

VAT for hospices

made simple



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Introduction

A VAT refund scheme for eligible hospices applies to purchases made on or after 1 April 2015. We refer to this scheme as the s33c *refund scheme*, as the legislation setting out the scheme is in VAT Act 1994 sections 33c–33d. The scheme applies to both VAT-registered and unregistered hospices. The scheme provides a refund for the VAT incurred on purchases used in an eligible hospice’s non-business activities.

This guide is structured as follows:

- 1 Eligibility** The first section explains how to determine if a hospice is eligible for the scheme and how VAT claims are made under s33c.
- 2 VAT categories for income** explains how to distinguish between a hospice’s non-business, exempt and taxable activities.
- 3 How to reclaim VAT on purchases** explains how to determine the amount of VAT that can be reclaimed by a hospice. It explains the special VAT rules for apportioning VAT incurred on mixed-use costs such as overheads.
- 4 Zero-rating and reduced-rating reliefs on purchases** outlines the main VAT reliefs available to hospices. VAT registered and unregistered hospices are eligible for a wide range of VAT reliefs. These work by zero-rating or reduced-rating a purchase that would otherwise bear standard-rated VAT.
- 5 Fundraising and VAT** explains the key VAT issues involved in fundraising activities commonly undertaken by hospices. These include: charity shops (selling donated goods), fundraising events, challenge events and sponsorship.

The s33c refund scheme

The s33c refund scheme applies to purchases made by eligible hospices on or after 1 April 2015. It provides a 'palliative care charity' with a refund for the VAT it incurs on purchases that are for use in its non-business activities.

A palliative-care charity is defined as *a charity the main purpose of which is the provision of palliative care at the direction of, or under the supervision of, a medical professional to persons who are in need of such care as a result of having a terminal illness.* Medical professional is defined as a registered medical practitioner or a registered nurse.

In this guide we refer to palliative-care charities as hospices. To take advantage of the s33c scheme all hospices will have to be able to distinguish between their business activities and their non-business activities. This is explained in the next section.

Making s33c claims

There are different claim procedures for hospices that are registered for VAT and for unregistered hospices.

- **VAT registered hospices.** If the hospice is VAT registered, it includes the amount of VAT claimed under s33c in box 4 of the UK VAT return.
- **Unregistered hospices.** If the hospice is not registered for VAT, refund claims must be made on HMRC form VAT 126. VAT 126 claims are now made online. A VAT 126 claim must relate to a period of at least one calendar month, or at least 12 months if it is for less than £100. The period you choose must end on the last day of a calendar month.

Monthly VAT returns

If a hospice is VAT registered, its VAT returns must normally be submitted quarterly. However, a VAT registered entity may request monthly VAT returns. This can be advantageous from a cash-flow perspective but against this must be offset the extra work involved in submitting monthly VAT returns.

Record keeping

For both VAT registered and unregistered hospices, you must keep the purchase invoices and other records to support your claims for at least six years, unless you have applied in writing, and HMRC has agreed to you keeping them for a shorter period. All purchase invoices must normally be bona fide VAT invoices made out to the hospice, though there are a few situations in which HMRC will accept alternative evidence.

Types of VAT that can be claimed

The types of VAT that can be claimed under s33c are:

- UK VAT charged by a UK VAT registered supplier.
- UK import VAT incurred on an import of goods into the UK.

UK VAT registered hospices can also claim for:

- UK reverse charge VAT, incurred on a *reverse charge* purchase of services from outside the UK.
- UK acquisition VAT payable on an acquisition of goods for a supplier in the European Union. With effect from 1 January 2021, only hospices in Northern Ireland incur acquisition VAT.

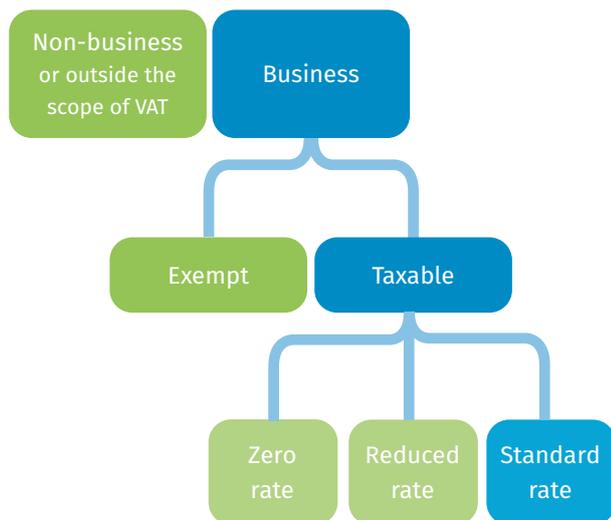
However, only UK VAT can be claimed. Any non-UK VAT (for example French VAT) charged by a non-UK supplier cannot be claimed in the UK VAT return or in a VAT 126 claim.

Deadline for claims

A VAT 126 claim can be made within four years of the end of the month in which the supply was received (VAT Notice 1001 Section 4.3). For example, for a supply of goods in July 2020, you must submit your claim by 31 July 2024.

For VAT registered hospices, HMRC say you must make your claim within four years of the due date of your return for the VAT period (VAT quarter/month) in which the VAT became chargeable (VAT Notice 1001 section 3.4).

VAT categories for income



Your income streams must be sub-divided into the following types:

- **Non-business income** *outside the scope of VAT*. No output VAT charged.
- **Business income** *within the scope of VAT*. Output VAT is potentially charged if VAT registered.

If you are registered for VAT, business income must be further differentiated between:

- **Exempt** income within the scope of VAT but no output VAT charged
- **Taxable income** within the scope of VAT and output VAT charged at the relevant rate (standard-rated: 20%, reduced-rate: 5% or zero-rate: 0%).

