

Kickstart

Gets you started on key issues:

- What are the issues?
- Does it affect us?
- What do we do next?

There are a number of common misconceptions about Value Added Tax and charities:

- "charities can register for VAT and reclaim the VAT ('input tax') on their expenditure" – in reality VAT only relates to "business transactions" i.e. those normally associated with a trade.
- "VAT is a relatively simple tax" – in reality VAT is **not** a simple tax; it is probably the most complicated tax in the UK tax system. When it relates to charities it becomes **extremely** complex and specific VAT advice should be sought before undertaking anything of a non-routine nature.

Consequently, these notes are in no way conclusive or definitive; they merely highlight some of the areas which you may need to look at, with professional help.

VAT and charities

Churches and business activities

Most people think that churches are **not** engaged in business activities. Nothing could be further from the truth although many things done by churches may be either exempt or zero rated for VAT purposes.

Selling tapes, publications, holding funding raising events or running conferences are all business activities but, thankfully, most are exempt so far as churches are concerned. Before such activities are undertaken thought should be given to any VAT implications (see below).

Generally the sale of books, tapes, videos etc is a trading activity and if your total taxable turnover reaches £51,000 over a twelve month period then you will need to register for VAT. At that point you will be able to reclaim any input tax directly related to the sales; you may also be able to reclaim a proportion of input tax on your overheads. In determining the twelve month period you should look back over the previous twelve months at the end of each month.

In assessing your taxable income you need to include all standard and zero rated activities.

Exempt activities

These include the provision of spiritual welfare and education, the majority of church activities are therefore exempt from VAT and accordingly the associated input tax can not be reclaimed. In addition fund raising events e.g. concerts, conferences etc are also exempt providing they are non regular and stand alone events. They may last more than one day so long as each day's programme is significantly different.

Such things therefore as Days of Destiny and Ultimate Intention are exempt, as are youth concerts etc.

If you promote an activity which neither provides spiritual welfare or raises funds for the church you will probably fall out of the exemption and would have to include the income within any review of the £51,000 registration turnover. You may also find that such activities are non-charitable and outside the scope of your trust deed!

The hire of church premises is usually exempt unless you choose to waive this and charge VAT on the hiring fees. This would enable you to reclaim the directly associated input VAT.

Zero-rated supplies

These relate to goods bought for which the input VAT is either not charged or it is waived. Some items are zero-rated even for non-charity purchasers:

- books and booklets
- workbooks, including space to write answers/notes
- brochures and pamphlets
- leaflets
- newspapers
- journals and periodicals
- children's books
- music
- maps and charts

From April 2000 all charity advertising, including that for recruitment and all preparation costs (e.g. artwork, typesetting) will be zero-rated.

You may need to provide a certificate regarding your entitlement to zero rating and a pro-forma can be obtained from your local VAT office ('VAT Act 1994 Sch 8 [zero rating] Group 15 certificate'). Your usual printer/designer should be aware of these exemptions.

Certain new buildings are zero rated. Where you engage in any building project specific VAT advice should be sought.

Certain costs relating to equipment used by disabled people is also zero rated.

Fund-raising

The sale of donated goods is a business activity and must therefore be included in your review of taxable turnover. However such sales are zero rated if all the profits are donated to a charity for charitable purposes. Goods bought in for subsequent resale at a profit are standard rated and subject to VAT (if registered). Both types of sales need to be included in your assessment of turnover for registration purposes.

Conclusion

As a church you are probably involved in both standard and zero rated activities but hopefully your taxable turnover is considerably below the registration threshold. Please watch that the level of such turnover remains below the threshold in future.

Review your expenditure in order that you take advantage of all zero rated supplies, particularly for fund-raising, publicity and the production of leaflets etc.

Finally, if in doubt seek expert advice.

Further information

Information on April 2000 changes:

- your local VAT office, listed under 'Customs and Excise' in the phone book
- information on the April 2000 changes can be found at www.inlandrevenue.gov.uk/pbr/trading.htm
- Customs and Excise at www.hmce.gov.uk
- your accountant



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