

Your potential, our expertise

Grant funding or payment for a VAT contract for services?

In this issue:

The whole area of what is grant funding or payment under a contract for services is a complex one for VAT. The charity sector is particularly affected by this issue, and a wrong decision or assumption could lead to significant unforeseen costs.

A grant falls outside the scope of VAT, being non-business income. This means there is no VAT to account for on income, however, no VAT can normally be recovered on related expenditure. When services are provided under a contract requiring specific outcomes in return for funding, this normally indicates a supply being made in the course of business.

A supply could be subject to VAT or exempt from VAT, depending on the type of services being carried out. The VAT liability would dictate whether there is a requirement to account for VAT to HMRC. If the supply is exempt from VAT, VAT incurred on related expenditure is not recoverable.

HMRC guidance

VAT, like all taxes, operates under a self-assessment regime. Therefore, the VAT treatment of "grant" funding needs to be established by the "supplier", i.e. the organisation receiving the funding. There is no black or white test that categorises this funding or the VAT consequences. Instead, HMRC has recently issued 26 manuals, primarily aimed at the VAT inspector, but made available to everyone to use as a reference point.

Ten of them are guidance manuals, broken down into various subjects that fall within the area of non-business versus business funding.

The remaining 16 manuals contain summaries by HMRC of key individual court decisions concerning various scenarios over the last 20 years. These decisions have established important precedents that potentially affect this area.

The manuals are a welcome addition to the HMRC guidance on grants versus a contract for the supply of services. However, anyone using the manuals faces the challenge of finding the actual guidance that applies to their actual circumstances. Additionally, HMRC has no enquiry facility to clear or approve a particular contract or funding arrangement.

In practice

The best approach is to apply practical tests. Firstly, establish how the arrangements started: who approached whom, and why? If the funder reaches out to procure the services, it looks more like a contract for a supply of services than if the service provider approaches the funder and requests funding. However, this is far from conclusive, so it is necessary to review the situation rigorously before reaching any conclusions.

In conclusion

The funder and the service provider should cooperate from the outset to agree what they are looking to achieve and how it is to be funded. The full facts, deliverables and reasons for the arrangements should be documented. Do not leave the VAT arrangements silent. Agree the VAT position and reflect it in the documents to ensure that all parties are fully aware of the impact for VAT purposes.

This is where an experienced charity VAT specialist can really add value to the project. Our team is available for a free no-obligation chat so please don't hesitate to call us.

Which VAT topics would you like to hear about?

Our leading VAT specialists have helped a wide range of organisations of all sizes address VAT concerns, save VAT and avoid pitfalls.

Our VAT series covers a variety of 'need to know' VAT topics. However, we are also happy to hear directly from you about what you would like to know about VAT, to ensure you get the most out of the series.

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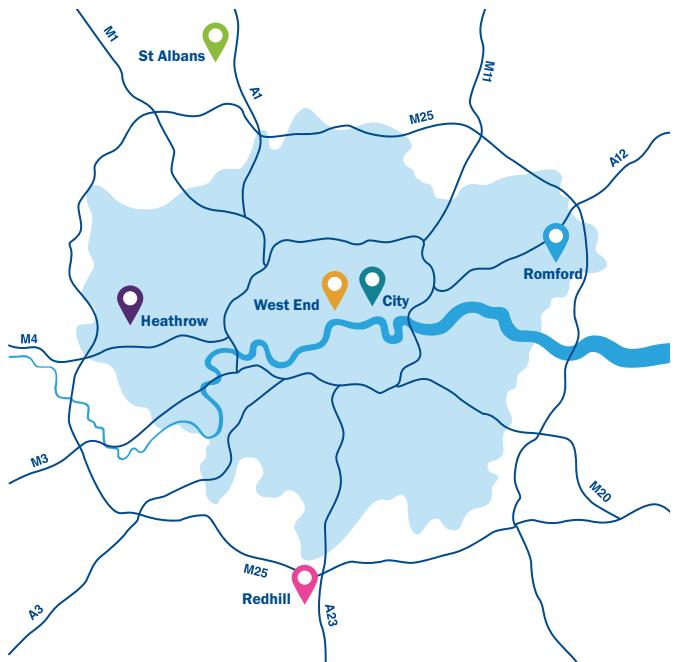
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