple-guides](http://www.sayervincent.co.uk/resources/made-simple-guides)

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[www.gov.uk/government/publications/](http://www.gov.uk/government/publications/)

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