

Value Added Tax Report

The National Association for Areas of Outstanding Natural Beauty

Date: 03 August 2018

DRAFT FOR DISCUSSION


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Appendix A – Documents considered in this report.

**Defra Grant Offer Letter
Heritage Lottery Fund Extract from
Terms & Conditions
Sponsorship document
Membership Rates 2018-19
Membership Benefits 2017-18
Client email explaining income types**

Disclaimer

The matters noted in this report are for your consideration but should not be acted upon without the appropriate tax, legal and other professional support and advice. The following planning is based on the tax rules in place at the time of writing. The rules are subject to change and periodic consultation is advised to ensure that the planning implemented remains to be the best approach. Additionally, should there be a material change in your circumstances then this plan may need to be revisited and thus further consultation required.

1. Executive Summary

Purpose

We have been engaged by The National Association for Areas of Outstanding Natural Beauty (NAAONB) to provide a report on the VAT status of the charity.

The report reviews typical income types to determine if any could be standard rated supplies, exempt or outside the scope of VAT. The charity has never registered for VAT before.

Findings

The table below summarises the income types and what VAT will need to be charged on sales. Where income is outside the scope of VAT then no VAT is charged on sales and VAT cannot be reclaimed on related expenses.

Income type	VAT rate to be charged if registered for VAT
Sponsorship of conferences	20%
Delegate fees	20%
Heritage Lottery Fund	Outside the scope of VAT
DEFRA grant	Outside the scope of VAT
Consultancy fees	Outside the scope of VAT
Membership income	Outside the scope of VAT

The supplies that will be standard rated for NAAONB are delegate fees and sponsorship of conferences. Conferences do not have fundraising as their primary purpose, they are to educate and raise awareness of Areas of Outstanding Natural Beauty. Further commentary can be found in section 3 and 4.

All other supplies appear to be outside the scope of VAT, therefore they do not have an impact on VAT calculations. The charity has no exempt supplies.

The new Heritage Lottery Fund Grant is considered to be outside the scope of VAT since although progress reports are submitted, the NAAONB is not providing a service to the grant provider in return for the funding.

VAT registration

Taxable income is projected to be below the registration threshold. Therefore, the NAAONB does not have legal requirement to register but could voluntarily register. Consideration should be given as to whether delegates and sponsors will be able to reclaim the VAT charged otherwise the VAT charged would be an additional cost to the customer.

2. Introduction

We have been asked to report on the VAT position of supplies made by the Charity, The National Association for Areas of Outstanding Natural Beauty (NAAONB) from the information made available to us.

This report will consider the following:

1. Are NAAONB supplies subject to VAT.
2. Does NAAONB have legal requirement to register for VAT.
3. Whether it can register for VAT without the legal requirement.

NAAONB was incorporated as a company limited by guarantee in April 2003, and was granted charitable status in October 2015.

The purpose of the charity is to promote the natural beauty of Areas of Outstanding Natural Beauty and support regional Areas of Outstanding Natural Beauty partnerships.

We understand that the Charity has never been registered for VAT. We have been asked to consider the VAT position of the Charity only.

3. General explanation of activities

a) The following list of activities will fall outside the scope from VAT:

- Income from Government departments or other bodies which is given freely for use by NAAONB without any restrictions, (such as specific services to be carried out for the Donor's use) on the application of the funds or benefit to the Donor.
- Funds for the provision of staff services that represent nothing more than a mere recharge should be outside the scope of VAT.
- The passing of external expert's fees at cost and the customer held responsibility to pay the expert.

b) The following list of activities will be exempt for VAT purposes:

- Fundraising events for charity where it is clearly stated on the invoice or ticket etc. that the event is 'fund raising for', 'in aid of', 'help us to build', or 'help us to raise money for'. This would be an exempt supply for VAT.

c) The following list of activities will be standard rated supplies for VAT purposes:

- Income from Government departments or other bodies which must be used for designated services and paid on completion of certain milestones. The income is not freely given and restrictions are applied, there is normally also a benefit to the Donor, or recognition for providing the funds.
- Membership fees can be standard rated supply where the members are provided with benefits that are standard rated by nature.
- Sponsorship activities where sponsors receive benefits, such as advertising.
- Admission to PR or awareness events where admission fees are used to cover the cost of events.

4. Findings of the review

The review has established the likely VAT treatment of the majority of income sources as per the financial statements. However, there has been some funding received where the supporting documentation has proved inconclusive as to the precise nature of the income for VAT purposes.

The considered VAT treatment of the various income streams we have been made aware of are detailed below:

Income falling within the scope of VAT

- Sponsorship of conferences by businesses
- Delegate fees

Income falling outside the scope of VAT

- Heritage Lottery Fund grant
- DEFRA grant funding
- Consultancy Fees
- Membership income

4a. Commentary

Grant Funding

Heritage Lottery Fund – This grant requires the successful applicant to prepare periodic reports outlining how the funding has been used and to demonstrate how the objectives included in the application have been met. Funding is provided in milestone payments once the report has been reviewed. No service is supplied to the HLF in return for the funding. This would be seen as a pure grant and outside the scope of VAT.

