

Charities – VAT planning tips

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Charities do not get special treatment as far as VAT is concerned - if a charity is making taxable sales exceeding £67,000 per year, then it must register for VAT in exactly the same way as any commercial business.

What income is VATable?

In considering whether a charity should be registered for VAT take note of the following:

- 1. Charity shop sales** – sales of donated items from a shop is a zero rated activity. If sales exceed the registration limit the charity will have to register for VAT. In this case a positive outcome as 0% is added to sales whereas any input VAT on purchases that relate purely to the shop can be recovered.
- 2. Grants** – from say the local Council to help with running costs are outside the scope of VAT and do not need to be included in the calculation. But beware in certain circumstances the grant may be taxable. Particularly:
 - Does the donor receive anything in return for the funding?
 - If the donor does not benefit, does a third party benefit instead? And if so, is there a direct link between the money paid by the funder and the supply received by the third party?
 - Are any conditions attached to the funding?
- 3. Fund raising income** – all fund raising for charities is exempt from VAT
- 4. Subscriptions and donations** – similarly membership subscriptions are exempt from VAT.

VAT on advertising costs

If you are a charity and registered for VAT most of the advertising payments you make should have no VAT added to the bills, they should be zero rated. The only exception to the zero-rating rule is if the advert relates to the business activities of the charity e.g. advertising a Christmas sale for the charity shop. If by chance your local paper has been adding VAT you can ask them to review their invoices for the last 3 years and send you a credit note and refund...