

## Factsheet 24: Charities and VAT

Value Added Tax (VAT) is governed by very complicated legislation. It is presently administered by Customs and Excise. 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 £56,000 in a twelve month period, but it may register voluntarily. An organisation can register as long as it has taxable supplies.

### 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

### *Examples of different types of supplies*

There are 5 different types of supplies:

- 1: *Taxable - Zero rated*  
0% e.g. sale of donated goods.
- 2: *Taxable - Standard rated*  
17.5% 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.

### 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 a voluntary registration you need to consider whether you will be able to claim back sufficient VAT to justify:

- charging VAT to clients who may not be able to reclaim it, e.g. VAT on a training course you deliver
- increased administration and accounting costs
- 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 who are *'trading'* you may have no choice but register.

Customs and Excise has a useful leaflet No. 701/1/95 which gives details of VAT issues specifically relating to charities

**5: Tip**

If your income excluding grants and donations is approaching the registration limit, currently £56,000, seek specialist advice. You are required to notify Customs and Excise within 30 days of the end of the month in which your yearly limit was exceeded. If you choose to contact Customs and Excise yourself, keep a copy of all correspondence.

**6: Further Help**