1.	Introduction	. 4
1.1 1.2 1.3 1.4 1.5 1.6	Scope of this guidance	. 4 . 4 . 5 . 5
1.7	One off extra-statutory remissions	
2.	What is a charity?	
2.12.22.32.42.5	Definition of charity	. 7 . 8 . 9 . 9
2.6 2.7	Trading subsidiaries Terminology	
2.8	Not for profit	
2.9	The status of commonly found organisations	
2.10	Conclusion	
3.	Business and non-business	14
3.1	Introduction	
3.2 3.3	Business and non-business activities of charities	
3.4	Implications of being in business for a charity	
3.5	Identification of supplies made rather than sources of income	
3.6 3.7	Consideration or donation?	
3.8	When is a donation not a donation?	17
3.9	What happens if a charge is made but the customer doesn't pay it?	
3.10 3.11	Treatment of welfare services supplied below cost	
3.12	Services contracted out by local authorities and health authorities	
3.13	Share dealing by charities	23
4.	Activities commonly carried on (or income received) by charities	25
4.1	Introduction	25
5.	Advertising	26
5.1	General	26
5.2	Supplies to "charities" within the EC	
5.3	Supplies to charities outside the EC	
6.	Ambulance services	
6.1 6.2	What is an air ambulance? What is the VAT treatment for the supply of an air ambulance?	27 27
6.3	What is an "eligible body"?	27 27
6.4	What is an "eligible body"?	
6.5 6.6	What about supplies of air ambulances to commercial organisations?	
	Charity shops and sales of goods	
7. 		
7.1 7.2	Introduction	
7.3	Charity shops	
7 4		31

7.5 7.6	Dress exchange schemes Other types of sale	
8.	Free export of goods	33
8.1	The VAT treatment of free exports	33
9.	Fund-raising	34
9.1 9.2 9.3 9.4	Introduction	34 37
9.5 9.6 9.7	Charity challenge events	39 39
10.	Grant funding	43
10.1 10.2	When does funding become consideration for a supply?	
11.	Reliefs available	44
11.1	Introduction	44
12.	Advertising	45
12.1	Introduction	45
12.2 12.3	BackgroundUK VAT law	
12.3	What is an advertisement?	
12.5	In-house supplies	47
12.6 12.7	Medium of communication Communication with the public	
12.8	What services qualify for relief?	48
12.9 12.10	Postal appeals packs	
13.	Talking books	
13.1	Introduction	
13.2	Relief available under Item 1	50
13.3	Relief available under Item 2 Meaning of "designed or specially adapted"	
	Lifeboats	
14.		_
14.1 14.2	IntroductionUK Law	
14.3	Definition of a lifeboat	51
14.4 14.5	Definition of sea rescue services Design features	
14.6	Parts and accessories	53
14.7	Equipment installed, incorporated or used in a lifeboat	
15.	Medical and scientific equipment ("relevant goods")	54
15.1 15.2 15.3 15.4	Introduction UK VAT law What are relevant goods? Who is an eligible body?	54 54 55
15.5 15.6	Definition of handicappedFunding arrangements	
15.7	Scope of items 4 and 5	56
15.8	Effect on charities of the legislative changes made in 1996	56

15.10 15.11 15.12 15.13 15.14 15.15 15.16 15.17 15.18 15.19	Charitable institutions that qualify as eligible bodies under Note 4 Charitable institutions providing institutional care Charitable institutions providing domiciliary care Administrative and control procedures Determining the liability of a supply Eligibility declarations Is the supply to an eligible body? Are relevant goods being supplied? Are the relevant goods going to be used for a qualifying purpose? Approved list of items Services that qualify for relief Funding for the purchase of qualifying equipment	59 60 61 62 63 67 68 71 74 74
16.	Medicinal products and substances	77
16.1 16.2 16.3 16.4 16.5 16.6	Introduction UK VAT law The Medicines Act Bodies eligible for the relief Relevant goods Appropriate use	77 78 78 79
17.	Index to the law	80
17.1	Index to the law on charities	80
18.	Historical changes to VAT legislation affecting charities	82
18.1	Introduction	82

1. Introduction

1.1 Scope of this guidance

Our books of guidance are the main reference material for people in the Department. All HM Revenue & Customs (HMRC) formal procedures and work systems are outlined in these books which give managers and staff the Department's rules and guidelines and general advice on interpreting them.

The guidance is aimed at HMRC staff and should not be relied upon by businesses in calculating their taxes and/or duties.

1.2 Release of information: Freedom of Information Act 2000 (FoIA)

No exemptions under the FoIA apply and all information in this guidance may be released on request.

1.3 Background

General background information on charities and VAT is in section 2.

1.4 Law and regulations

Due to the diversity of activities undertaken by charities it is not possible to list every section of legislation that might be relevant (but please see section 17 for a more comprehensive cross-reference to the legislation). The areas of VAT Act 1994 offering specific relief to charities are:

Group	Schedule	Relief
1	7A	Reduced rate for fuel and power in buildings used by charities for non-business purposes.
2	7A	Reduced rate for the installation of energy saving materials in buildings used for relevant charitable purposes.
4	8	Zero rates the supply to a charity of talking books for the blind.
5	8	Zero rates the first grant of a major interest, or the construction of a building used for a solely charitable purpose.
6	8	Zero rates the first grant of a major interest in a substantially reconstructed building, or approved alteration to a listed building used for a solely charitable purpose.
8	8	Zero rates the supply to a charity of sea rescue equipment.
12	8	Zero rates the supply to a charity of aids for use by

		disabled people.
15	8	Zero rates supplies of certain goods and services by and to charities or with funds provided by charities.
7	9	Exempts supplies of welfare by charities.
12	9	Exempts fund-raising events held by charities.

