VAT and overseas aid

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The Charity Tax Group has recently published correspondence with HMRC on the VAT treatment of government funded overseas aid projects. The correspondence mainly deals with the issue of when such funding can be treated as outside the scope of VAT.

HMRC accept that funding provided by DFID and other UK government departments to carry out the UK's overseas aid programme is outside the scope of VAT. This includes funds provided under grant agreements and funds provided under service contracts.

It can also include such funds when passed on between a lead partner and a delivery partner under a back to back arrangement, if the circumstances mirror those set out in paragraph 6 of VAT Information Sheet 11/13 (on government funded collaborative research projects). This means the lead partner acts as a conduit, passing on funds under a non-business arrangement. In such circumstances, UK charities can pass on funds to foreign delivery partners without incurring the UK reverse charge, as the reverse charge only applies to business supplies.

Funds provided by non-UK governments, such as Irish Aid or US Aid, and funds provided by international bodies, such as the World Health Organisation, may be within or outside the scope of VAT depending on the circumstances. These funds should be assessed using HMRC's grant v consideration factors, as set out in HMRC's Supply and Consideration manual starting here.