

An underwater photograph of a diver in silhouette, swimming towards the right. The diver is wearing a tank and fins. Above the diver, the sun is shining through the water, creating a bright, starburst effect with many bubbles. Below the diver, a large school of small fish is swimming in the same direction. The water is a deep, clear blue.

CFG Annual Conference

Workshop: Practical help to get on top of VAT

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Today's agenda

- News and developments in VAT for charities
- Making Tax Digital
- VAT on charity advertising
- How to deal with partial exemption and business/non-business calculations
 - Practical example
- Grant vs Supply of services?
 - Practical example
- Questions



Brexit

The basics

From 1st January 2021 all movements of goods between the UK and EU became exports and imports.

Simplified Intra-EU trade rules disappeared for UK businesses.

The trade deal between UK and EU secured 0% duty tariffs. Customs declarations and VAT issues remain.

The spotlight is now on Incoterms, customs and VAT and the obstacles to doing business with the EU.

For charities:

Postponed Import VAT Accounting PIVA – import VAT can be paid and recovered on the VAT return, not paid at the time of import

- Added to box 1 output VAT
- Recovered in box 4 input VAT
- Net value added to box 7 purchases



1 July 2021

- Changes for e-commerce

E-commerce from GB warehouse

Changes to B2C sales of goods:

- The aim is for all goods to be taxed in the country of the purchaser
- Sellers collect VAT at the rate of the country of each purchaser – website changes
- €22 low value exemption abolished and for all sales €150 or less:
 - Register for IOSS and pay VAT via an IOSS registration in the EU or
 - Courier recharges import VAT and any duties to seller or
 - Sell with no VAT and courier recharges import VAT and any duties to purchaser or
 - Royal Mail, DHL, Fedex etc use their own IOSS registration and charge the seller e.g. £2 per parcel

1 July 2021

- Changes for e-commerce

E-commerce from GB warehouse

Register for VAT in EU if:

- Value > € 150 (can't use IOSS)
- Value <= € 150 **and** supplier not registered for IOSS **and** special scheme for postal operators / couriers not applied

July 1, 2021

- Changes for e-commerce

Platforms

If marketplaces or platforms facilitate:

- either B2C sales within the EU by businesses not established in the EU; and / or
- facilitate B2C sales of goods imported into the EU with a value not exceeding € 150,

the marketplaces or platforms will be liable to pay the VAT amounts due in the EU country of the customer.

The platform shall be deemed to have received and supplied those goods itself! Suppliers perform a B2B supply of goods to the platforms!

Making Tax Digital



- Requirements introduced from 1 April 2019 with soft landing to 1 April 2020
- Soft landing period was extended to April 2021 as part of the Government measures to support businesses during the COVID crisis
- Businesses had until 1 April 2021 to fully meet MTD VAT digital link requirements
- MTD VAT will be extended to all VAT registered entities (including charities) with taxable turnover below the VAT registration threshold from **1 April 2022**



What is a digital link?

Digital link is defined as:

...an electronic or digital transfer, or exchange of data, between software programs, products or applications.

Examples of digital links:

- emailing a spreadsheet containing digital records so the information can be imported into another software product
- transferring a set of digital records onto a portable device (for example, a pen drive, memory stick, flash drive) and physically giving this to someone else who then imports that data into their software
- XML, CSV import and export, and download and upload of files
- automated data transfer
- API transfer





Charity advertising – zero rate

- Charities are allowed to buy in advertising at the zero rate
- The history of HMRC's challenge
- Where are we now?