1.5 The role of Charities Policy Team

The Charities Policy Team is responsible for the development and maintenance of policy relating to charities and aids for the disabled. We review areas where policy needs to be determined or has not clearly been determined and defend appeals that challenge our policy or legislation. We also write and maintain notices and guidance.

The Team should be notified of cases where a charity has got itself into major VAT difficulties. Any large assessment or ruling on a charity may lead to representations to Ministers by MPs or press coverage. The Team would like to be warned in advance about such cases if possible so that we can brief Ministers at an early stage.

For more information on the Team please look on the Policy Group intranet site. There is a link to the Team - together with links to other teams and guidance mentioned - on V1-9's homepage.

1.6 Disputes

In many cases a dispute with a charity may be about the interpretation of the existing reliefs. Firstly, it is important to ensure that you have considered all the reliefs available – for example a charity may claim relief under Group 5, Schedule 8 for construction works, and you determine that the works are not eligible. However, relief for some of the works, such as bathrooms or lifts, may be available under Group 12, Schedule 8.

The reliefs for charities give rise to many borderline problems and we are constantly being pressed to widen our interpretation of the reliefs. Where there is no agreement the VAT tribunals exist to resolve disputes of this sort. A charity may nevertheless embark on a public campaign in order to put pressure on the Department to change its view. It might choose this course instead of, or in addition to, going to the Tribunal.

It helps in the handling of disputes if it can be clarified with the charity whether there is a liability dispute. Is the charity disputing the Departments interpretation of the law? Or is the charity campaigning for more VAT relief, that is, a change in the law? If it is the former then the tribunals exist to resolve the matter and it can be pointed out that a simple appeal procedure is available to the charity. Alternatively it is helpful to be able to confirm that the charity agrees with Customs that there is no VAT relief for the supply in question but would like to see the VAT reliefs extended further.

Ministers will not usually get involved in disputes between individual taxpayers and the Department about the application of the law to their particular circumstances. Ministers will usually respond to representations (for example from MPs) by explaining that the tribunals exist to resolve the constituent's dispute.

Ministers will however consider carefully all calls for more or wider tax reliefs for charities and will respond explaining Government policy. In order for the Charities Policy Team to be able to brief Ministers effectively it is helpful if the nature of the charity's complaint has been clarified.

1.7 One off extra-statutory remissions

Individual extra-statutory remissions are a mechanism which are only available in extremely limited circumstances. All charities are deserving and many have to pay VAT on essential purchases or account for VAT on supplies which they make to others in the course of their charitable activities. Individual remissions cannot be used as a means of extending reliefs. They would too easily set a precedent and others would demand similar relief. Individual remissions have been allowed in special and unique circumstances where a specific type of transaction could not have been foreseen when the legislation was drafted. Such a transaction will inevitably be of a one off nature.

By way of an illustration a remission was allowed in the following case:

A sea-rescue charity purchased a complete slipway. A commercial organisation had commissioned the slipway for a project which had subsequently failed. The slipway happened to be situated in exactly the right location for providing a sea-rescue service. Schedule 8 Group 8 Item 3(b) allows zero-rating for the supply to a charity providing rescue or assistance at sea of the services of construction, modification, repair or maintenance of slipways used solely for the launching and recovery of lifeboats. In this case however the supply of construction services had been to the commercial organisation. There is no zero rate for the purchase of completed slipways, so in strict legal terms VAT was chargeable. This was a situation which could not reasonably have been foreseen when the legislation was drafted. It was highly unlikely to occur again. Therefore a remission was allowed.

If you think a case might be appropriate for an individual remission you should refer the matter to the Charities Policy Team.

2. What is a charity?

2.1 Definition of charity

You will not find the term "charity" defined anywhere in statute law. The Courts have decided what is and is not a charitable purpose over the years. The definition of charity dates from a court case in 1891. In this case the Court identified four classes of charity.

The case involved the **Income Tax Special Purposes Commissioners v Pemsel.** Lord Macnaghten ruled that:

"Charity in its legal sense comprises four principal divisions - trusts for the relief of poverty, trusts for the advancement of education, trusts for the advancement of religion, and trusts for other purposes beneficial to the community, not falling under any of the previous heads"

This case still provides the basic framework for charities.

We accept that an organisation is a charity if it is registered with a Charity Commissioner or Regulator, or it is accepted as a charity by colleagues in the Revenue Charities Team, who are based in Bootle (see paragraph 2.2).

2.2 Charity Commissioners and Regulators

2.2.1 England and Wales

The Charity Commission is the government body responsible for overseeing charities in England and Wales. The Charity Commission is responsible for registering charities under the provisions of the Charities Acts. An organisation wishing to register must satisfy the Charity Commission that they qualify to be treated as a charity.

However, there are certain categories of charity which are not required to register with the Charity Commission:

- very small charities
- charities subjected to appropriate controls by other organisations (eg universities, colleges)
- some churches.

Exemption from the requirement to register does not affect an organisation's charitable status. Recognition of charitable status by the Revenue Charities Team is also acceptable proof of charitable status.

2.2.2 Scotland

The Office of the Scottish Charity Regulator became operational in December 2003. The Regulator will have similar responsibilities to the Charity Commission and will be responsible for maintaining a register of Scottish charities. Again, recognition of charitable status by the Revenue Charities Team is also acceptable proof of charitable status.

2.2.3 Northern Ireland

Currently, charities in Northern Ireland do not register with a charity commissioner or regulator. For these organisations recognition by the Revenue Charities Team as a charity is acceptable proof of charitable status.

When dealing with charities it is important to ensure that there is no confusion between "registration" with the Charity Commission/Regulator and "registration" for VAT. Some small charities might themselves confuse the different types of registration. Similarly, care should be taken when referring to "the Commissioners". When used on its own some charities might interpret this term as meaning the Charity Commissioners.

