

# Fact Sheet 8

## Charities and VAT

### VAT and Charities/Voluntary Organisations

Value Added Tax (VAT) is governed by very complicated legislation. It is presently administered by HM Revenue and Customs. They have long defended their right to view each organisation on its own merits. As such it is difficult to give specific advice to the voluntary sector. Here we aim to give a brief general overview of VAT and how it may affect your organisation.

#### 1) Registration

An organisation is not required to register for VAT until its **taxable** supplies (business income) reaches £81,000 (as at April 2014) in a twelve month period, but it may register voluntarily. An organisation can register as long as it has taxable supplies. For more information see <http://www.hmrc.gov.uk/vat/start/register/when-to-register.htm>

#### 2) Taxable Supplies

A taxable supply is essentially the sale of goods or a service and:

- is made in exchange for a payment or payment in kind
- occurs with some frequency
- continues over a reasonable period of time

There are 5 different types of supplies:

**1. Taxable - Zero rated**

0% e.g. sale of donated goods.

**2. Taxable - Standard rated**

20% e.g. training & consultancy services

**3. Taxable - Reduced rate**

5% e.g. fuel for domestic/charitable use

**4. Exempt - business supply but not considered as 'taxable'**

e.g. welfare services provided for elderly people other than for a profit

**5. Outside the scope of VAT - 'non-business'**

e.g. Grants, legacies and donations

Once you are VAT registered you have to charge VAT at the relevant rate on your taxable supplies i.e. things you sell that fall in to 1, 2 and 3 above.

For further information on VAT rates see <http://www.hmrc.gov.uk/vat/forms-rates/rates/rates.htm>

#### 3) Recovering VAT

Registration is not the green light to recover all the VAT you have incurred. VAT can usually only be reclaimed where it relates to the activities on which you charge VAT, e.g. if you sold consultancy services.

Some VAT may be reclaimed on exempt activities subject to some special rules. VAT cannot generally be recovered on non-business activities, such as grant funded activities.

There are some special VAT reliefs for goods bought for people with disabilities.

#### **4) Should I register even if I don't need to?**

If you are thinking about voluntary registration you need to consider whether you will be able to claim back sufficient VAT to justify:

1. charging VAT to clients who may not be able to reclaim it e.g. VAT on a training course you deliver
2. increased administration and accounting costs
3. penalties and surcharges if you get it wrong

If you are primarily grant funded it is unlikely that a voluntary registration will be beneficial. Where your funding is a mixture of fees, grants and contracts the balance is even more complicated. For those charities that are 'trading' you may have no choice but register.

#### **5) Tip**

If your income excluding grants and donations is approaching the registration limit, currently £81,000 seek specialist advice. You are required to notify HM Revenue and Customs within 30 days of the end of the month in which your yearly limit was exceeded. If you choose to contact HM Revenue and Customs keep a copy of all correspondence.

#### **Further information:**

There is a useful section on the HM Revenue and Customs website 'VAT for charities and not-for-profit organisations: introduction' –

[www.hmrc.gov.uk/CHARITIES/vat/intro.htm](http://www.hmrc.gov.uk/CHARITIES/vat/intro.htm)

#### **Have you seen our other useful fact sheets?**

- Fact sheet 1: Starting Up
- Fact sheet 2: Management Committee Roles and Responsibilities
- Fact sheet 3: Planning and Holding Meetings
- Fact sheet 4: Legal Structures
- Fact sheet 5: Constitution
- Fact sheet 6: Business Planning
- Fact sheet 7: Are you fit for funding?

#### **For further information and advice contact the CVS Development Team:**

Call 01768 800350 or email: [info@cumbriacvs.org.uk](mailto:info@cumbriacvs.org.uk)

Or visit the Cumbria CVS website [www.cumbriacvs.org.uk](http://www.cumbriacvs.org.uk)

**Disclaimer:** *The information contained in this Fact sheet is printed in good faith. Whilst every care is taken to ensure that it is correct, Cumbria CVS cannot accept liability for any omissions or inaccuracies and does not take responsibility for the quality of any services or products mentioned.*