If the total taxable income in the last 12 calendar months (or next 30 days alone) exceeds the VAT registration threshold (200/21: £85,000), you must register for VAT.

Types of income

The following types of income are considered below and in the section [Fundraising and VAT](#):

Non-business

- Most grants, public donations, legacies and similar
- Passive financial investment income (bank

interest, investment income and gains etc.)

- Subsidised welfare services
- Some contract income: NHS standard contracts, continuing-care contracts, see below.

Exempt

- Fees for care and welfare services.
- Sales of education and training by an eligible body.
- Sales at qualifying fundraising events.
- Lotteries.
- Property income (unless opted to tax).

Taxable: Zero-rated

- Sale of donated goods.
- Sale of printed publications (and from 1 May 2020, sale of e-publications).
- Sale of children's clothing and footwear.
- Some sales of food and drink for consumption off premises.

Taxable: Standard-rated

- Retail Gift Aid Scheme commissions.
- Management charges to trading subsidiary (if not VAT grouped).
- Consultancy and advice services.
- Corporate sponsorship (unless of a qualifying fundraising event).
- Sales of catering.
- Challenge event commissions.
- Property income (if opted to tax).
- Advertising services (zero-rated if supplied to a charity).
- Most sales of bought in goods (unless zero-rated).

Non-business income

Grants, public donations, legacies and similar

Grants, public donations and legacies are normally seen as outside the scope of VAT on the basis they are not consideration for any

supply. However, grants calculated per unit of output (*performance-related grants*) can be seen as consideration for a business supply of the output.

Passive financial investment income

Bank interest, income and gains from passively held financial investments, dividends etc. are all non-business income for a charity.

Contract income

This can be either business or non-business:

- **Standard NHS service-level contract** HMRC accept that funding provided to a hospice under the NHS standard service-level contract is non-business (VAT Notice 1001 Section 2.4.2).
- **Continuing care contracts** HMRC initially advised that income from continuing-care contracts for named individuals should normally be treated as VAT exempt business income (VAT Notice 1001 Section 2.4.2). However Hospice UK advises that HMRC has accepted that such income can be classified as non-business. See [Further Information](#) for a link.
- **Personal-budget contracts** HMRC consider income under personal-budget contracts to be VAT exempt business income (VAT Notice 1001 Section 2.4.2). However, HMRC accept they are eligible for the 15% welfare services concession. See [Subsidised welfare services concession](#) below.
- **Other contracts** Income from other contracts is likely to be within the scope of VAT, though income from un-commercial contracts can be outside the scope of VAT.

Subsidised welfare services concession

HMRC accept (at VAT Notice 701/1 Section 15.8) that charities that provide welfare

services at significantly below cost to distressed persons for the relief of their distress, may treat these supplies as non-business and outside the scope of VAT. Significantly below cost means subsidised by at least 15%. The subsidy must be available to everyone. The charity must also be providing the service to the distressed individual, and not under contract to a local authority or NHS body.

Staff secondments

HMRC accept (at VAT Notice 701/1/04 Section 5.17) that if staff from one charity or non-profit voluntary organisation are seconded to another on a cost-reimbursement basis the consideration can be treated as non-business and outside the scope of VAT, provided the employee has been engaged only in the non-business activities of the lending charity/organisation and is being seconded to assist in the non-business activities of the borrowing charity/organisation. The payment for the provision of the employee's services must not exceed the employee's normal remuneration, NI, pension contribution etc.

Exempt income

Business supplies of health and welfare services

Most business supplies of health and welfare services (and ancillary supplies) by hospices to patients are likely to be VAT exempt. Exemption covers business supplies of medical care and business supplies of welfare services by charities, and ancillary sales. Welfare services include: services directly connected with the provision of care, treatment or instruction designed to promote the physical or mental welfare of elderly, sick,

distressed or disabled persons; and services directly connected with the care or protection of children and young persons.

Education or vocational training

A business supply of education or vocational training is VAT exempt if it is made by an education eligible body:

- Education means a course, class or lesson of instruction or study in any subject, regardless of when and where it takes place.
- Vocational training means training, re-training or the provision of work experience for any trade, profession or employment or for any voluntary work connected with education, health, safety, welfare or the carrying out of activities of a charitable nature.

Education-eligible bodies include charities and other non-profit distributing bodies provided they ring fence any profits from educational supplies to the continuance or improvement of such supplies. If not an eligible body supplies of education and vocational training are standard-rated.

Fundraising events

Sales of goods or services in connection with a qualifying fundraising event are VAT exempt. See the section on Fundraising and VAT below.

Lotteries

Income from the sale of lottery tickets and from other games of chance is VAT exempt. This includes commission on selling other people's lottery tickets, such as the National Lottery. If you run your own lottery or games of chance, the exempt turnover is the full amount of the stakes or takings, less any money paid out in winnings or, if the prizes are goods, their cost (including irrecoverable VAT).

Zero-rated income

Sale of donated goods

The sale or hire by a charity or a *profits-to-charity person* of goods donated to it for sale or hire is zero-rated. See [Fundraising and VAT](#) below.

Sales of publications

Supplies of printed-on-paper books, booklets, magazines, journals, newspapers and similar are zero-rated. Zero-rating covers outright sales and the hire or loan of qualifying printed matter. However, zero-rating excludes: printed products with more than 25% areas for completion such as diaries and address books; posters, calendars, postcards, greeting cards and similar and sales of publications on digital carriers such as CDs or DVDs.

With effect from 1 May 2020, the supply of electronic books, booklets, leaflets, brochures, newspapers, journals and periodicals is zero-rated but the zero-rate excludes e-publication that are wholly or predominantly devoted to advertising, or audio or video content.