2.3 What to do if charitable status is unclear

Difficulties can arise when dealing with very small organisations which do not have to register with the Charity Commission/Regulator and which may not have come to the attention of the Revenue Charities Team. The guidelines set out below may be of help in these cases. The Charities Policy Team is available to help in difficult cases and will consult the appropriate Charity Commission/Regulator if necessary. If a small local group is raising funds for say, the local school, and wish their advertisement for a bazaar to be zero-rated it may not be worth spending a lot of time deliberating over the exact status of the organisation. To benefit from a relief the organisation will need to declare (on the eligibility declaration) that they are a charity. When such declarations come to your attention you would normally only enquire further if there is some reason to doubt the declaration.

Sometimes an organisation might ask whether they are entitled to sign eligibility declarations for zero-rated purchases. You may be asked the question "are we a charity"? While you should be as helpful as possible you should explain that **it is for the organisation to determine its legal status**. Organisations that are unsure of their status can seek advice from the Charity Commission/Regulator (who publish many useful public notices for charities) or contact organisations such as the National Council for Voluntary Organisations, the local Council for Voluntary Action or other umbrella bodies established to help charities and voluntary groups.

2.4 How charities work

Charities vary greatly both in respect of their activities and size. Some are major national and international organisations with substantial business interests. They may employ specialist advisers to organise their VAT affairs. Some charities and their trading subsidiaries engage in sophisticated VAT avoidance arrangements equal to those found in any other "commercial" organisation.

At the other end of the spectrum are small local charities engaged in welfare work, promoting the arts or improving the local environment. Some may rely exclusively on volunteer workers and operate in very deserving areas.

Many charities command a high level of public support. A sensitive approach is often required in order that the Department is not the subject of criticism. On the other hand charities often operate in direct competition with commercial enterprises. Other taxpayers are entitled to expect an evenhanded application of VAT rules. This balancing act is not always easy to achieve.

2.5 Distinction between a charity's objects and the way it operates

You should not confuse the way in which a charity fulfils its objects with the charitable nature of the objects. There is nothing to stop a charity charging a large amount of money for its charitable services. Private hospitals, nursing homes and schools can have charitable status and may charge substantial fees. They will normally be charitable organisations provided they are non-profit making ie there is no distribution of profits to shareholders.

2.6 Trading subsidiaries

Charity law restricts the activities in which a charity can engage to those relating to its charitable objectives. In addition trading activities of charities are exempt from corporation tax only to the extent that they are in pursuit of the organisations charitable objectives. For these reasons many charities establish trading subsidiaries. Charity trading subsidiaries engage in a wide range of commercial ventures in order to raise funds for the parent charity. Profits of trading subsidiaries can be passed to the charity free of corporation tax. It is important to remember that charities' trading subsidiaries are not charities. Some VAT relief, such as the sale of donated goods and fundraising events, specifically extend also to charities trading subsidiaries. But in many cases relief is available only to the charity.

2.7 Terminology

The Charity Commission/Regulator draws a distinction between charities' primary or "charitable" activities and their "trading" activities. Charities will often refer to certain of their activities as "trading" activities. In this context the term "trading" is usually used to describe the organisation's non-charitable commercial fund-raising activities. These activities are usually, if they are of any scale, carried out by the charity's trading subsidiary. It is important not to confuse the term "trading", when used in this way, with the term "business" as used for VAT purposes. For VAT purposes "business" can have a much wider application than "trading", as understood by charities. A charity's trading activities will invariably be business activities for VAT purposes. But it is important to bear in mind that, in addition, some or all of the charity's primary or charitable activities might also be business activities for VAT purposes.

The distinction between "trading" and "business" is a common source of confusion for charities. A charity may consider very carefully the VAT aspects of their trading activities, but neglect to consider whether their charitable activities might also be "business" for VAT purposes.

When seeking advice charities will often refer to their "trading" activities. It is important when responding that you do not use the term "trading" if what you mean to refer to are the charity's business activities.

2.8 Not for profit

Charities and "not for profit" organisations are not the same thing. If you ask the question "are you a charity?" and you receive the answer "we are a non-profit making organisation" you should enquire further. While all charities will be non-profit making organisations, not all non-profit making organisations will be charities. Clubs and associations, professional and trade bodies, mutual societies (including many large insurance companies and building societies), friendly societies, motoring organisations, the Co-operative movement, trades unions, political parties and lobby groups etc are all non-profit making organisations, but they are not necessarily charities. Bodies which exist to benefit their members, as opposed to the community at large, are not usually charities. Organisations with political aims and objectives are not charities.

Charities may have a membership structure and the members may derive some benefits. But usually it is a case of the body of members coming together to support work which is of benefit to the wider community. An organisation which exists solely to benefit or further the aims of its members is not a charity.

2.9 The status of commonly found organisations

The following paragraphs outline the status of some common organisations.

2.9.1 Sports clubs

Sports clubs are not usually charities. This is because the promotion of sport is not a charitable object in itself and such clubs usually exist to provide facilities for their members (however please also see paragraph 2.9.2 on Community Amateur Sports Clubs).

An example of an organisation which did not qualify as a charity was a cricket club. The club commissioned the building of a new cricket pavilion and provided the builder with a certificate stating that the club was a charity and the cricket pavilion was in fact a village hall. By providing the certificate the club avoided a VAT charge of around £9000. We ruled that the club was not a charity and therefore was not eligible for the relief. The following points were significant in reaching that decision:

- The club was not registered with the Charity Commission.
- The Revenue Charities Team were unaware of its existence and therefore had not ruled on its charitable status.
- The objects of the club were to provide facilities for playing cricket and all other purposes incidental thereto including social facilities and for entertaining visiting teams in a social atmosphere. As these facilities were available to members only, who had to pay a membership fee, it was not felt that the club existed for the benefit of the general community in a charitable sense.
- The club clearly intended to make a profit.

