



ACCOUNTING SERVICES FOR THE VOLUNTARY SECTOR

FACTSHEET NUMBER 9 - VAT ISSUES

1. General Principals

VAT is a tax levied on certain transactions. For registered traders, it is possible to recover VAT paid on purchases, but only insofar as they can be matched to a supply made which is itself subject to VAT. Thus, if a trader buys goods which have VAT included in the price and then sells them with VAT charged on the sales price, he will be able to reclaim the VAT paid.

Not all goods are subject to VAT; the following is the range of possibilities:

- Standard or lower rated – applies to a great many goods and services
- Zero rated - no VAT payable but still treated as VATable supply so it is possible to recover tax paid in making such supplies - the best possible position to be in
- Exempt – supplies which are removed from the VAT system. Examples are bank interest and insurance.
- Outside the scope – transactions which are not really supplies – one example is company dividends

2. Registration

All goods and services which are liable to VAT are called 'taxable supplies', whether you are registered for VAT or not. The total value of these supplies is called your 'taxable turnover'. If your taxable turnover reaches the registration threshold (after 1 April 2011 this is £73,000) you will generally have to register for VAT.

If an organisation makes taxable supplies but are below the taxable threshold then they can register on a voluntary basis. This is only likely to be advantageous if they make zero-rated supplies **and** incur a significant amount of VAT in doing so.

It should be understood that in no circumstances does VAT registration represent carte blanche for recovering all VAT incurred.

3. Non VAT-registered charities

Most charities are unable to register for VAT as they only receive VAT exempt income in the form of grants or donations. Of the small number which can register voluntarily, many find that it is not worthwhile since they are only allowed to claim a very small proportion of the VAT incurred on their purchases.

Although most charities cannot claim back VAT on their purchases, there are still VAT reliefs available which can help to reduce these costs by not incurring the VAT in the first place.

It is these reliefs that the remainder of this Factsheet will consider by looking at areas where VAT can be saved on purchases. To qualify you will normally need to provide the supplier with a certificate confirming your eligibility.

3.1. Energy

A reduced rate of 5% is chargeable on all fuel supplied for either residential or charity use. If it is charity use then at least 60% of the charity's activities must be non-business for VAT purposes. Note that any services the charity provides for a fee will be treated as a business activity for VAT purposes.

3.2. Energy saving materials

A reduced rate of 5% is chargeable on all energy saving materials installed in residential or charity premises. For a charity, the premises must be solely used for a non-business activity. The materials must be installed in the building and the relief applies to insulation, draught stripping and solar panels. Timer and thermostatic controls for central heating and hot water systems will also qualify but not the heating and water systems themselves.

3.3. Advertising

If you run an advert on either radio, television or in someone else's printed publication, this will qualify for the zero rate of VAT. The design and production costs of the advert will also qualify if done by a 3rd party. Direct mail shots and telesales aimed at a target group do not qualify. Neither does advertising on the charity's website, on its own greeting cards or on commemorative items such as pens and adult clothing. Exhibition stands are also excluded. Note that if the advert is also to be used by the charity, e.g. in their magazine, then any design costs are a mixed supply for VAT purposes and the designer must be made aware of this fact.

3.4. Fundraising

Some items used in fundraising by a charity can qualify for the zero rate of VAT. This includes appeal stationery, collecting envelopes for donations and preprinted appeal letters, provided that they are all overprinted with the appeal logo and charity name. The appeal letter must be a letter. It can not be just a form to complete. Collecting boxes and receptacles will also qualify for the zero rate of VAT provided that they do not have a dual purpose. Lapel stickers and emblems and badges given away free with a donation also qualify for this zero rate provided they are of low cost, are worn on clothing, and are not sold for a fixed price. A suggested donation of up to £1 can be requested provided that this greatly exceeds the cost.

3.5. Disabled access

Building adaptations for the disabled may qualify for a zero rate of VAT depending on the use to which the building is put. If you construct a ramp or widen a doorway or passage in any charity or residential building this will qualify. However, constructing a new doorway or passage will not. Providing, extending or adapting a washroom or lavatory in a charity building will only qualify if the building is used principally for charitable purposes. Providing, extending or adapting a bathroom or shower-room in a charity's residential accommodation, day centre or respite care centre, will also qualify for the zero rate of VAT.

However, a day centre will only be eligible provided at least 30% of the individuals using the day centre are disabled.

3.6. Equipment for the disabled

This is also charged at the zero rate of VAT provided the charity supplies the equipment for domestic or personal use of the disabled person. Only certain equipment qualifies including chair lifts, hoists, emergency alarm call systems, auditory training aids, medical appliances and low vision aids. Specifically excluded is any equipment which is widely available to everyone, such as a lift in charity premises. Equipment supplied to residents of a nursery home is also not eligible where the equipment is integral to their treatment.

3.7. Motor vehicles

Charitable day centres and those charities providing care or welfare services to disabled people, may purchase free of VAT motor vehicles adapted for the disabled provided that the vehicle can carry up to 13 people and is adapted for carrying a wheelchair, with a ramp or lift. These bodies can also purchase unadapted vehicles free of VAT provided that the vehicle has between 7 and 50 seats and is mainly for transporting blind, deaf, mentally handicapped or terminally ill people.

Disclaimer

This factsheet is for general information only and is not intended to be advice to any specific charity. Professional advice should be taken in respect of individual circumstances. The checklist represents my understanding of charity and taxation law and practice as at May 2011, which is subject to change.