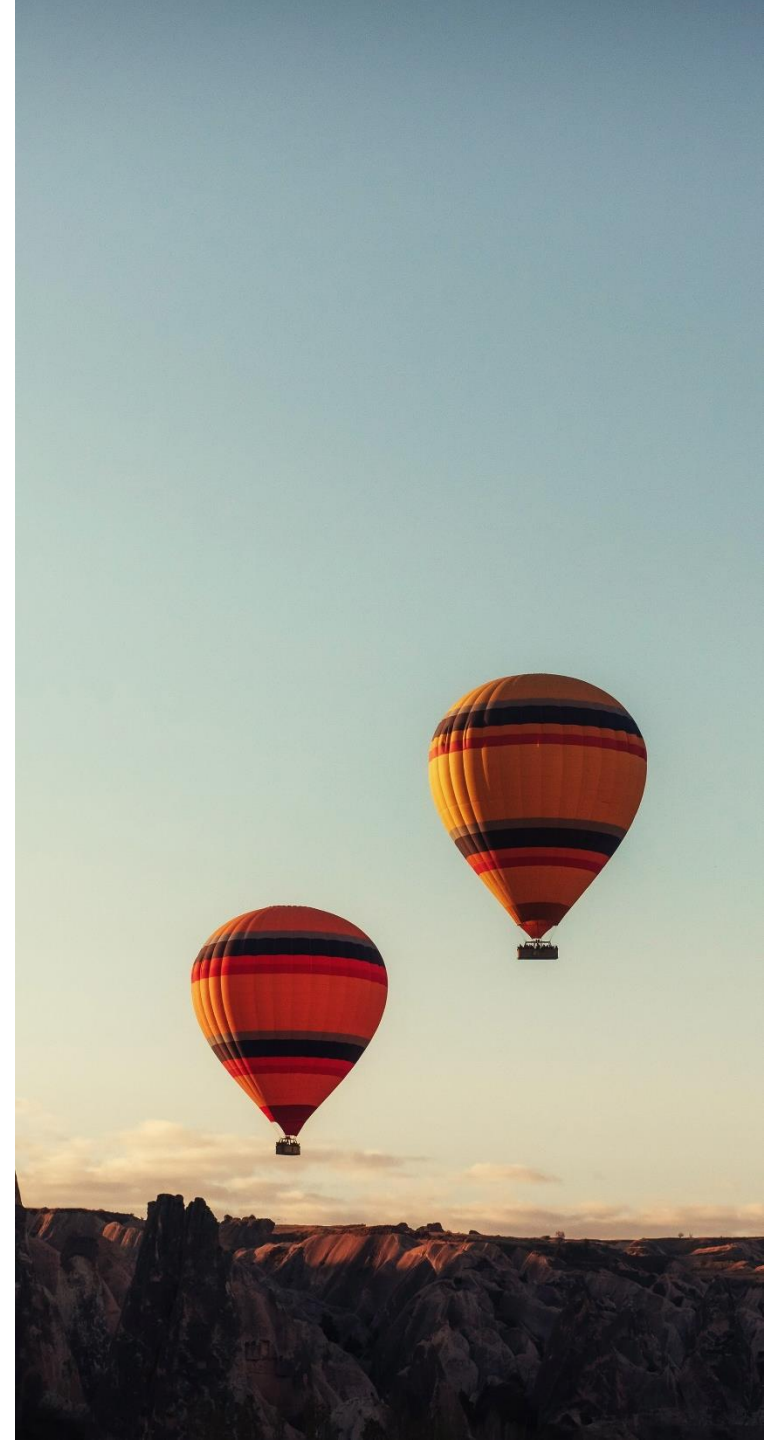
Digital Advertising



Advertising Type	Description	VAT Rate
Email Advertising	Advertisements sent to email addresses	Standard rate
Pay per Click adverts	These are advertisements and not involving selection on address.	Zero rate
Natural Hits	Not supplies of advertising.	Standard rate
Direct placements on third party websites	These are advertisements and not involving selection on address.	Zero rate
Social media /subscription website accounts	Advertising is specifically targeted at the individual.	Standard rate
Retargeting individuals revisiting a website	The IP address of the individual is recorded, and advertising is presented based on the users prior searches.	Zero rate
Channel targeting	A particular section/page of a website used to advertise.	Zero rate
Content targeting	Adverts displayed alongside related content.	Zero rate
Behavioural targeting	Similar to retargeting - adverts displayed based on prior websites visited based on IP address.	Zero rate
Demographic targeting	Using sources of data on the targeted individual to base the advertisements on.	Zero rate
Audience targeting	Similar use of information as demographic targeting but on a group of individuals. This will still be based on their IP addresses and direct contact.	Zero rate
Location targeting	IP addresses used to target individuals in a particular area.	Zero rate
Lookalike targeting	Cookies used to identify potential new customers by reviewing current customers, advertiser then directly targets the potential new clients.	Zero rate
Device targeting	Example is an advertiser choosing certain devices to advertise to, not targeting specific individuals.	Zero rate
Daypart targeting	Advertising at specific times of day or specific days of the week. Not a targeted selection of individuals.	Zero rate