However, it may be possible for some sports clubs to be charities. If the organisation has objects which are:

- for the public good
- in the interests of social welfare
- the club exists for people who are in some way in need by reason of youth, old age, infirmity, disability, poverty or social circumstances.

Under these conditions an organisation which exists to promote, for example, swimming to assist the rehabilitation of injured people might qualify as a charity. Or the provision of sporting facilities might be ancillary to wider charitable objectives. For example, the YMCA is a charity which exists to promote the spiritual welfare of young people, but it also provides a wide range of sporting and leisure activities for its members.

Also, certain umbrella bodies which exist to promote a sport and physical welfare in general might have charitable status as being for the benefit of the community.

2.9.2 Community Amateur Sports Clubs (CASCs)

This special scheme was introduced by the Inland Revenue in 2002 and entitles certain sports clubs to register as CASCs and obtain some of the same direct tax benefits as charities. In the same year the Charity Commission for England & Wales recognised as charitable the promotion of community participation in healthy recreation by providing facilities for playing particular sports. The type of CASC which is able to become a charity is one that enables members of the public to take part in sports capable of promoting health and fitness, and whose facilities are available to all who wish to use them. Our understanding is that **not all** CASCs will be charities. You should check whether the CASC is on the Charity Commission register. Only CASCs that are registered charities will benefit from the charity reliefs. If you experience any difficulties please contact the Charities Policy Team.

2.9.3 Affiliation to a national charity

A local organisation may be affiliated to a national organisation which is a clearly recognised charity. It may be that all affiliated organisations are governed by the same written constitution and share the same aims as the national charity. Only where this is the case can you accept that the local organisation is also a charity.

2.9.4 Philanthropic organisations

There are a number of organisations which exist to do good work but are not charities. Many such organisations choose not be charities. Charitable status brings with it many restrictions on the use to which funds can be put. Some organisations prefer to retain freedom to spend money on non-charitable activities. Examples of philanthropic organisations which are not usually charities are Rotary Clubs and Lions Clubs.

2.9.5 Educational organisations

Charities that are advancing education are a benefit to the community. The term "advancing education" includes not only the obvious purpose of schools and universities but also other activities of benefit to the public such as research or information services. However, there are commercial organisations providing similar services and the main distinction between the commercial and the charitable organisation is likely to be the intention or not to make a profit.

2.9.6 Hospitals

Many private hospitals (ie non-NHS) and nursing homes are operated by charities. Others may be profit-making commercial organisations. NHS hospitals and NHS Trusts are Crown bodies for VAT purposes and are not charities. However, such hospitals may have associated charities, leagues of hospital friends etc which exist to help and raise money for the hospital. NHS Hospital managers and consultants frequently act as trustees of charitable Trusts founded to help the hospital in its work and funded from donations or bequests. These charitable Trusts will usually have charitable status in their own right.

2.9.7 Political organisations

Charities freedom to engage in political activities is limited and they cannot have political objects. They are constrained by law to reasonable lobbying to further their non-political objects. The Charity Commission have set guidelines to specify what is and what is not acceptable. Many political organisations operate along the same lines as charities. For example they will engage in fund-raising and rely on volunteer support. They will usually have a membership structure. They are not charities because they pursue political objects; as do lobby groups, eg Greenpeace and Amnesty International. (However, please note that some political organisations may set up a charitable foundation or trust which does not get involved in the lobbying.).

2.9.8 Housing Associations

Particular care should be taken with Housing Associations. Some have charitable status and some not. Charitable Housing Associations usually exist to provide housing for a particularly needy sector of the community eg the elderly, people with disabilities or those who are homeless. Other Housing Associations exist to provide housing generally, or to serve a particular locality; these will not necessarily be charities. You will find that some Housing Associations are Industrial and Provident Societies. This does not entitle them to claim the charity reliefs – you will need to check if the Housing Association is registered with a charity commissioner/regulator or recognised as charitable by the Revenue Charities Team.

2.10 Conclusion

Despite the apparent complexity of the issues set out above, the status of an organisation is rarely a subject of dispute. **If there is doubt it is up to the organisation concerned to demonstrate its charitable status**. If you encounter difficulties please contact the Charities Policy Team.

3. Business and non-business

3.1 Introduction

Charities engage in a wide range of activities. Some charitable activities are regarded as business for VAT purposes, while others are not. You will find general guidance on how to distinguish between business and non-business activities in V1-6 *Business/non-business*. The principles given in V1-6 apply fully to charities unless otherwise detailed below.

The purpose of this section is to provide detailed guidance on business/non-business issues that affect charities. To that end it will cover the following areas:

- some common business and non-business activities of charities
- the meaning of "below cost"
- the meaning of "otherwise than for profit"
- some specific non-business issues.

3.2 Business and non-business activities of charities

In order to both safeguard the revenue and assist charities in their administration of VAT you will need to cover the following points:

- that the implications of business and non-business activities are understood in the context of an individual charity
- that you have identified activities performed by the charity rather than the sources of income received
- that you have identified if income relating to activities is a donation or a consideration for goods or services supplied.

3.3 Treatment of specific activities

This section provides guidance on the treatment of income from some activities that are common sources of confusion when considering business/non-business. In addition to this specific guidance you should also consider the more general points made in paragraphs 3.4 to 3.9.

