

VAT exemption on fundraising income

(Lecture B1060 – 12.29 minutes)

A fundraising event organised by a charity or non-profit making body will qualify for exemption for the event in question (VATA1994, Sch 9, Group 12). The exemption applies to trading subsidiaries wholly owned by a charity and also not for profit bodies such as sports clubs and most professional associations. An organisation can host up to 15 events of the same type at the same location in its financial year, which is good news for, say, a monthly car boot sale hosted at the ground of a local football club. Unfortunately, if 16 or more events are held in a financial year, then none of the events qualify for exemption. The exemption covers all income generated at the event, including admission fees, the sale of commemorative items and food.

However, similar events can be ignored for the 15 event limit if total gross takings in a week are less than £1,000 (Note 5, Group 12, Sch 9, VATA 1994). The challenge is to ensure that all events meet the necessary criteria.

What is a fundraising event?

Events can include any of the following:

- ball, dinner dance, disco or barn dance
- performance - concert, stage production and any other event which has a paying audience
- showing of a film
- fete, fair or festival
- horticultural show
- exhibition: art, history or science
- bazaar, jumble sale, car boot sale, or good-as-new sale
- sporting participation (including spectators): sponsored walk or swim
- sporting performance
- game of skill, contest or a quiz
- participation in an endurance event
- fireworks display
- dinner, lunch or barbecue
- an auction of bought in goods - an auction of donated goods is zero rated

However, events where accommodation is provided are excluded, unless the accommodation is for two nights or less (whether or not consecutive) and does not fall within the tour operators' margin scheme.

Conditions for fundraising events

These conditions must be met for income to qualify as exempt from VAT:

- The event must be clearly intended to raise money for the benefit of the organisation ie a fundraising purpose.
- An event should be expected to make a surplus, even if it makes an actual loss (which can sometimes happen, for example, if the British weather has an adverse impact....rain stopped play to use a cricket phrase!)
- The event must be advertised as a fundraiser on promotional literature eg tickets, advertising flyers, committee meeting minutes.
- The event must be one of 15 or less of that kind being held at the same location in a financial year.

What does 'location' mean?

Location means in the same place. Similar kinds of events held in different locations would qualify for exemption provided all other conditions were met. For example, 20 balls held by a national charity each in different towns in the same financial year would all qualify for relief.

Clearly, events that need to be held on special premises, such as a sports ground, swimming pool or theatre are easy to define. Each of these will be accepted as a different location.

If the event is held in a complex of cinemas, theatres or concert halls, the location is the specific cinema, theatre or concert hall in which the fundraising event takes place.

HMRC regards a charity's entire website as a location for events held over the internet.

The rule is designed to be generous to charities which may hold a number of events of the same type in different locations, but in the same town.

HMRC will not accept arrangements such as weekly boot sales each held in different, but adjacent fields, as constituting a separate location without considering whether such an arrangement is potentially distorting competition.

Case study

Imagine a VAT registered cricket club holds a fundraising event and identifies that it qualifies for exemption on the income. The committee also recognise that the direct costs of the event are input tax blocked under the rules of partial exemption eg catering fees, cabaret cost, venue hire. However, this is not the end of the story:

It is possible that the club can still claim all of its input tax by using the partial exemption de minimis rules at the end of its partial exemption tax year ie 31 March, 30 April or 31 May depending on its VAT periods.

The reason I refer to the annual period is because the input tax on the costs of the event is unlikely to be de minimis in a VAT period – the main de minimis test is that exempt input tax must be both less than 50% of total input tax and also less than £625 per month ie £1,875 in a quarter of £7,500 in a year.

The annual adjustment calculation is carried out at the end of the tax year and any adjustment can be included either on this VAT return or the following return ie 31 March or 30 June in the case of a business on calendar quarter return dates.

Planning tip

To help input tax recovery, goods or services that qualify for zero-rating are still zero-rated if supplied in connection with a fundraising event.

This might apply in the following cases:

- the sale of donated goods by a charity
- eligible food
- eligible printed matter
- young children's clothing
- the supply of advertising time or space to a charity
- any other goods which qualify for zero rating

Past errors

If you act for charity clients or not-for-profit organisations and have identified some VAT over or underpayments, then adjustments can be made for the last four years in the same way as for a commercial business. If the net value of the errors is less than £10,000 (or less than £50,000 and also 1% of outputs in Box 6 of the return where the correction is to be made) then the next return can be corrected. If the net error is above these limits, then a disclosure to HMRC is needed on form VAT652.

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