



VAT and Charity Funding of Research

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Background

- At present the supply of research can be:
 - Outside the scope of VAT - non business /grant funded
 - Standard rated - business research
 - Exempt - research supplied between two eligible bodies
- Eligible bodies – government departments, schools, universities, charities and other public bodies
- Research – original investigation undertaken to gain knowledge (not consultancy)





Example of the VAT status of supplies pre change

Assume a cattle breed society commissions Cranfield to carry out research on a new idea to improve animal transportation:

- A – the society is a charity and the results of the idea are to be published for all – non-business, outside the scope of VAT
- B – the society is not a charity and the benefits of the idea are for the members only – standard rate of VAT
- C – as per B but the society is a charity – exempt supply.





What is the change?

- European Commission has judged that the exemption of business research between eligible bodies does not comply with EU legislation
- UK VAT exemption withdrawn with effect from 1 August 2013
- Consultation period closed 14 March 2013
- Interim consultation results:
 - Possible transitional arrangement for current contracts?
 - Revenue & Customs Brief 10/13





Revenue & Customs Brief 10/13

The consultation process highlighted:

- Lack of clarity between:
 - supplies of research that are outside the scope of VAT and
 - those that are exempt (business) supplies which will be affected by the withdrawal.



listening, understanding, advising



Revenue & Customs Brief 10/13 (Cont'd)

- HMRC has clarified that:
 - “For there to be a supply of services for VAT purposes, there must be a direct and immediate link between the consideration paid and a service provided.”





Revenue & Customs Brief 10/13 (Cont'd)

- The Brief sets out situations where the funding will be outside the scope of VAT:
 - Research which is funded for the 'general public good' and there is no direct benefit for the funding body;
 - Research which is funded for the general public good and is either not expected to generate any intellectual property, or if it does, then any reports or findings will be freely available to others;





Revenue & Customs Brief 10/13 (Cont'd)

- Funding outside the scope of VAT (cont'd):
 - Where there is a 'collaborative' agreement between different research institutions where all parties to the grant are named on the application and
 - Where the funding flows through one named party and they act purely as a conduit passing on the funds to others involved in the research project





What is the impact of the change?

- Potential 20% increase in the cost of the research (estimated £5M VAT cost)
- Offset in part potentially by the ability of research bodies to deduct input tax against making such supplies
 - Existing contracts - transitional arrangements?





What is the impact of the change? (Cont'd)

- Recovery of the VAT charged to the charity depends on the VAT status of the charity's income:
 - Wholly taxable at the standard or zero rate – Yes
 - Wholly outside the scope – No
 - Wholly exempt – No
 - Likely to be an income mix – partial exemption





What can the charity do to minimise the VAT cost?

- Existing contracts:
 - Transitional arrangements?
 - Review contracts
 - Do the contracts provide for charging VAT?
 - Renegotiate the contract with the research body?
- Research bodies may (for business standard rated research) recover some input VAT – reduced research costs?





What can the charity do to minimise the VAT cost? (Cont'd)

- What do you want to achieve?
- Can the nature of future research be changed?
 - Non business research, grant funding
 - For the public good rather than private benefit
 - No supply of goods or services in return for the funding
 - No intellectual property that can be exploited
 - No exclusivity of the research results to the charity





What can the charity do to minimise the VAT cost? (Cont'd)

- Consider the VAT status of funders
- Care when structuring research finance where more than one funder? (Collaborative research)
- Take advice – research bodies may be quick to charge VAT





Conclusion

- Do your homework on existing contracts
- Plan ahead for new research funding
- Take advice
- Contact Peter Haugh:
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The content of these slides is for general information only. It should not be relied upon without taking appropriate professional advice which will be tailored to your individual circumstances.