You can find more guidance on the treatment of income:

from	in
welfare services supplied below cost	paragraph 3.10
bequeathed property	paragraph 3.11
services contracted out by local	paragraph 3.12

authorities and health authorities	
share dealing	paragraph 3.13
affinity credit cards	Notice 701/1 Charities
supplies of staff between charities	Notice 701/1 Charities

3.4 Implications of being in business for a charity

The VAT implications for a charity of being engaged in business activities are wide ranging. They include:

- the possibility of being liable to register for VAT or being able to register voluntarily for VAT
- if VAT registered, the need to account for output tax on standard-rated and reduced-rated taxable supplies
- if VAT registered, the entitlement to reclaim input tax to the extent it relates to the taxable business activities of the charity
- the restriction of some VAT reliefs that relate to the nonbusiness activities of the charity (eg fuel and power, new construction).

3.5 Identification of supplies made rather than sources of income

Because VAT is only recoverable to the extent that it relates to taxable business activities it is important to determine which activities are by way of business for VAT purposes and which are not.

With certain exceptions set out in the following paragraphs, if a charity provides goods or services for a fee, charge or other consideration it is normally a business activity. On the other hand, goods and services provided free (which may be funded from donations or grants – see paragraph 3.8) are usually non-business activities. You will need to bear in mind that all activities conducted by the charity will have to be identified rather than just the sources of income that the charity receives. This can have a marked effect on the proportion of input tax that can be reclaimed.

(a) Free supply of services

The purpose of any charity and the way that they tend to be organised means that some services will inevitably be supplied free of charge. he free supply of services is a non-business activity and is outside the scope of VAT.

(b) Free supply of goods

The free supply of goods by a charity to its beneficiaries is usually a non-business activity. An exception is the export of goods outside the EU. This is deemed to be a business activity. Charities can therefore register for VAT in respect of the export of their relief goods to places outside the EU. This allows them to reclaim any associated input tax incurred on the purchase of the goods and associated costs, such as storage and handling. This is covered more fully in paragraph 8.1.

3.6 Consideration or donation?

Some services are provided by charities free of charge; regardless of this the recipient of the service may choose to make a donation to the charity. Providing that the donation:

- is freely given (i.e. it is not required in order to obtain the service), and
- does not entitle the donor to any other benefit, apart from, for example, a basic acknowledgement of the donation such as a thank you note, a lapel flag or poppy,

it will be outside the scope of VAT. You will find further guidance on how to identify a donation in V1-3 *Supply and consideration*.

An illustration of the distinction between a donation and consideration can be found in the following example.

Example: A charity exists to provide relief for poor or distressed authors and to advance public education through improving public literary taste. Part of the charities income stems from the receipt of royalties that have been bequeathed to it in the wills of deceased authors. No rights have been transferred to the charity – these are held by the executors of the estates of the deceased authors and used by them to make supplies to third parties. Any income received is then passed on to the charity in accordance with the wishes of the deceased authors.

So, is this income a consideration for a taxable supply (as royalty income) or a donation to the charity?

Although it is receiving the benefit of the royalty income the charity is not making any supplies in respect of the copyright of the deceased authors as it doesn't own the copyrights. Accordingly the income relating to the royalties is a donation to the charity by the executors.

Any exploitation of copyright by the charity would of course be a business activity and the income generated would be business income.

3.7 What are the advantages to a charity in treating its activities as business?

For some charities it is an advantage if their activities can be regarded as business for VAT purposes, for example when recoverable input tax exceeds output tax, or when the charity's customers are able to recover any VAT charged. But for other charities carrying out similar activities it may be a disadvantage. However we seek a consistent approach.

If a charge is made by a charity for goods or services then it is likely to bring them into the business area, even if the charge is nominal. This can be advantageous to some charities. This can be seen from the following example.

Example: A charity rescues stray animals from the street, feeds, shelters and nurses them back to health and then finds them suitable homes.

No charge is made to the new owners of the animals but many of them do make a donation to the charity. As this is a non-business activity, input tax on veterinary bills, animal food, kennels etc cannot be reclaimed.

The charity proposes to turn the activity into a business activity by introducing a nominal £1 charge per animal to new owners. We could not successfully argue that the supplies of animals were non-business on the grounds that they were supplies consistently made below cost as this provision relates only to welfare supplies made to distressed people (see paragraph 3.10). We have to accept that the nominal charge creates a business activity. As the other work of the charity is already organised and is operating as a business there will be no restriction of input tax on the grounds of non-business activity if the proposed change takes place.

However, it does not follow that a nominal charge can automatically be seen as creating a business activity. It is only one of the indicators that might demonstrate a business activity. In different circumstances other factors may carry more weight. It is important to consider each case on its merits and to be wary of basing your decision too closely on what has happened in other cases. V1-6 *Business/non-business* covers this point in more detail.

3.8 When is a donation not a donation?

If there is a direct link between the payment and a benefit received by the giver the monies cannot be treated as a donation. As long as it is clear that a person is under no obligation to make a payment in order to receive certain benefits then the payment is usually a donation. However the giving of a token as an acknowledgement of the donation is not treated as a supply for a consideration, for example:

On Poppy Day you will not usually be given a poppy unless you make a donation. However we do not regard the donation as consideration for the supply of a poppy. Low value tokens of this sort can be regarded simply as an acknowledgment of the donation, provided that no minimum payment is specified. By way of contrast, Comic Relief will sell red nose to members of the public. A price is specified in order to obtain a red nose. In these circumstances the price is consideration for the supply of goods. Purchasers may choose to give in excess of the sum specified, in which case the excess can be treated as a donation and outside the scope of VAT.

3.9 What happens if a charge is made but the customer doesn't pay it?

In some cases a charity may charge for its services (eg residential care, childcare, animal care) and in other respects operate on a business basis. However, where a particular customer is unable to pay, the charity may agree to waive the charge. This does not make the activity wholly non-business. The free supply to a particular customer who is unable to pay may be a non-business supply, but the nature of the other supplies made by the charity is unchanged. However if it is apparent that, in reality, few people pay the suggested charges then it might be possible to conclude that the operation is not run on business lines at all and the "charges" are simply a suggested donation.

