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## **Charity Factsheet**

### **VAT ISSUES – OCTOBER 2010**

Most charities are unable to register for VAT as they only receive VAT exempt income in the form of grants or donations. Even the small number of charities which can register voluntarily for VAT, find that it is not worthwhile registering since they are only allowed to claim a very small proportion of the VAT incurred on their purchases.

#### **So are charities stuck with VAT?**

Because most charities cannot claim back VAT on their purchases, there are VAT reliefs available which can help to reduce these costs by not incurring the VAT in the first place. It is these reliefs that this factsheet will consider.

#### **Possible Areas to save on VAT**

The following are areas where VAT can be saved on purchases. To qualify you will normally need to provide the supplier with a certificate confirming your eligibility.

**1. Energy**

A reduced rate of 5% is chargeable on all fuel supplied for either residential or charity use. If it is charity use then at least 60% of the charity's activities must be non-business for VAT purposes. Note that any services the charity provides for a fee will be treated as a business activity for VAT purposes.

**2. Energy saving materials**

A reduced rate of 5% is chargeable on all energy saving materials installed in residential or charity premises. For a charity, the premises must be solely used for a non-business activity. The materials must be installed in the building and the relief applies to insulation, draught stripping and solar panels. Timer and thermostatic controls for central heating and hot water systems will also qualify but not the heating and water systems themselves.

**3. Advertising**

**If you run an advert on either radio, television or in someone else's printed publication, this will qualify for the zero rate of VAT.** The design and production costs of the advert will also qualify if done by a 3<sup>rd</sup> party. Direct mail shots and telesales aimed at a target group do not qualify. Neither does advertising on the charity's website, on its own greeting cards or on commemorative items such as pens and adult clothing. Exhibition stands are also excluded. Note that if the advert is also to be used by the charity, e.g. in their magazine, then any design costs are a mixed supply for VAT purposes and the designer must be made aware of this fact.

**4. Fundraising**

**Some items used in fundraising by a charity can qualify for the zero rate of VAT.** This includes appeal stationery, collecting envelopes for donations and pre-printed appeal letters, provided that they are all overprinted with the appeal logo and charity name. The appeal letter must be a letter. It can not be just a form to complete.

Collecting boxes and receptacles will also qualify for the zero rate of VAT provided that they do not have a dual purpose.

Lapel stickers and emblems and badges given away free with a donation also qualify for this zero rate provided they are of low cost, are worn on clothing, and are not sold for a fixed price. A suggested donation of up to £1 can be requested provided that this greatly exceeds the cost.

**5. Disabled access**

Building adaptations for the disabled may qualify for a zero rate of VAT depending on the use to which the building is put.

If you construct a ramp or widen a doorway or passage in any charity or residential building this will qualify. However, constructing a new doorway or passage will not.

Providing, extending or adapting a washroom or lavatory in a charity building will only qualify if the building is used principally for charitable purposes.

Providing, extending or adapting a bathroom or shower-room in a charity's residential accommodation, day centre or respite care centre, will also qualify for the zero rate of VAT. However, a day centre will only be eligible provided at least 20% of the individuals using the day centre are disabled.

**6. Equipment for the disabled**

This is also charged at the zero rate of VAT provided the charity supplies the equipment for domestic or personal use of the disabled person. Only certain equipment qualifies including chair lifts, hoists, emergency alarm call systems, auditory training aids, medical appliances and low vision aids. Specifically excluded is any equipment which is widely available to everyone, such as a lift in charity premises. Equipment supplied to residents of a nursery home is also not eligible where the equipment is integral to their treatment.

## 7. Motor vehicles

Charitable day centres and those charities providing care or welfare services to disabled people, may purchase free of VAT motor vehicles adapted for the disabled provided that the vehicle can carry up to 12 people and is adapted for carrying a wheelchair, with a ramp or lift.

These bodies can also purchase unadapted vehicles free of VAT provided that the vehicle has between 7 and 50 seats and is mainly for transporting blind, deaf, mentally handicapped or terminally ill people.

## Conclusion

There are several reliefs that can be used to reduce costs to your charity. However, please note that this factsheet can only provide general advice on the VAT reliefs available and there are often conditions to be met to be eligible to receive the relief. If you think that any of these reliefs might apply to your charity then please do not hesitate Steve Smith, Manager in our **Specialist Charity Department** on 01323 431200 to discuss further.

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