- VAT reduction for the UK's tourism and hospitality sector: Extension of the temporary reduced rate of 5% VAT until 30 September 2021. A 12.5% rate applies for the next six months until 31 March 2022. Then 20%
- Consultation: **Simplification** of partial exemption and the Capital Goods Scheme
- HMRC Brief: partially exempt VAT registered businesses affected by coronavirus can agree temporary changes to their PE method



Partial exemption and business/non-business

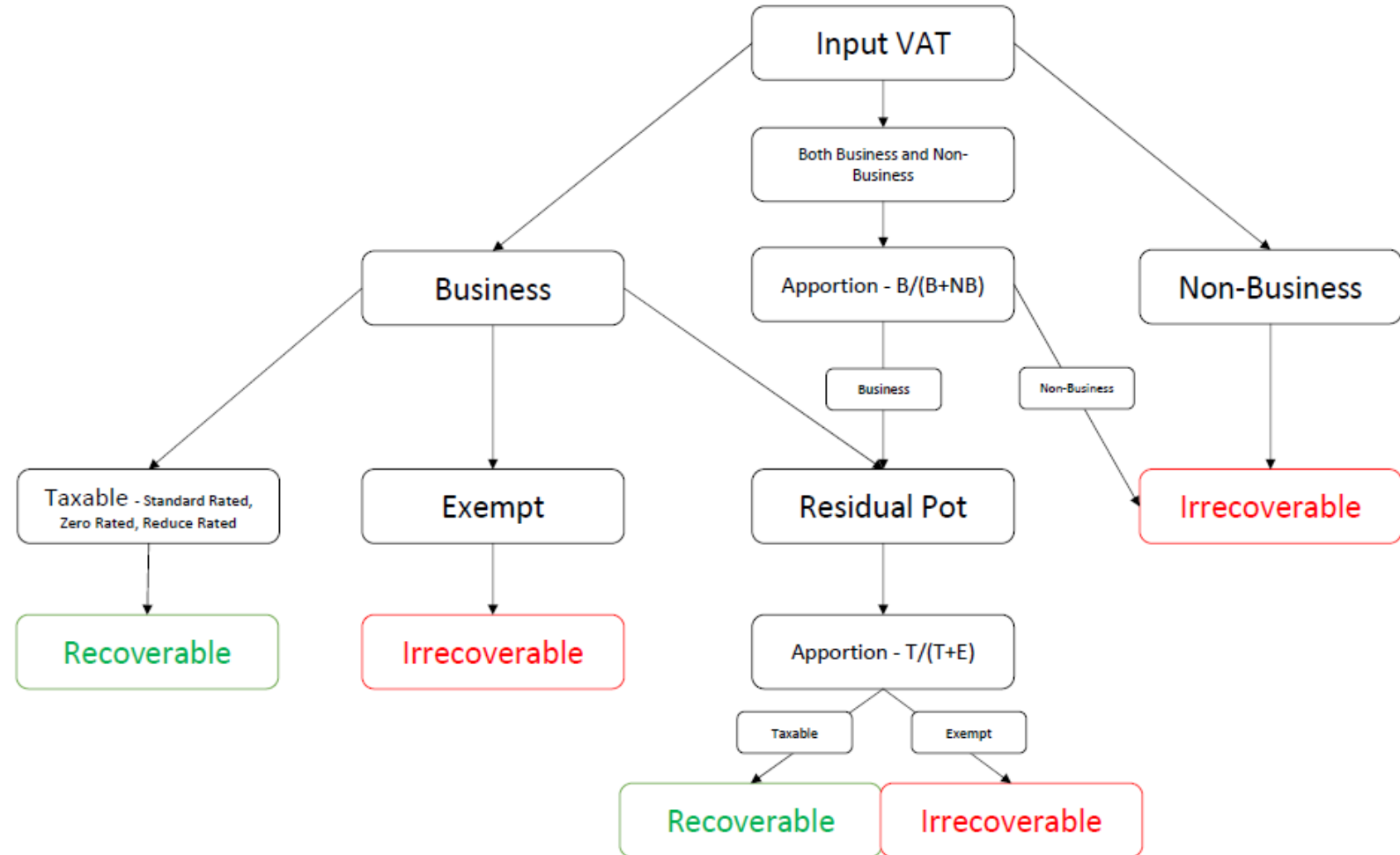
- Why is this important for charities?
- The basics:
 - VAT recovery on costs of making non-business supplies
 - VAT recovery on costs of making exempt supplies
 - VAT recovery on costs of making taxable supplies (20%, 12.5%, 5% and zero rate)

