

Ipswich and District Council for Voluntary Service  
Funding and Finance Advice Services

### Module

Introducing Tax, Trading and VAT

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### Introduction

All areas of taxation can be complex. The financial cost of a bad decision can far outweigh any savings on professional fees. Tax law does not recognise voluntary organisations; it only recognises charities, as defined in the law. It is important for all organisations to be aware of tax issues, especially if they take on paid staff, begin to work under a contract or start trading activities, all of which have tax implications.

Seek expert advice on tax if in any doubt about the advice you have received. Many decisions or contracts cannot be changed after they are agreed. Get competent advice to get it right first time. ICVS provide introductory advice based on best practice and will aim to put you in touch with professionals as soon as it is appropriate.

### Direct Taxes

The general rule is that as long as the charity income in question is spent on charitable purposes only, then much of it is exempt from income tax.

Areas likely to be exempt from tax include:

- Rent or other receipts from rights over land
- Bank interest received by charities
- Tax-effective donations
- Company donations
- Dividends

\*\* Speak to Elle Lamb or Colin Bartram about Tax Efficient Giving, attend a workshop, pick up our Fundraising Guide or arrange an appointment.

## VAT

VAT is tax on transactions, not on profits, which is paid by the ultimate customer, i.e. the person using the good or service.

VAT is based on the level of taxable output activity an organisation does, i.e. the amount of things you do that *are* eligible for tax such as through trading or selling your services. It is levied on turnover, calculated on value, actual or deemed, of the supply of certain goods and services known as “taxable supplies”. These supplies have to be made ‘in the course of furtherance of business’. The term “business” can apply to activities other than those of a commercial nature.

It is not just a matter of knowing whether an activity is regarded as business, but also whether its outputs are classified as standard-rated, zero-rated or exempt from VAT. The growing use of contracts within the VCS has extended the VAT variety within the sector. Contracted services tend to be classified as business and standard-rated (VAT at 17.5%). By contrast, a grant made without the requirement of service provision would fall outside VAT, as a form of donation.

Organisations are not legally required to register for VAT until a certain level of turnover is achieved (see Charity Commission). However, just because you don’t have to, you may wish to consider doing so because this may allow for a partial recovery of VAT incurred from others. Tax planning is important.

There are some VAT concessions for charities (e.g. on sales of donated goods, fundraising events). However, it is important to be aware that VAT may be applicable regardless of whether an activity is for charitable purposes or not.

Because voluntary and community organisations have a mixture of supplies that are taxable, exempt and outside-the-scope, there are issues as to how much of their costs can be recovered and what exactly they should be paying. Professional advice from a specialist charity VAT expert may be required. Although this will require paying a fee, many larger accountancy firms with specialist charity departments will often base their fee as a percentage of the amount of VAT they can recover or cap their fee to an agreed amount.

We can provide a step-by-step guide on VAT for voluntary organisations. If you think “this is for me!” contact Colin or Elle.

*Do not use this instead of specialist advice. TAX is complicated the language is legal and so very complicated. Yes advice may cost some money but this should be included in good financial and business planning because getting it right the first time is best value. Speak to Colin if you would like additional help on financial and budgetary management so that you can decide how to cover these costs.*

- Most tax problems occur when circumstances change because what you are doing changes, staff, turnover, trading, contracting.
- Charity income for charitable purposes is mainly exempt from tax.
- VAT is based on the level of taxable output. Levied/Charged on the turnover, calculated on value on certain goods and services known as “taxable supplies”.
- VAT may apply whether an activity is for charitable purposes or not.