DEFRA Grant – The grant is provided in a lump sum which, per the offer letter, allows NAAONB to ‘freely’ allocate spending within the context of the application. No reporting to DEFRA is required therefore this is a pure grant and outside the scope of VAT.

Sponsorship

Businesses are invited to sponsor NAAONB events, there are several levels of sponsorship:

- Principal sponsors receive commercial promotion space at the main stage, branding and marketing opportunities and a chance to present to the attendees.
- Site visit sponsors fund the costs of the site visit for delegates and can run a briefing session during the event.
- Dinner sponsors are invited to the dinner and present the Bowland Award during the meal giving promotion to their brand. Additionally, the sponsor can run a briefing session.
- Exhibition sponsor are given brand promotion opportunities in the trade stand area. Additionally, the sponsor can run a briefing session.

All sponsorship levels receive advertising and brand exposure, therefore this source of income is within the scope of VAT.

Membership fees

Per the documentation available, all membership levels receive discounted training and entry to delegate conferences plus access to NAAONB staff expertise. Higher membership levels engage in collaborative work.

The VAT liability of the membership fee depends upon the liability of the benefit provided. As a charity providing multiple benefits to members then the fee can be apportioned to reflect the value and VAT liability of the benefits.

Having considered the benefits supplied then the membership fee would be outside the scope of VAT as all benefits are not subject to VAT.

Consultancy

Providing consultancy services where the customer receives a report or similar is a taxable supply. Based on information available, income of this nature relates to a recharge of an external expert's work to a third party and as such would not be a taxable supply.

Delegate Fees

To be exempt from VAT the primary purpose of the event must be fundraising. Delegates pay a fee to attend the conferences that goes towards the cost of running the event but costs often exceed delegate fees. Therefore, it could be said that NAAONB conferences main purpose is for PR and increasing awareness of delegates. If this is the case then delegate fees would be standard rated for VAT.

The impact of the review for VAT purposes is detailed within the conclusion to this report; this is a 'best case' scenario based on the information provided.

5. VAT Thresholds and Registration

The VAT registration threshold is currently £85,000.

If a business has VAT taxable turnover of more than £85,000 arising over the previous 12 months, the business must register for VAT. If the VAT taxable turnover will exceed the threshold in the next 30 days, the business must also register for VAT.

The current deregistration threshold is £83,000.

If a business temporarily exceeds the VAT threshold, an application can be made for an exemption from VAT registration.

The application can be made where a business has exceeded the £85,000 threshold and is able to demonstrate to HMRC that in the long term, trading shall be below the deregistration threshold of £83,000. If the application is not approved then VAT registration will occur on the date the business should have been VAT registered in the absence of an exemption.

Where a business has taxable turnover less than the threshold there is an option to voluntarily register for VAT.

A VAT registration must be completed within 30 days of the date turnover exceeded the registration threshold or the entity decides to voluntarily register from.

To register, HMRC online forms must be completed summarising the expected VAT taxable sales, the VAT effective date and details of the charity.

Until a VAT number has been issued, no VAT can be charged or shown on invoices but VAT must be paid on purchases.

6. Conclusion

We have considered each current source of income to form an opinion as to whether they are subject to VAT. Having looked at the income types, some have been found to be taxable and others outside the scope.

Of the income analysed the items that could be subject to VAT per section 4 are included in table 1. The table shows the value of each income stream, figures have been obtained from the Trial Balance used to prepare the 2018 accounts.

Heritage Lottery Grant is a new source of income for 2019, the grant itself is paid in instalments once expenditure reports are submitted. No Actual service is provided in return for the funding so this would be a pure grant and outside the scope of VAT.

Table 1

Income type	Estimated Value of Income for y/e 2019 (£)
Sponsorship (estimate)	100
Delagate Conference fees (estimate)	45,402
Total	45,502

As can be seen from the table, NAAONB do not have a legal requirement to register for VAT as income could be below the registration threshold. However, the charity could voluntarily register.

If the NAAONB does voluntarily register, VAT must be charged at 20% on any outputs that are standard rated. Any outputs that are outside the scope would not be chargeable to VAT. Input VAT would be recoverable where expenses have VAT charged and relate to either the sponsorship or delegate conference fee income.

Since there are no exempt supplies Partial Exemption rules are not applicable.

Voluntary registration and its impact on customers should be considered carefully. VAT should be charged on standard rated supplies which could impact upon the delegate or sponsor who will see an increased cost. This is particularly relevant for any customers who are not able to recover VAT because they are not VAT registered.