Supplies of children's clothing and footwear

The supply of clothing or footwear designed for children under 14 and not suitable for use by older children or adults is zero-rated. HMRC publish tables of accepted children's sizes (VAT Notice 714 Section 4.2). The sale of certain protective boots and helmets is also zero-rated.

Food and drink

The sale of food and drink for human consumption is zero-rated, but excluding:

- All supplies in the course of catering. Supplies in the course of catering include supplies for consumption on the premises

on which they are supplied (for example, restaurant meals) and supplies of hot food for consumption anywhere (for example, hot takeaway food).

- Ice cream, ice lollies, frozen yoghurt, water ices and similar frozen products.
- Confectionery, not including cakes or biscuits other than biscuits wholly or partly covered in chocolate.
- Alcoholic beverages, fruit juices, bottled water and concentrates for preparing beverages, sports drinks.
- Potato crisps and similar products made from potato, savoury-swelled cereal products and salted or roasted nuts other than nuts in shells.

See VAT Notice 701/14

Standard-rated income

Standard-rating is the default for taxable supplies so a taxable supply is standard-rated unless it falls into one or more of the zero- or reduced-rating categories. Standard-rated supplies include:

Challenge event commissions

Where a charity or its subsidiary acts as agent of a challenge event organiser in recruiting participants and handling payments, the agency commission is a standard-rated supply for the agent.

Sale of bought-in goods

A charity can zero-rate sales of donated goods however there is no general zero-rating for sales of bought-in goods, their supply will therefore be standard rated, unless the goods qualify for zero-rating or reduced rating in some other way (for example as supplies of printed matter or children's clothing).

Management charges

These are charges made by one entity for providing management services to another,

for example administration services, services of managers, IT support, financial support etc. Management charges made by a hospice to its trading subsidiary are standard-rated, unless the hospice and trading subsidiary are in a VAT group in which case they are ignored as intra-group transactions.

Consultancy services

General advice services are standard-rated.

Advertising services

Supplies of advertising in publications, on websites, on notice boards, bill boards etc. is by default standard-rated, however, supplies of advertising to a charity are zero-rated.

Commission on Retail Gift Aid scheme

If you operate the Retail Gift Aid scheme then any sales commission charged to donors under the scheme is standard-rated.

Catering sales

Catering includes the provision of hot or cold food or drink for consumption on the premises where they are supplied. By default supplies of catering are standard-rated. HMRC do accept that catering supplied for a charge as part of an exempt welfare service is also exempt as a supply that is closely related to an exempt supply of care. This includes meals for residents of hospices and care homes, and supplies of food and drink (but not alcohol) from trolleys, canteens and shops to patients (see VAT Notice 701/1 Section 5.6). HMRC do not accept that catering provided to non-patients such as staff and family members for a fee is covered by the exemption, unless the supply is to a relative staying with a sick child (see VAT Notice 701/31 Section 2.12). If catering is provided for free its provision is a non-business activity.

How to reclaim VAT on purchases

From 1 April 2015 a charitable hospice can claim for the VAT it incurs on purchases as follows:

	Unregistered hospice	VAT registered hospice
Full VAT claim	<p>If all activities are non-business</p> <p>You can claim all VAT incurred on purchases via s33c. You should record all VAT incurred on purchases and claim via the VAT 126 form.</p>	<p>If you undertake solely non-business activities and taxable activities</p> <p>You can claim all VAT incurred on purchases. You must record all VAT incurred on purchases and enter in box 4 on the VAT return.</p>
Partial VAT claim	<p>If you undertake a mix of business and non-business activities</p> <p>You can claim for VAT incurred in non-business activities but not for VAT incurred in business activities.</p> <p>You should record VAT incurred on purchases used in your non-business and mixed/residual activities, apportion the latter and claim via the VAT 126 form.</p>	<p>If you undertake non-business activities, exempt and taxable business activities</p> <p>You can claim the VAT incurred in the taxable and non-business activities. You can only recover the VAT incurred in exempt activities if the overall level of exempt activity is de-minimis (see below).</p> <p>Record all VAT on purchases and distinguish between VAT incurred in non-business, exempt, taxable and mixed/residual activities. Apportion the latter and claim and recover in box 4 on the VAT return.</p>
No VAT claim	<p>If you undertake solely business activities</p> <p>You cannot claim for any VAT incurred. No need to record VAT incurred on purchases.</p>	<p>n/a – must make taxable supplies in order to be VAT registered.</p>

Blocked VAT

VAT incurred on certain purchases is *blocked* and is always irrecoverable. Blocked VAT includes VAT incurred on:

- **business entertaining** this means the provision, in the course of a business activity, of free entertainment to people who are not employees. Entertainment includes food, drink, accommodation and entrance to events
- **cars available for private use** where cars are purchased for employee use and the car will be available for private use then recovery of the VAT incurred on the car is blocked.

Recording VAT on purchases

Most accounting software has a VAT facility which may require activating. Once activated, you then record, at the point of entry, the VAT incurred on each purchase transaction. Under Making Tax Digital for VAT (MTD for VAT), with effect from 2019 most compulsorily VAT registered hospices (with taxable income above the VAT registration threshold) have had to record all VAT related transactions in a prescribed digital format and submit VAT returns to HMRC digitally via the internet.

VAT pools

Hospices in a partial VAT recovery position will have to assign the VAT incurred on purchases to one of several *VAT pools* and then carry out periodic calculations on the

balances in those pools to determine how much of that VAT can be claimed

Hospice not VAT registered

Non-business pool – claim in full.

Business pool – no claim.

Residual (or mixed use) pool – part claim (business/non-business method).

Hospice VAT registered

Non-business pool - claim in full.