You will see from the above that many cases depend on their own facts and it is difficult to set out hard and fast rules.

3.10 Treatment of welfare services supplied below cost

Certain supplies of welfare services by charities, at significantly below cost, to distressed persons for the relief of their distress are regarded as non-business activities. This is a special concession for charities and is an exception to the normal business test rules.

This concession can cause confusion. Welfare charities may have to distinguish between their non-business welfare supplies and their exempt (business) welfare supplies. You can find more guidance on welfare in Notice 701/2 *Welfare*.

The phrase "below cost" does not appear in UK VAT legislation, but nevertheless forms the basis of a concession available to charities that are engaged in providing welfare services to distressed people for the relief of their distress. We define "below cost" as supplies subsidised by at least 15%. This has the effect of setting a limit, which could be expected in most cases where there is a deliberate policy of subsidising welfare supplies.

3.10.1 Origins of the relief

When VAT was introduced in 1973 charities expressed some concern about its potential impact on welfare services that, while not supplied free, were usually supplied at significantly below cost. It was agreed therefore that supplies by charities of welfare services, at significantly below cost, to distressed persons for the relief of their distress would be regarded as non-business.

Since then Court decisions have made it clear that "business" would normally include supplies made for a consideration, even if below cost. Despite this we have continued to apply this special non-business concession for charities welfare activities. The introduction of wider welfare exemptions have made this concession less important. However, it still remains a useful concession as it can increase charities entitlement to reliefs linked to non-business activity.

3.10.2 How does the relief work?

To qualify as non-business the charity must be providing a welfare service at "below cost". In addition the recipient of the supply must be the "distressed" individual who is in need of welfare. By "distressed" we mean someone who is suffering pain, grief, anguish, severe poverty etc.

Charities often provide welfare services such as day centres, meals on wheels etc., under contract to local authorities. Charities will often tender for such work in competition with commercial providers. Where there is a contractual relationship between a charity and a local authority for the provision of services the supply is always to the local authority. This would always be a business activity. This is the case even if the supply to the local authority is made below cost.

Once you are satisfied that the supply qualifies as welfare supplied to distressed persons for the purposes of relieving their distress, you will need to establish:

- the cost to the charity of providing the service (see paragraph 3.10.3)
- the payments received for the service provided by the charity (see paragraph 3.10.4)
- that the service is available equally to all distressed people (see paragraph 3.10.5).

3.10.3 Calculating the cost

The cost should be calculated to include all out of pocket expenses incurred by a charity in providing the welfare services. It should **exclude** the following:

 All capital expenditure on buildings. Inclusion of these values would distort the cost of making the welfare supplies.

- Notional charges for depreciation. These are not actual charges incurred.
- The creation of financial reserves, contingency funds etc.
 These are not actual charges.
- No account should be taken of what it would cost a commercial organisation to provide the same service.
 Therefore the fact that a charity may benefit from using unpaid volunteer labour means that the cost of providing the service is less. What is important is the actual cost not the commercial value.
- Similarly donated goods for use in the provision of welfare services should not be included, as they cost nothing.

3.10.4 Valuing the supply

The main point on which you will need to be satisfied is that there is deliberate policy to subsidise welfare supplies by at least 15%. The subsidy should not be achieved as a result of circumstance or unintentionally.

For example, a charity may plan to break even on its welfare supplies during any year and sets its charges for its supplies accordingly. During the course of the year it may provide services to distressed people who are unable to pay the full amount. Rather than deny them the benefits of the service available, the charity may accept payment on the basis of what the person can afford to pay. This could lead to the income received amounting to less than 85% of the cost of providing the service. This would not qualify as non-business as it was not the intention of the charity to supply welfare services to distressed people at more that 15% below cost at the outset.

The converse situation may also arise whereby a charity may plan to subsidise welfare services by more than 15% but finds that donations or similar excess payments reduce the level of subsidy needed. Providing that the donations or excess payments are freely given, you can ignore these amounts when determining if the supply is subsidised by at least 15%. In this situation the service would still qualify as non-business. The important point that you should bear in mind is that the value of the supply is determined by the charge made for the welfare services and not the total income received by the charity.

- 3.10.5 Is the welfare service available to all distressed people equally? This point is touched on in the previous paragraphs. In order to qualify as a non-business activity you will need to be satisfied that the subsidised services are available equally to all distressed persons. This means, to qualify the subsidy must:
 - be available not only to those people who cannot afford to pay the full rate but also available to those who can afford to do so

 not be applied conditionally for example, only during spells of very cold weather or only to persons living in a certain area or a person of a certain age.

3.10.6 What is a welfare service?

You may encounter difficulty in establishing whether or not services can be regarded as welfare services. You will find guidance on the definition in Notice 701/2 *Welfare*.

3.10.7 What if a charity wants its welfare services to be business activity? Non-business reliefs can be a double-edged sword. Whilst they allow supplies to be made without VAT being charged, they also restrict the entitlement to input tax recovery of the charity making those supplies. Occasionally a charity might wish it's "below cost" welfare supplies to distressed persons to be regarded as a business activity.

For a policy to be workable it has to be capable of being applied generally and consistently. We would argue that:

- The non-business relief is designed to benefit charities overall and, indeed, achieves this effect.
- Applying the relief consistently keeps the system as simple as possible.

However a concession cannot be forced on a charity that does not want it. If a charity insists on rejecting the concession you should allow business treatment. Once a charity insists on rejecting the concession we would not normally allow the charity to opt in subsequently. Whether a charity that wishes to reject the concession or to use it, they must do so for all their welfare supplies and for the whole organisation, rather than picking and choosing where the concession suits them.

