

VAT and voluntary organisations

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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.

1 | Registration

An organisation is not required to register for VAT until its taxable supplies (business income) reaches £60,000* in a twelve month period, but it may register voluntarily. An organisation can register as long as it has taxable supplies.

*Watch out for changes in future budgets

For details of how to register, you can either visit the HMRC website or ring them on the number below – see [Further Help](#).

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. 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:

- 1 **Charging VAT to clients who may not be able to reclaim it**

E.g. VAT on a service 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 who are trading you may have no choice but register.

HM Revenue and Customs has a useful leaflet, No. 701/1, which gives details of VAT issues specifically relating to charities. www.hmrc.gov.uk/charities/vat-how-it-affects-charities.htm

5 | Tip

If your income excluding grants and donations is approaching the registration limit, currently £60,000, seek specialist advice. If you choose to contact HM Revenue and Customs yourself, keep a copy of all correspondence.

Further help

Ask BVSC Helpline

0121 678 8888

askbvsc@bvsc.org

Development Agencies website

Links and information for developing voluntary and community organisations.

www.birmingham-da.org

CASH-online

Resources and advice for voluntary and community groups in handling finances.

www.cash-online.org.uk

Finance Hub

Tools and good written guidance on a range of finance and funding issues.

www.financehub.org.uk

Charity Commission

www.charity-commission.gov.uk

Receipts and payments accounts pack:

www.charity-commission.gov.uk/publications/cc16.asp

HM Revenue & Customs

www.hmrc.gov.uk

VAT registration helpline: 0845 010 9000