Taxable pool - claim in full.

Exempt pool – do not claim unless exempt activity is de-minimis.

Residual (or mixed-use) pool – part claim (business/non-business and partial exemption methods).

Assigning purchase VAT to the pools

To determine which pool to assign the VAT incurred on a purchase to, you need to decide which type of activity the purchase will be used in. VAT on a hospice purchase is likely to fall within one of the following:

Non-business pool (all hospices)

- Wholly grant funded activities.
- Activities funded wholly from non-business sources – for example grants, non-business NHS contracts, public donations, legacies, reserves, surpluses on fundraising, and financial investment income.
- Subsidised welfare contracts.
- Non-business contracts.

Business pool (unregistered hospice), exempt pool (VAT registered hospices)

- Care contracts (excluding subsidised welfare services and non-business contracts).
- Qualifying fundraising events.
- Lotteries and games of chance.
- Education and training (eligible body only).

- Property lettings (not opted to tax).

Business pool (unregistered hospice), taxable pool (VAT registered hospices)

- Sale of goods (donated or bought in).
- Management of a trading subsidiary (if not VAT grouped).
- Education and training (not an eligible body).
- Property lettings (opted to tax).
- Some challenge events (see below).

Residual / mixed use pool (all hospices).

- Overheads, head office costs etc.
- Central function costs: CEO's office, HR, admin, finance etc.
- Trustee costs, audit, statutory filings, AGM, annual report etc.
- Assets for mixed use: IT systems, websites, general software etc.

Accounting systems and VAT pools

There are various ways of assigning the VAT incurred on a purchase to a pool:

VAT codes

Many accounting systems have special VAT codes (tax codes, T-codes etc.) for transactions which can be set up to distinguish between the various pools.

VAT control accounts

If the accounting systems allow multiple VAT control accounts, separate VAT control accounts could be set up for each pool.

Nominal / departmental / cost centre / purchase ledger allocations

Another potential option is to link nominal codes, departments, cost centres, suppliers etc. to the pools with VAT incurred by that code/ department/ cost centre/supplier then being assigned to its pool.

Period end routine

At the end of every VAT reporting period (month or quarter) the balance of VAT in each pool is determined and the VAT recovery calculations undertaken. A journal is then made to remove the irrecoverable VAT and record the VAT liability to/from HMRC for the period. Irrecoverable VAT can be either posted to expenditure to go with the associated cost or to a specific expenditure code and apportioned. Another approach is to set custom VAT rates so only recoverable VAT is posted to the VAT control accounts.

The business/non-business method

VAT in the residual pool must first be apportioned between non-business and business activities. This apportionment is referred to as the business/non-business method. The part of the residual VAT apportioned to non-business activities can be claimed under s33c.

You can use any business/non-business apportionment method you like provided it is fair and reasonable and capable of being independently checked by HMRC. Fair and reasonable means it must fairly and reasonably reflect how residual costs are used.

Potential business/non-business apportionment methods

The typical approach is to compare levels of business and non-business activity by use of a suitable and readily quantifiable proxy such as relative levels of income, staff numbers, staff cost, staff time, direct expenditure etc. These can normally be taken from the statutory or other annual accounts.

Periodically (annually or quarterly) a s33c recovery percentage is calculated as follows:

$$\text{s33c recovery percentage} = \frac{\text{(non-business level in period)}}{\text{(non-business level + business level in period)}} \times 100\%$$

This percentage is multiplied by the amount of VAT in the residual pool for the period. The result is the amount of residual VAT that can be claimed under s33c.

$$\text{Residual VAT to be claimed} = \text{Total residual VAT} \times \text{s33c recovery percentage}$$

Example – business/non-business method

Hospice A is not registered for VAT. It uses the FTE numbers of staff working in business and non-business activities to apportion residual VAT. The residual VAT for a particular period is £20,000 and the FTE numbers of staff working in different activities (excluding support staff) in that period were:

- working in non-business activities: 12
- working in business activities: 8

$$\text{s33c recovery percentage} = \frac{12}{12 + 8} \times 100\% = 60\%$$

The amount of residual VAT that can be claimed under s33c is: £20,000 x 60% = £12,000.

Potential proxies

Potential proxies for the levels of business and non-business activity include:

- **Income** Compare non-business income and business income.
- **Expenditure** Compare direct costs or direct costs plus apportioned support costs of business and non-business activities.
- **Staff** Compare staff numbers or the cost of staff or staff time spent working directly in business and non-business activities.
- **User visits** Compare numbers of user visits for business and non-business activities.
- **Floor area** Compare floor areas occupied

by business and non-business activities.

- **Transaction count** Compare the number of transactions undertaken by business and non-business activities.
- **Activity level** Compare other activity statistics.

The annual adjustment

The s33c recovery percentage can be calculated afresh each VAT period or it can be calculated annually via an *annual adjustment*. An annual adjustment is not obligatory for the business / non-business method however it simplifies the calculation and reduces the effects of seasonal variations in activity levels.

The general approach is to use last year's recovery percentage as calculated in the previous year's annual adjustment on a provisional basis in each VAT period on the next year, subject to correction at next year's annual adjustment, with that figure then being used on a provisional basis the next year and so on ...

$$\text{S33c annual adjustment} = \text{VAT claimable at the actual s33c recovery percentage} - \text{VAT actually claimed at the provisional s33c recovery percentage}$$

If the S33c annual adjustment is positive, the adjustment is added to the next s33c claim, if it is negative it is deducted from the next s33c claim.

The partial exemption method

If a hospice is VAT registered, and if it has VAT exempt activities, it must apportion any remaining residual VAT between exempt and taxable activities. This apportionment is referred to as the *partial-exemption method*. By default you must use the *standard partial-exemption method* (income based), however

you can apply to HMRC to use an alternative *partial-exemption special method* (or PESH), for example an apportionment method based on the numbers of staff.