3.10.8 What if a charity is uncertain whether it may satisfy the 15% subsidy test?

There may be occasions when a charity cannot know in advance that its welfare supplies will be subsidised by at least 15%. Consider the following situation:

A charity operates a hostel for the homeless. Initially the charity expects the hostel to break even. However, this expectation was based on the assumption that the hostel would always be fully occupied. It became apparent that this was not going to happen. Accordingly in weeks when the hostel was not fully occupied, the charity was subsidising the cost of the accommodation. Occupancy rates fluctuated weekly and it was difficult for the charity to establish at any one time if its supplies were subsidised by 15% or not.

In these circumstances we would suggest that at the start of its financial year the charity should calculate, by reference to its projected income and expenditure figures, whether or not it expected to break even, or to what extent it expected to subsidise the operation. The outcome of this calculation would enable the charity to decide if it could expect to be engaged in a business or non-business activity for the coming year. We would accept that the outcome would be valid for the whole financial year.

Of course this does not need to be the only basis on which to establish the business position where accurate information is not to hand. You will need to agree the best method in the light of specific circumstances. It could, for example, be equally valid to base the decision on figures obtained for the most recent year of operations. The important point on which you must be satisfied is that there is an intention to subsidise activities by at least 15% and that this subsidy has not arisen by accident.

3.11 Bequeathed property

Non-business implications can arise from situations involving bequests of property. The key issue that usually arises in connection with bequeathed property is whether the expenses associated with bequests of property can be treated as business expenses of the charity.

The charity cannot deduct input tax on expenses arising from the sale of bequeathed property for two reasons:

 A will may instruct that a property should pass to a charity. The subsequent sale of such property is not regarded as a business activity. Any related tax is not input tax and cannot be reclaimed.

Or

• A will may instruct that property should be sold with the resulting proceeds donated to a named charity. Executors of the will or trustees of an estate may attempt to avoid the VAT charge by passing invoices related to the sale to the charity who will reclaim the VAT (if the charity is registered for VAT). Expenses related to the liquidation of the assets of an estate are for services supplied to the executors or trustees. Any input tax is not for the purpose of the charity's business and cannot be reclaimed.

3.12 Services contracted out by local authorities and health authorities

Increasingly services that have historically been supplied by local or health authorities are being offered for tender to external organisations. Many of the activities concerned are areas in which charities have relevant expertise and consequently they may be invited to bid for local or health authority contracts. Where charities obtain such contracts, whether or not in competition with commercial providers, then the resulting supplies will normally be a business activity. The supplies may however be exempt eg residential care or other welfare services. Please also see paragraph 10.2.

3.13 Share dealing by charities

If a charity that is engaged in non-business activities deals in shares and other securities as part of the management of its charitable non-business funds, this is also a non-business activity. The tax incurred on the costs relates to share dealing etc. and cannot be reclaimed as input tax.

The status of share dealing by charities was confirmed by a tribunal involving the **National Society for the Prevention of Cruelty to Children (NSPCC)** (**LON/92/602X**). In this tribunal the Chairman reiterated that there were two key points to consider:

- Was the activity carried out on a sufficient scale and for a sufficient length of time to qualify as a business?
- Was the charity predominantly concerned with those supplies?

The Tribunal concluded in this case that the share dealings transacted by the NSPCC passed the first test, but not the second. The investment activities of the NSPCC were in support of its predominant charitable activities. In order to qualify as a business activity the activities would have to go beyond the activities of an ordinary investor managing its assets. This was not the case and would be unlikely to be the case so far as a charity was concerned.

Current policy therefore is that the acquisition or disposal of shares or of any other form of security by a charity is a non-business activity.

Since the NSPCC case there has been a further case concerning the **Wellcome Trust.**

The case concerned the sale, by public flotation, of the Trusts subsidiary Wellcome plc. Significant costs (including VAT) were incurred in the course of this flotation. Wellcome argued therefore that the share sale constituted a business activity in its own right. Many of Wellcome plc's shares were sold outside the EU and would have been zero-rated.

The VAT tribunal referred the case to the European Court of Justice for guidance on EU law. The European Court ruled that

"the concept of economic activities....,is to be interpreted as not including an activity, such as that at issue..., consisting in the purchase and sale of shares and other securities by a trustee in the course of the management of the

assets of a charitable trust."

The tribunal subsequently confirmed that the sale of shares by Wellcome were not a business activity.

4. Activities commonly carried on (or income received) by charities

4.1 Introduction

Where possible we have provided additional guidance to that available in Notice 701/1 *Charities*. In some instances additional information can be found elsewhere in departmental guidance. Where no additional guidance is available we have referred to the appropriate VAT Notice. If you need any help or advice please contact the Charity Unit of Expertise or the Charities Policy Team.

Activity	Further information
Admission to premises	V1-7, Chapter 28 Cultural Services
Advertising services	Section 5
Affinity credit cards	Notice 701/1 Charities
Ambulance services	Section 6
Charity shops	Section 7
Catering	V1-7, Chapter 1 <i>Food</i>
Education, research and training	V1-7, Chapter 21 Education
Free export of goods	Section 8
Fund-raising	Section 9
Grants	Section 10 and V1-3 Supply and consideration
Hiring out charity buildings	V1-8 Land and property
Museums and galleries	Notice 998 VAT refund schemes for national museums and galleries and V1-6 Business/non-business
Membership	Notice 701/5 Clubs and associations
Patron/supporter schemes	Notice 701/1 Charities
Sea rescue	Notice 701/1 Charities
Sports membership and events	V1-7 Chapter 25 Sport
Supplies of staff between charities	Notice 701/1 Charities
Welfare	Paragraph 3.10 and Notice 701/2 Welfare

5. Advertising

5.1 General

The supply of advertising by a charity is normally taxable at the standard rate. However there are some exceptions to this rule which are set out in Notice 701/1 *Charities*. One exception is the sale of advertising space to another charity. This can be treated as zero-rated if supplied to another UK charity – for details see Notice 701/58 *Charity advertising and goods connected with collecting donations*. This section explains how a charity should treat supplies of advertising to "charitable" organisations based outside the UK.

