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“Charities, they don’t pay VAT, do they?” Unfortunately, that is simply not the case. VAT is ordinarily the most significant tax cost for a charity. However, that also means VAT offers the greatest opportunity to make savings. Due to complexity of the legislation, and the constant changes affecting the sector, it is important to have access to technical expertise to support you.

SOC VAT Consultants are specialists in advising charities and other not-for-profit organisations. We have considerable experience in the sector and aim to provide you with clear, understandable, yet innovative solutions.

We can provide guidance and assistance on all VAT matters affecting charities, such as membership subscriptions, education and conferences, admissions to cultural events, methods of apportioning VAT incurred on purchases and the various zero rate reliefs that may be available. We have set out below some of the more common ways that we can assist you.

SOC VAT Consultants are members of the Charity Finance Directors Group and the Charity Tax Reform Group and hence are well placed to be aware of the issues facing the sector.

VAT Services

■ The VAT liability of activities and income

This is a complex area for charities. Unless the treatment of income and activities can be correctly decided, a charity could be at risk of paying too little VAT to Customs & Excise (“Customs”). Equally, it could be paying too much VAT.

One very important issue with liability is to appreciate that the ability to recover VAT on expenditure is reliant on the charity having determined whether an activity is by way of “business”, or if it is “non-business”; the business supplies are then categorised as standard-rated, zero-rated, reduced-rated, or exempt from VAT. Also, income might not necessarily be consideration for a supply at all, but simply a donation or grant which is outside the scope of VAT.

It is not surprising therefore that mistakes occur and charities are faced with time consuming VAT visits, unexpected assessments, interest and possibly penalties. We can assist a charity, if it is in any doubt, by advising on specific current or past transactions, or by carrying out a check of all activities and income streams. This will help you to be compliant with Customs requirements, and avoid any unpleasant and costly surprises in the future. It may also provide you with an unexpected VAT repayment from Customs.

As an example, a client was treating all of its subscription income as exempt. It could not therefore recover any VAT in relation to this activity. We agreed with Customs that some of the income could be treated as zero-rated, allowing for a proportion of its VAT on costs to be recovered over a retrospective, three year, period.

■ Business/non-business and partial exemption methods

VAT on purchases can be recovered if it relates wholly or in part to taxable business activities and income, i.e. those that are standard, zero and reduced rated. Whilst some of the VAT can be directly attributed to a business or a non-business activity, or to an exempt or taxable supply, much of the VAT incurred relates to more than one activity. For example VAT on general office expenditure, telephones, computers etc. It is therefore necessary to use methods of apportioning the residual/overhead VAT so that some of it can be recovered from Customs. Methods vary considerably, as do the recovery rate that they achieve and most require the prior agreement of Customs. We can review your current VAT recovery position, advise on appropriate methods that are not overly complex to administer and negotiate their use with Customs. We may also be able to agree the use of a more favourable method retrospectively.

As an example, we recently reviewed a partial exemption method that was based on income. We suggested (and agreed with Customs) a method based on staff numbers. This improved the recovery rate by approximately 30% and was much easier to administer.

■ Zero rate reliefs

Although charities, like other businesses do pay VAT, they are potentially able to benefit from a number of zero-rated reliefs. Most have conditions which require careful consideration. For example the need to issue certificates to contractors for qualifying building works or to purchase equipment for the benefit of disabled persons. There are penalties for inappropriate use of certificates, hence it is important to clearly understand the circumstances in which a relief is available and how it can be achieved.

We can confirm whether you are entitled to a relief and how to achieve it. We can prepare flow charts to allow staff to decide if purchases are zero-rated.

We recently prepared a charity advertising flow chart for a client based in various locations across the country, to ensure staff were able to maximise the relief available.

■ Property construction and transactions

The potential VAT cost of property transactions is usually significant, whether this involves new build, conversions, refurbishments or extensions. With all these works a charity can potentially save all or some of the VAT that a supplier might ordinarily intend to charge (so he is not exposed to a future issue with Customs). Reliefs available will depend on the use of the property. It is usually necessary to agree the amount of VAT that is charged with the supplier and Customs and it may well be necessary, as mentioned above, to issue certificates. With regard to deciding whether VAT charged can be recovered by the charity, it may not always be easy to determine whether the use is business or non-business, taxable or exempt. For example the rent of non-domestic properties can be exempt or taxable depending on the "option to tax".

Land and property transactions are very complex. It is therefore essential that a charity gains independent professional advice when undertaking such transactions. Customs will not help you maximise your VAT saving! We can assist you in all property transactions. That includes reviewing transactions retrospectively with a view to identifying an opportunity to save VAT.

We have saved, hundreds of thousands of pounds for many clients in this area. For example, we recently negotiated with a supplier and his VAT officer, to reduce the VAT charged to a charity on a conversion/refurbishment project from 17.5% to 5% (for the entire works). This saved approximately £230,000. We have also been aware of situations where VAT has not been appropriately considered at the right time. For example one charity opted to tax on a community centre it was refurbishing. It incurred over £400,000 VAT, which it intended to recover as it would

make taxable supplies of the property. However, it was inadvertently caught by legislation making the option to tax invalid and the transactions it made became exempt. The VAT on refurbishment was therefore irrecoverable.

■ VAT group registration

Many charities form trading subsidiaries to undertake activities that are not consistent with their aims and objectives. This gives rise to the potential for VAT savings, perhaps through VAT-grouping, or the generation of additional taxable supplies. However there are pitfalls that need to be taken into account, for example anti-avoidance legislation, even though you may consider VAT to be a subsidiary reason for the group structure.

We have helped many of our clients by implementing structures that either ensure that irrecoverable VAT costs are not incurred, or by increasing the rate of overall VAT recovery. In some instances where grouping has not been feasible, the use of joint contracts of employment can be a viable alternative.

■ Training staff and providing VAT manuals

Bespoke training courses are one of the best ways of identifying issues and especially opportunities. We develop and deliver courses that are tailored to meet your training needs. Our courses are interactive and the feedback we have received from clients who have used this service has been very positive. Training can also help staff to deal with Customs so that they do not describe an activity in such a way that allows Customs to gain an incorrect prospective, possibly leading to an assessment.

In addition, we can prepare VAT manuals and income/expenditure reference matrices. Guidance is available on the market, but it is often not specific enough for you to decide on the treatment of your activities.

■ Health checks and VAT officer visits

You may be concerned that your charity is exposed to a VAT cost were Customs to visit. We can carry out a health check to provide you with comfort. If necessary we will make recommendations on voluntary disclosures, thus reducing the risk of incurring penalties or interest. Importantly, we often find that a health check identifies opportunities to save VAT. In addition, should you so wish, we could be present at a visit.

You should remember that Customs decisions can be wrong, hence the number of Tribunal and other court cases each year. We offer a free initial review of assessments and decisions. We would then advise you if the decision can/should be challenged, and if required, advise you on the merits of an appeal to the VAT Tribunal.

■ Contacts

You can contact **Socrates Socratous** on 0870 770 3370, or email us at soc@socvat.com

Solutions On Call