Partial Exemption & Business/Non Business

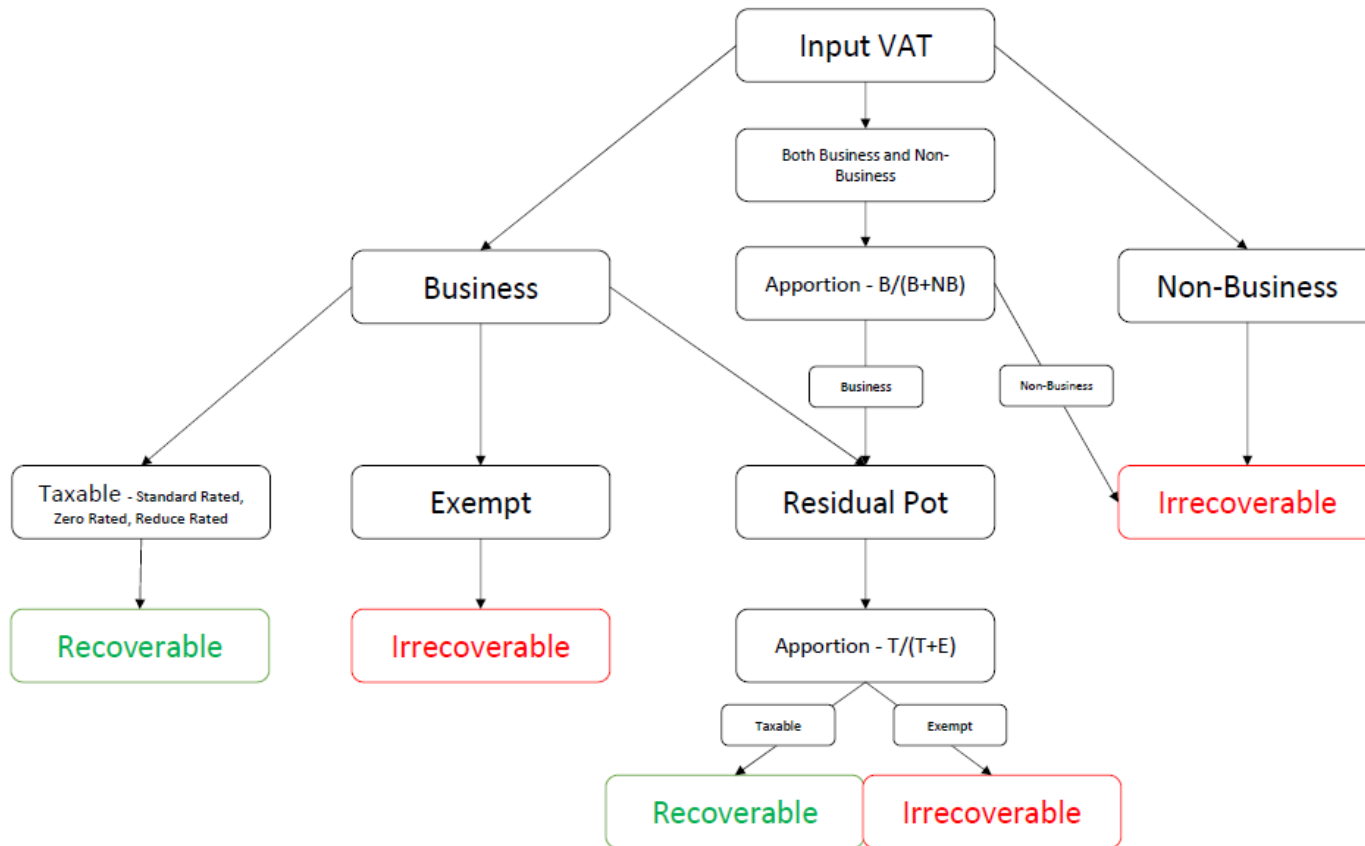


- If making a mix of supplies then apportionment of input VAT must be completed.

- On each VAT return.
- Annual Adjustment on first return after VAT year end.
- Can use recovery percentages from previous annual adjustment for the next year.
- Don't Forget de minimis!
- If Exempt Business portion under £625 per month on average and under 50% of total business input VAT then all business input VAT is recoverable.
- If combining business/non-business and partial exemption in one calculation or under a special method then no de minimis recovery is available



Example



Charity without a trading subsidiary

Income Stream	£
Donations	100,000
Fundraising Event Income	210,000
Sales From Charity Shops	560,000
Consultancy Advice	90,000
Grants & donations received	150,000
Educational Course Provided	140,000
Total	1,250,000
Costs (VAT Exclusive)	£
Accountancy and Payroll	10,000
Office Rent (opted)	60,000
Merchandise for Shop	200,000
New Laptops	5,000
Teaching Staff brought in	30,000
Donation Boxes	500
Digital Advertising – Social Media for fundraising event	2,000
Advertising in Newspaper for new staff	500
Wages for all staff	340,000

Answer



Income Stream	£	Attribution
Donations	100,000	Non-Business
Fundraising Event Income	210,000	Business - Exempt
Sales From Charity Shops	560,000	Business – Taxable
Consultancy Advice	90,000	Business – Taxable 20%
Grants and donations Received	150,000	Non-Business
Educational Course Provided	140,000	Business - Exempt
Total	1,250,000	