As with the business/non-business annual adjustment, the general approach is to calculate a year end business recovery percentage which is used provisionally next year subject to an annual adjustment. If you use the standard partial-exemption method the business-recovery percentage can be rounded up to the nearest whole percent (provided total business residual VAT is at most £4.8 million per year), however if you use a partial-exemption special method, the business recovery percentage must (normally) be rounded to two decimal places.

The overall recovery rate

The overall recovery percentage is the proportion of all residual VAT (including any apportioned to non-business) that can be claimed. This can be calculated as an overall recovery percentage of all VAT posted to the residual pool as:

$$\text{Overall recovery percentage} = \text{s33c\%} + \text{BR\%} \times (100\% - \text{s33c\%})$$

S33c% = s33c recovery percentage (rounded to two decimal places)

BR% = business recovery percentage (rounded as appropriate)

Example

Standard partial-exemption method

Hospice B is VAT registered and has a mix of non-business, taxable and exempt activities. It incurs residual VAT of £100,000 in a VAT year. It uses income based business/non-business and partial-exemption apportionment methods. In the year in question, its (net of VAT) income was:

Non-business	£1,400,000
Taxable	£200,000
Exempt	£400,000
Total	£2,000,000

The s33c recovery percentage is:

$$(\text{£}1,400,000 / \text{£}2,000,000) \times 100\% = 70\%.$$

The business recovery percentage is:

$$\text{BR}\% = (\text{£}200,000) / (\text{£}200,000 + \text{£}400,000) \times 100\% = 33.33\%$$

As this is the standard partial-exemption method, the business recovery percentage is rounded up to the nearest whole percent:

$$\text{BR}\% = 34.00\%$$

The overall recovery percentage is:

$$70\% + (34\% \times (100\% - 70\%)) = 80.20\%$$

This is calculated to two decimal places.

The actual residual VAT that can be claimed in the year is: $80.20\% \times \text{£}100,000 = \text{£}80,200$.

De-minimis test

The de-minimis test is normally an annual test, carried out in the annual adjustment. If the hospice is de-minimis for the year it is assumed to be de-minimis on a provisional basis in each period of the next VAT year. If not de-minimis it is assumed not to be de-minimis in each period of the next VAT year. These assumptions are then corrected in the annual adjustment.

There are three de-minimis conditions. If one or more of them is met, a hospice is de-minimis and if none of them is met, it is not. In the de-minimis conditions: *Input VAT* means VAT on purchases directly attributed and apportioned to business activities and *exempt input VAT* means VAT on purchases directly attributed and apportioned to exempt activities.

De-minimis condition 1

- Total input VAT (VAT directly attributed and apportioned to business activities) is less than or equal to £7,500.
- The turnover on exempt supplies is less than or equal to the turnover on taxable supplies.

De-minimis condition 2

- Total input VAT less input VAT directly attributable to taxable activities is less than or equal to £7,500.
- The turnover on exempt supplies is less than or equal to the turnover on taxable supplies.

De-minimis condition 3

- Exempt input VAT (VAT directly attributed and apportioned to VAT exempt activities) is less than or equal to £7,500.
- Exempt input VAT is less than or equal to 50% of total input VAT.

If not carried out on an annual basis, for a VAT quarter the figure of £7,500 above is replaced with £1,875 and for a VAT month it is replaced with £625.

The Children's Society case

The 2005 High Court Children's Society case established that, for a charity, VAT recovery on the costs of raising unrestricted donations depends on how the donations are used:

- If the donations are used to support all of the activities of the charity then the VAT is treated as residual VAT.
- If the donations are used wholly to support a hospice's non-business activities, then the VAT can be recovered in full via s33c.

This treatment applies to the costs of raising unrestricted public donations, legacies, and unrestricted public grants.

Zero-rating and reduced-rating reliefs on purchases

Charitable hospices can obtain a wide range of VAT reliefs on the purchases they make. A hospice does not have to be registered for VAT or eligible to make s33c claims to obtain these reliefs. The reliefs work by the supplier zero-rating or reduced rating a purchase that would otherwise bear standard-rated VAT.

Even though eligible hospices can now reclaim non-business VAT via s33c, purchases should still be zero-rated or reduced-rate where applicable. HMRC may argue that if a purchase is correctly zero-rated or reduced-rate, there is no standard-rated VAT to be recovered so any s33c claim for the VAT is invalid.

You may have to tell a supplier to treat their supply as zero- or reduced-rate. For some of the property reliefs a certificate must be provided. For the rest suppliers may ask for a written declaration.

In the reliefs below, disabled person includes a person who is chronically sick (including terminally ill) and detailed relief specific conditions apply in most situations:

- 1 Medical equipment** Zero-rating applies to the purchase or hire of medical, scientific, computer, video, sterilising, laboratory or refrigeration equipment which is for use in medical research, training, diagnosis or treatment. Zero-rating also includes accessories for such equipment, repairs and spare parts. Zero-rating also applies where the goods are paid for by a third party with voluntary contributions and donated to a hospice.
- 2 Computer software** HMRC accept that computer software is zero-rated when purchased by a charity solely for use in medical research, diagnosis or treatment but not when purchased for donation to a charity (VAT Notice 701/6 Section 4.2.5).

3 Medicines and other medicinal products

These are zero-rated when they are for use solely in the provision of care, treatment or research.

Medicinal product means:

- any substance or combination of substances presented as having properties of preventing or treating disease in human beings; or
- any substance or combination of substances that may be used by or administered to human beings with a view to (i) restoring, correcting or modifying a physiological function by exerting a pharmacological, immunological or metabolic action, or (ii) making a medical diagnosis.

