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Managing your VAT

A brief summary for Charity FDs and Finance Managers

UK Charities are estimated to suffer annual VAT costs in excess of £1.5 billion. This takes account of irrecoverable VAT only, and does not take into account the administrative costs of dealing with VAT. (Source: Charity Tax Group.)

Almost all charities, even those subject to a favourable VAT Regime (such as Academies), face some restriction on the VAT they can reclaim on expenditure. And while VAT is rarely straightforward, the VAT treatment of income streams received by charities can be more complex.

Managing a charity's VAT position requires a proactive and strategic approach to identifying opportunities and reducing risk. We've put together a list of questions FDs and Financial Managers should be asking, and the key issues that should be addressed.

10 VAT questions Charity FDs should be regularly considering to ensure they fully understand how VAT impacts the organisation:

1. If my charity, and any trading subsidiaries, are not registered for VAT, am I confident that this is correct?
2. Have I taken into account any recharges between charity and sub, and should we form a VAT group?
3. How much VAT on expenditure is not reclaimable, and have I analysed the reasons for this?
4. Have I considered the VAT impact of any changes to our operations?
5. Where we must perform VAT apportionment calculations on either income or expenditure, am I fully conversant with the underpinning logic/assumptions behind our methodology, and am I confident that these arrangements are still "fit for purpose"?
6. Is the charity maximising the available reliefs and exemptions?
7. Is my VAT accounting MTD compliant?
8. How do I keep up to date with changes in VAT legislation/caselaw?
9. Do all staff raising sales invoices have sufficient guidance to determine the correct VAT treatment?
10. Is our internal guidance on VAT up to date?

3 themes that should inform strategic thinking:

1. Charitable income - get the VAT treatment wrong and a charity could lose up to 1/6th of its income and have to pay an additional penalty. A sometimes overlooked point is that VAT exemption available to a charity may not apply if the activity is to be carried out by a trading subsidiary. In some circumstances, charging VAT to a body such as a local authority, or certain corporate sponsors, can even prove beneficial if correctly dealt with. Membership bodies may be entitled to apportion their income and pay VAT only on VAT-able elements, and we can assist in identifying the best approach. Getting the VAT treatment right can also unlock the ability to recover VAT on expenditure.

2. Charitable expenditure - a number of narrow reliefs from VAT for particular types of expenditure exist, and ensuring a charity qualifies can make a big difference to budgets.

3. VAT recovery - it is essential that partial exemption and business/non-business apportionment calculations are correctly performed in accordance with the agreed/mandated methodology. It is important that long-standing methods are reviewed to ensure they still give a fair result, taking account of (past, or planned) changes to the charity's circumstances.

Example Case Studies

- Many charities, including **independent schools** in particular, have been **required to register for VAT**. This is not because their income is taxable, but it's on the basis that the law requires them to treat payments to overseas service providers, for example, commissions paid to overseas agents, as if it were their turnover.

- A **Membership Body** had an agreement with HMRC that it could treat a proportion of its subscriptions as zero-rated, because members received handbooks and periodicals. But when it decided to cease mailing out hard copies and put all publications online, its apportionment agreement with HMRC was no longer valid. **The charity failed to budget** for the additional VAT cost of its decision.

- A **charity** agreed a floor area based partial exemption method with HMRC, to deal with capital expenditure on a new property. However, the charity failed to update its calculations for changes in the way it used the building, **resulting in a substantial retrospective liability.**

- We are assisting a **charity** with securing a 5% VAT rate on redevelopment of an existing building. Early consideration of VAT is vital in structuring works to ensure the correct VAT treatment and avoid incurring irrecoverable VAT, in this case 15% of VAT on the costs of significant works. It is imperative that charities are aware of and **make full use of reliefs available** as money is being lost unnecessarily.

MHA Tait Walker and Charities

We act for over 70 charities, large and small, across the North East. We have a dedicated in-house Not for Profit team and VAT specialists. Collectively, the MHA member firms act for over 1,300 charities across England and Scotland.

How we can help

We can advise on:

- The correct treatment of a charity's income, and the VAT registration and VAT recovery consequences.

- The scope for restructuring a grant, or VAT exempt income, into a taxable income stream, particularly where the payer is a Local Authority, NHS Trust or commercial partner.

- How to meet the detailed conditions for VAT relief on expenditure.

- For those charities subject to special VAT regimes, including Academies, Palliative care charities, Air Ambulance charities, Search and Rescue charities and Medical Courier charities, we can help optimise claims for recoverable VAT, and advise on whether VAT registration is necessary or desirable.

- For other charities, we can assist in identifying a suitable Partial Exemption or Business/Non-Business Apportionment methodology, and agreeing this with HMRC where necessary.

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