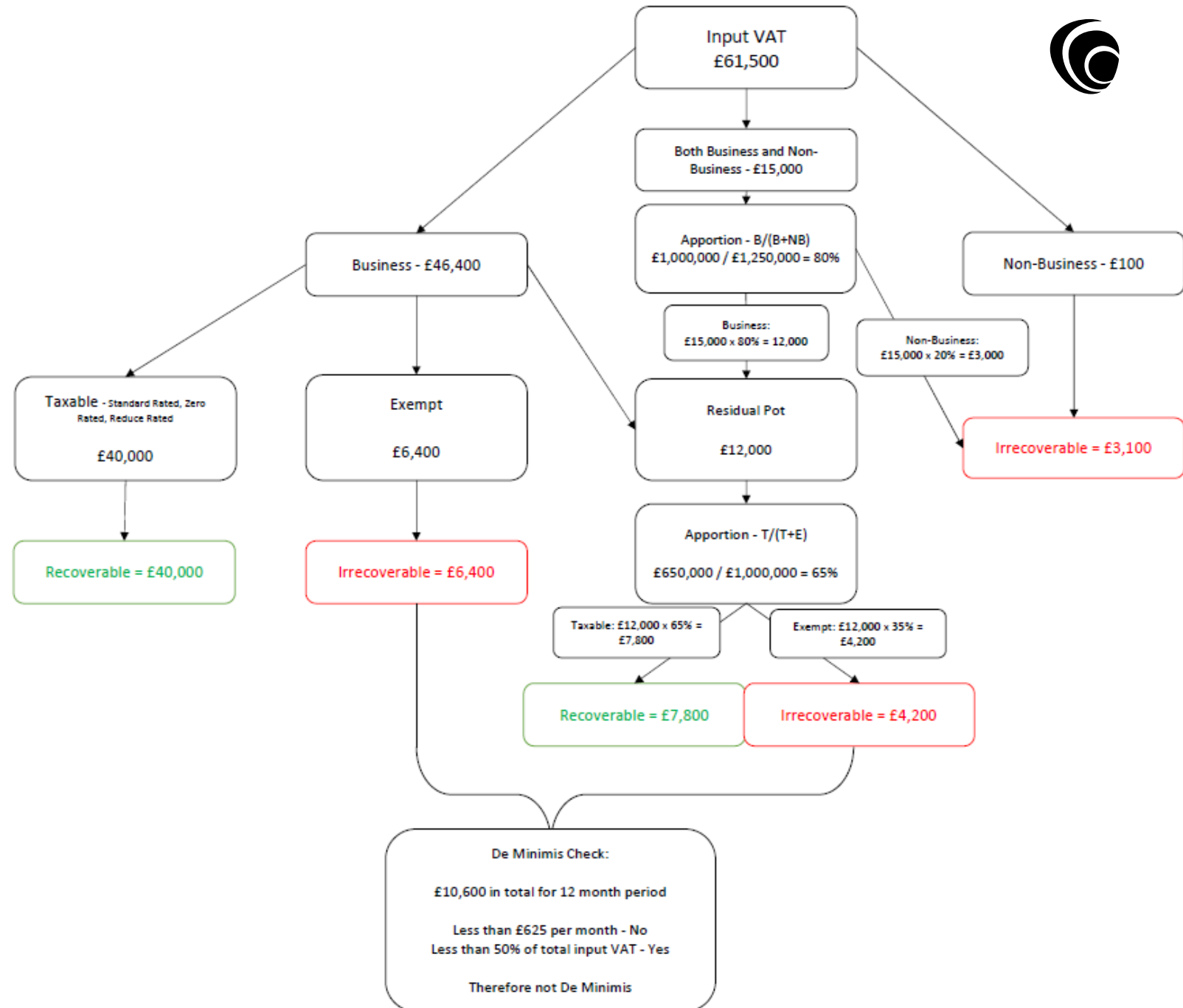
Costs (VAT Exclusive)	£	VAT	Attribution
Accountancy and Payroll	10,000	2,000	Overhead
Office Rent	60,000	12,000	Overhead
Merchandise for Shop	200,000	40,000	Direct Taxable
New Laptops	5,000	1,000	Overhead
Teaching Staff brought in	30,000	6,000	Direct Exempt
Donation Boxes	500	100	Direct Non-Business
Digital Advertising – Social Media for fundraising event	2,000	400	Direct Exempt
Advertising in Newspaper for new staff	500	0	Overhead – ZR
Wages for all staff	340,000	0	Overhead – no VAT
Total	308,000	61,500	



Working through the previous flowchart results in the following:

Total Recoverable = £47,800

Total Irrecoverable = £13,700





Grant Income

- Area of uncertainty with contracts/agreements.
- Multiple reviews previously have highlighted issues with 'Grant' agreements actually being a contract of services.
- Tricky area!

If a monetary donation is freely given, it is not consideration for any supply and so is outside the scope of VAT. In this situation, the donation has to be unconditional and the following points will help in deciding whether this is the case.

- *Does the donor receive anything in return for the payment?*
- *Are there any conditions attached to the payment that go beyond merely having to mention it in account statements?*
- *What will the payments be used for?*
- *If the donor does not benefit directly, does any third party receive a benefit?*
- *Is there a contract and what are the terms and conditions?*

HMRC Internal Manual, VATSC06110

Grant Example

- We have an example agreement which could go either way.
- The flowchart here can help the decision, each area is looked at by HMRC in its own right.
- If majority pointing to service then likely a contract of services.