- 4 Vehicles** Zero-rating applies to ambulances, adapted motor vehicles, and vehicles for use by a charity providing care for terminally sick persons mainly to transport such persons. Zero-rating includes repairs and spare parts.

5 Equipment for use by disabled persons

Assorted specialist equipment for use by disabled or chronically sick persons qualifies for zero-rating:

- a) medical or surgical appliances
- b) electrically or mechanically adjustable beds
- c) devices for sitting over or rising from a sanitary appliance
- d) chair lifts or stair lifts
- e) hoists and lifters
- f) certain adapted motor vehicles and
- g) other equipment and appliances designed solely for use by a disabled person. For g), the equipment or appliance must be so designed at the point of supply. Zero-rating includes repairs and spare parts.

- 6 Adaptation of goods** The supply to a charity of services of adapting any goods to suit the condition of a disabled person is zero-rated, for example the adaptation of kitchen fittings. The adapted goods must be made available to a disabled person, by sale or otherwise, by the charity.
- 7 Advertising** Supplies of advertising to a charity in third party media are zero-rated. However this excludes advertising targeted at specific individuals such as direct mail, though the production of direct mail items may be able to be zero-rated (see Goods for collecting donations below)
- 8 Goods for collecting donations** Various goods connected with collecting donations can be zero-rated, including collecting envelopes, pre-printed appeal letters and envelopes, boxes and receptacles used for collecting money, collecting buckets, lapel stickers, emblems and badges. See VAT Notice 701/58.
- 9 Fuel or power** Supplies of gas, electricity, fuel oil, heating, kerosene, coal, solid fuels etc. are reduced rate when:
- use by a charity for its non-business activities, or
 - use in a residential hospice building, or
 - below certain de-minimis levels – 4,497 kwh per month for gas and 1,000 kwh per month for electricity.

VAT reliefs for property

- 1 Ramps** The construction of a ramp or ramps for the purpose of facilitating a disabled person's entry to or movement within any building is zero-rated.
- 2 Widening doorways** The widening of doorways or passages for the purpose of facilitating a disabled person's entry to, or

movement within, any building is zero-rated.

- 3 Washrooms and lavatories** Providing, extending or adapting a washroom or lavatory for use by disabled persons in a building, or any part of a building, used principally by a charity for charitable purposes is zero-rated where such provision, extension or adaptation is necessary to facilitate the use of the washroom or lavatory by disabled persons. Washroom means a room containing a lavatory or washbasin (or both) but not containing a bath or shower or cooking, sleeping or laundry facilities. A lavatory is a room containing a toilet and possibly, but not always, a washbasin.
- 4 Bathrooms** Providing, extending or adapting a bathroom for use by disabled persons in residential accommodation, or in a day-centre where at least 20% of the individuals using the centre are disabled persons, is zero-rated where such provision, extension or adaptation is necessary by reason of the condition of the disabled persons. Bathroom includes a shower room.
- 5 Lifts** The supply to a charity providing a permanent or temporary residence or day-centre for disabled persons of services necessarily performed in the installation of a lift for the purpose of facilitating the movement of disabled persons between floors within that building is zero-rated.
- 6 Alarm systems** The supply to a charity of an alarm system is zero-rated if it is for making available to disabled persons (by sale or otherwise) for domestic or their personal use. The alarm system must be designed to be capable of operation by a disabled person, and it must be designed

to enable a disabled person to alert directly a specified person or a control centre. Also zero-rated is the supply of services necessarily performed by a control centre in receiving and responding to the calls from the alarm system.

- 7 Construction of a new building** Supplies in the course of construction of a new *qualifying building* are zero-rated. Supplies in the course of construction include demolition, site clearance, construction services, building materials and some landscaping costs. A new building is one that is constructed from the ground up, though existing structures such as walls can be retained in some situations. A qualifying building is a building that is:
- relevant charitable purpose intended for charity non-business use, and/or
 - relevant residential purpose intended for hospice residential use (including ancillary buildings such as kitchens or laundries constructed at the same time as a residential building), and/or
 - a dwelling designed as a dwelling or dwellings.

If only a part of a building is qualifying, a corresponding portion of the supply can be zero-rated. HMRC has accepted that a hospice building can be classed as residential as long as it provides some residential accommodation such as beds for patients (VAT Notice 708 section 14.6.1).

- 8 Purchase of a new building from its developer** The first sale by its developer of the freehold or of a long lease in a new qualifying building is zero-rated. See above for the meaning of new qualifying building. If only a part of a new building is qualifying, a corresponding portion of the

contract price can be zero-rated. A long lease is a lease for a term of more than 21 years (not less than 20 years in Scotland).

- 9 Construction of a relevant charitable purpose annexe** Supplies in the course of construction of a new annexe to an existing building or buildings are zero-rated if and to the extent the new annexe is for a relevant charitable purpose. Note that relevant residential purpose annexes do not qualify.
- 10 Residential conversions** The conversion of a non-residential building into a residential building is zero-rated. Residential buildings include residential hospice buildings. A non-residential building includes a building that was residential but has not been lived in for at least 10 years.
- 11 Renovations and alterations of residential buildings** Certain building works and builder supplied materials qualify for reduced rating when renovating or altering residential property, including residential hospice buildings.
- 12 Energy saving materials** The installation of certain energy-saving materials in residential accommodation qualifies for reduced rating:
- Insulation for walls, floors, ceilings, roofs or lofts or for water tanks, pipes or other plumbing fittings.
 - Draught stripping for windows and doors.
 - Central heating system controls (including thermostatic radiator valves).
 - Hot-water-system controls
 - Solar panels
 - Ground or air source heat pumps.
 - Micro combined-heat-and-power units.
 - Boilers designed to be fuelled solely by wood, straw or similar vegetal matter.

