

# Early Years – BUSINESS RESOURCE TOOLKIT

## Charities, Childcare and VAT (Value Added Tax)

### What is VAT?

Value Added Tax ('VAT') is a complex subject, both legally and in accountancy/book-keeping terms. These notes are intended only as a very basic introduction to some aspects.

VAT is a tax on consumer expenditure. It is collected by HM Revenue and Customs ('HMRC') on business transactions of many types. In principle, any business (and this may include a charity or its trading subsidiary) that makes 'taxable sales' in excess of a set figure (known as the 'VAT Registration Threshold') **must** register for VAT.

'Taxable sales' are transactions that are liable to VAT at the **standard rate**, or a **reduced rate**, or at **zero rate** (which is basically something where VAT could *in theory* be charged but *in practice* is not – at the time of writing, for example, food and children's clothes are 'zero-rated' in England).

### How does this affect Charities generally?

For VAT purposes, in England, charitable status is recognised if your charity is registered with the Charity Commission, or if HMRC has recognised your charity for direct tax purposes.

UK-registered charities aren't automatically exempt from paying VAT, but there are a limited number of VAT reliefs on purchases available to charities, including some to those not registered for VAT.

Generally speaking, if the charity has turnover from 'business supplies' that is above the VAT Registration Threshold it must register for VAT in the same way as any other business. Once your charity is registered for VAT you will need to carefully consider the income you receive and the supplies you make in order to account for VAT correctly. [However, **see below** regarding Childcare Businesses which are charities]

Certain income and expenditure is considered "outside the scope" of VAT; for example a freely given donation or grant where the donor receives nothing in return, or the payment of employees' wages.

### What VAT does a Charity generally have to PAY?

A charity will generally pay VAT on all standard-rated or reduced-rated goods and services they buy from VAT registered businesses. However, VAT registered businesses can sell certain goods and services to charities at reduced or zero-rate; for example the supply of advertising and aids for the disabled to a charity are zero-rated at the time of writing.

**Construction, extension and improvement of premises** is a particularly complex area and charities are strongly advised to take professional tax advice before commencing a major project of this nature.

Sometimes it is possible for a charity to **reclaim VAT** it has been charged. This depends partly on the nature of the goods or services purchased, but in particular a charity that is **not** VAT registered will not generally be able to recover the VAT it is charged on standard-rated or reduce-rated goods it buys from VAT registered businesses.