Fundraising and VAT

Shops

The sale or hire by a charity or a *profits-to-charity person* (see below) of goods donated to it for sale or hire is zero-rated. The goods can be cleaned or repaired as long as this does not alter their structure or original use.

The goods must be available for purchase or hire by the general public or by two or more specified persons. Specified person means a person who is chronically sick or disabled or a person who is entitled to any one or more of certain specified social security benefits.

By concession (Extra Statutory Concession 3.21) HMRC also allow zero-rating of the sale of goods in a poor condition and unwanted goods to scrap merchants and similar.

A profits-to-charity person is a person who has agreed to transfer to a charity the profits from supplies of the goods or a person for whom the profits are otherwise payable to a charity. So sales by a trading subsidiary with an agreement in place to transfer profits to its parent charity also qualify for zero-rating.

Sales of bought in goods

Sales of goods that are purchased for sale are by default VAT standard-rated, unless the goods qualify for some other VAT relief, for example, as zero-rated sales of printed matter or children's clothing. Sales of bought-in goods at a qualifying fundraising event are VAT exempt unless they also qualify for zero-rating, in which case they are zero-rated.

Retail Gift Aid Scheme (RGAS)

This scheme aims to make gifts of goods to a charity shop eligible for Gift Aid, the Gift Aid scheme being limited to monetary donations.

Under RGAS, the charity or its trading subsidiary sells a donor's goods as agent of

the donor. If the goods are sold the proceeds, less any seller's commission, belong to the donor. The donor can agree to Gift Aid the proceeds, either in advance of the sale or in retrospect.

There are three HMRC approved methods for operating the scheme: **the Standard Method**, **Method A** and **Method B**. HMRC provide detailed guidance in its Chapter 3 Gift Aid guide (see [Further Information](#)).

The scheme is only suitable for personal goods donated by individuals. If goods belonging to businesses are sold, VAT may have to be charged on the sale.

HMRC's position is that the charity (or trading subsidiary if RGAS is operated by a trading subsidiary) must charge the donor a seller's commission in order to protect its VAT recovery on shop operations. HMRC's position is that if no commission is charged by a hospice-operated shop, then the operation of RGAS is a non-charitable activity for Corporation Tax purposes (see HMRC chapter 3 guide section 3.42.25) potentially giving rise to a Corporation Tax liability if undertaken in a charity.

Fundraising events

Supplies of all types of goods or services in connection with a qualifying fundraising event are VAT exempt, unless also zero-rated (for example the sale of programmes), in which case zero-rating takes priority.

Exemption covers supplies at the event, for example admission or catering, and supplies in connection with the event, such as sponsorship and advertising in a programme. To be a qualifying fundraising event the event must meet all of the following conditions:

- 1 The event must be organised by a charity, a wholly owned subsidiary of a charity

whose profits from the event are payable to a charity, or a combination of charities. and wholly owned trading subsidiaries

- 2 Its primary purpose must be the raising of money.
- 3 It must be promoted as being primarily for the raising of money.
- 4 There must not be more than 15 events of the same kind in the same location in the body's financial year. However kinds of events whose aggregate gross takings at any location do not exceed £1,000 per week can be ignored when assessing the 15 limit.
- 5 It must not include provision of:
 - a package of both travel and accommodation; or
 - bought-in accommodation; or
 - more than two nights' accommodation from a charity's own resources
- 6 Exemption must not be likely to create distortions of competition such as to place a commercial enterprise carried on by a taxable person at a disadvantage.

Challenge events

Where a sponsored event includes accommodation or is organised by a commercial event organiser, it does not qualify for the fundraising exemption.

The options for such events (challenge events) are:

- 7 if you have no pre-existing agreement with either the donor or event organiser, and simply receive a donation from the participant or event organiser – this is an outside the scope of VAT donation in the charity's hands
- 8 if you market the event to your supporters and sell places as disclosed agent of an event organiser (disclosed agent means

that participants know who the event organiser is and who they are ultimately contracting with), with the event organiser taking responsibility and liability for the event itself, you are seen as receiving a standard-rated commission of the difference between what the participant must pay before departure and what you pay to the event organiser. Any funds raised on top of this are outside the scope of VAT.

- 9 if the charity or its subsidiary organises its own challenge event as principal, taking responsibility for the event and participants, or if it acts as undisclosed agent (so participants do not know who the organiser is), the event is likely to fall under the special VAT Tour Operators' Margin Scheme (TOMS).

See VAT Notice 701/1 section 10 for more on challenge events.

Renting property

By default supplies of leases and licences to occupy property are VAT exempt. However, a supplier can *opt to tax* a property, in which case that supplier's supplies of that property become VAT standard rated. But in some situations the supplier's option to tax is disapplied so it has no effect.

Disapplication

If a hospice is renting property a landlord's option to tax may be able to be disapplied on the basis of use for a charity's non-business activities and/or use as a residential hospice. However, it is not always advisable to disapply an option to tax, especially for a s33c eligible hospice that can claim for the VAT charged. You should check the rental agreement as in some situations it will be better not to disapply.

Special types of property

Supplies of certain types of property are always standard-rated, irrespective of any option to tax. These include the letting of car parks, catering facilities, lets for weddings and parties, goods storage facilities, sports facilities, hotel and holiday accommodation, caravan sites and camping facilities, though in each case there are exceptions and special situations.

Letting out conference facilities

If the facility has not been opted to tax, HMRC accept the basic hire fee can be VAT exempt whilst any separate charges for catering are standard-rated (see VAT Notice 709/3 Section 4.3)

Sponsorship

Sponsorship is a term that covers a wide variety of situations. It is necessary to consider what if any benefits the sponsor obtains in return for their sponsorship payment:

Trivial benefits can be ignored

HMRC accept trivial benefits include:

- giving a flag or sticker
- acknowledging the donor in a list of supporters in a programme or on a notice
- naming a building, a wing of a building, an area of a facility, a role or post in the charity (such as first violin of an orchestra), or university chair after the donor
- putting the donor's name on the back of a seat in a theatre or on any part of the fabric for which they have paid or part paid for
- giving a certificate which acknowledges a person's donation
- payments for *buy-a-brick* campaigns or for buying clothing that supports a campaign, but cannot realistically benefit the donor

- a charity sponsoring another charity in order merely to show shared endeavour or support in a mutually charitable and collaborative area.

A donor will be a person who has no, or minimal influence over what's being provided and cannot insist on receiving any acknowledgement. See VAT Notice 701/41 section 2.

Benefits are provided

If the main benefit for the sponsor is advertising and promotion, then by default the supply is standard-rated. However, if the sponsor is a charity it may qualify for zero-rating, and if the sponsorship is of a qualifying fundraising event, it is VAT exempt.

Barter supplies

If you supply goods or services to a sponsor and in return they provide *free* goods or services, then this is seen as being two separate supplies with the consideration for each set off.

Split payment/donation

HMRC accept that if a donation is made separately from a sponsorship agreement, or the sponsorship agreement document makes clear which part is payment for services and which is a donation, you do not need to account for VAT on any donation or gift.

However, it must be clear that any benefits your sponsor receives are not conditional on the making of the donation or gift. (VAT Notice 701/41 Section 2.3).

Further information

Other Sayer Vincent Made Simple Guides

- Charity shops
- VAT for hospices
- Tax for arts organisations
- Tax for charity fundraisers
- International aspects of VAT
- Collaborative working
- Mergers
- Subsidiaries
- Tax effective giving
- Employee and volunteer taxation
- Gift Aid
- Grants and contracts

www.sayervincent.co.uk/resources/made-simple-guides

Key HMRC VAT Notices and guidance

VAT refund scheme for charities

(VAT Notice 1001)

www.gov.uk/guidance/vat-refund-scheme-for-charities-notice-1001

How VAT affects charities

(VAT Notice 701/1) www.gov.uk/guidance/how-vat-affects-charities-notice-7011

Retail Gift Aid Scheme

www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-3-gift-aid#chapter-342-claiming-gift-aid-when-goods-are-sold-by-and-the-proceeds-gifted-to-charities

Hospice UK guide to the s33c refund scheme

www.hospiceuk.org/docs/default-source/finance/vat-refund-scheme-for-hospices-detailed-q-amp-a.pdf

VAT reliefs for construction

(VAT Notice 708)

www.gov.uk/guidance/buildings-and-construction-vat-notice-708

Sponsorship

(VAT Notice 701/41)

www.gov.uk/guidance/sponsorship-and-vat-notice-70141

Charity fundraising events

www.gov.uk/government/publications/charity-fundraising-events-exemptions/fundraising-events-exemption-for-charities-and-other-qualifying-bodies

Partial exemption (VAT Notice 706)

www.gov.uk/guidance/partial-exemption-vat-notice-706

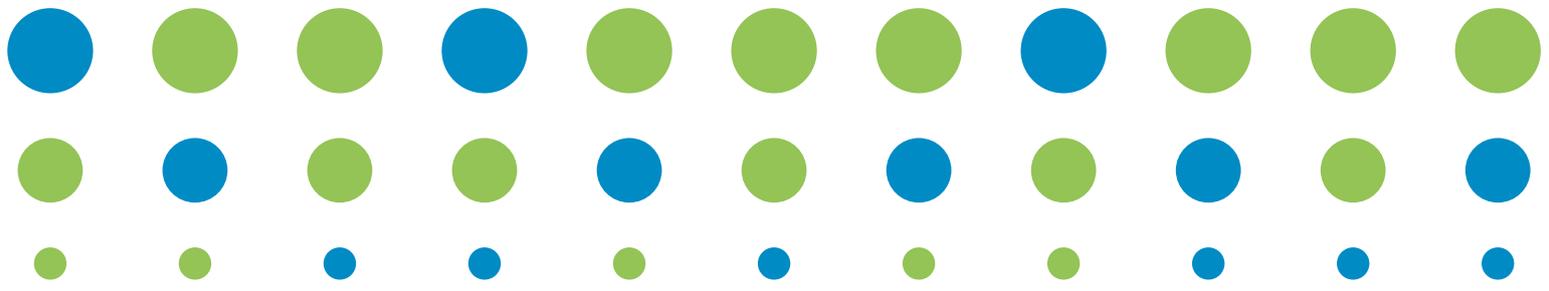
Literature

The Complete Charity VAT Handbook

Alastair Hardman and Kate Sayer

Published by the Directory of Social Change

www.dsc.org.uk/publication/complete-charity-vat-handbook/



Made simple guides

Made Simple guides are aimed at finance professionals and other managers working in charities. They cover technical areas such as tax and VAT treatments as well as information management areas and aim to provide practical guidance to busy managers and trustees in charities.



Made to measure

Sayer Vincent is a firm of chartered accountants working solely with charities and social enterprises. Through tailored audit and advice services, we provide trustees and managers with the assurance that their charity is managing its resources effectively. As well as being commercial accountants, Sayer Vincent people have an in-depth knowledge of the governance and management of charities and social enterprises. We can advise on a range of business activities to achieve the best financial outcomes, keeping in mind the context of your organisation's objectives. Working with Sayer Vincent, you will feel that you have extra people on your team.

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