5.2 Supplies to "charities" within the EC

Section 2 of this guidance explains when the Department will accept whether or not a body has charitable status. Charities within other EC countries cannot register with the Charity Commissioners/Regulators and cannot, by definition, have their status recognised by the Inland Revenue.

"Charity" is a term unique to the UK. Most other Member States recognise organisations that have "social character" or "social nature". You may find that a UK charity has sold advertising space to such an organisation in another Member State and will ask if they can zero-rate the supply.

A supply of advertising services takes place in the country in which the customer is based. The supply by a UK charity to a body in another Member State is:

- taxable when the customer does not receive the supply for business purposes; or
- zero-rated but attracting a reverse charge when the customer receives the supply for business purposes. The customer can demonstrate this by providing a valid VAT registration number, business letterheads or other commercial documents outlining their business activities.

5.3 Supplies to charities outside the EC

When a charity supplies advertising to bodies in non-EC countries the UK charity must not charge VAT.

6. Ambulance services

6.1 What is an air ambulance?

An air ambulance is a specially adapted helicopter or plane that meets **all** of the following conditions:

- The front and sides bear permanently fitted signs indicating that the vehicle is an ambulance;
- There is adequate door space for the loading of a patient on a stretcher;
- There is seating to the rear of the pilot for at least one attendant; and
- One or more stretchers that, with handles extended, measure at least 1.95 metres. Together with permanent fittings to hold stretchers in position.

Air ambulances are normally fitted out with other specialist equipment such as defibrillators and piping for oxygen.

6.2 What is the VAT treatment for the supply of an air ambulance?

The supply of an air ambulance with pilot can be treated as a single supply of "relevant goods" and zero-rated under Item 5, Group 15, Schedule 8 as long as:

- The supply is being made to an eligible body; and
- The supply is being paid for using charitable or voluntary contributions.

6.3 What is an "eligible body"?

Legal Note 4 to Group 15 of Schedule 8 defines what is an "eligible body". Eligible bodies include:

- NHS Trusts;
- Primary Care Trusts;
- hospitals whose activities are not carried on for profit; and
- charities providing first aid and rescue services.

6.4 What are "charitable funds" or "voluntary contributions"?

Full payment for the supply should be made directly by a charity or from voluntary contributions (such as donations from the general public).

The charity which pays for the supply does not have to be an "eligible body". NHS funds are NOT "charitable funds".

A supply that is only part funded by a charitable funds or voluntary contributions will not qualify for relief.

6.5 What about supplies of air ambulances to commercial organisations?

These are standard-rated, and include supplies of an air ambulance to a charity's trading subsidiary.

6.6 What about repairs and maintenance?

Supplies of repair and maintenance of "relevant goods" are zero-rated under Item 6, Group 15, Schedule 8.

7. Charity shops and sales of goods

7.1 Introduction

The sale of donated and bought in goods by a charity or its trading subsidiary is always a business activity. The VAT treatment of the supply will depend on the type of goods and how they are held out for sale.

7.2 Sale of donated goods

The sale of donated goods by a charity or a "profits to charity" person (normally a charity's trading subsidiary) is zero-rated.

The relief applies exclusively to goods and does not include items which may be deemed to be goods in other sections of law. For example, the relief does not apply to any land or buildings donated to and sold by a charity.

The goods can be new or second-hand, but must have been donated to the charity.

7.2.1 Must the goods be sold on in the condition they are received? The goods can be cleaned or repaired as long as this does not alter their structure or original use.

Garments can be washed and pressed, buttons sewn back etc. This will make garments more presentable and achieve a higher sale price. Some larger charities have a central unit where all donations are taken to be prepared for sale. Any expenses incurred in this unit are directly attributable to taxable supplies made in the shops and input tax can be recovered in full.

If the donated item is altered it will cease to qualify for relief, as demonstrated in the following examples:

- A transport company donates wooden pallets to a charity which runs a day-centre for disabled adults. The disabled adults use the wood to make rabbit hutches and hen coops which are sold to raise funds for the day-centre. These sales are liable to VAT at the standard rate as the goods are not being sold on in the same state that they were donated.
- An artist donates an original painting to a charity. The charity has a number of prints made rather than sell the original painting. The prints have not been donated so will not qualify for zero-rating.

7.2.2 Must the donated goods be held out for sale immediately? Not necessarily. It is what the charity does with the goods before offering them for sale that affects the liability. If the goods are cleaned or repaired, as described in paragraph 7.2.1, the sale will still be zero-rated.

If the goods are let on hire for a period before being sold then the eventual sale will still qualify for zero-rating.

However, if the donated goods are used by the charity for any period before being held out for sale they will be liable to tax at the standard rate. For example, an established charity was given paintings by now famous artists which have hung in their offices for many years. The charity decides to sell the paintings to raise funds. Such a sale would be standard-rated (although you should check whether the sale will be covered by the margin scheme for works of art, antiques and collectors' items – see Notice 718).

7.3 Charity shops

7.3.1 Premises

Many charities operate shops in local high streets. These are often acquired on a short lease. If the landlord has opted to tax the charity will have to pay VAT; the option will not be disapplied because the charity is carrying on a business activity. However, the charity can recover the VAT as it is directly attributable to a taxable supply.

7.3.2 Staff

The staff may be paid or volunteers or a mixture of both and this does not affect the relief.

7.3.3 Stock

Only goods freely given to the charity can be sold at the zero rate. Bought in goods must be sold at the standard rate (unless those goods are zero rate by statute, such as food). Bought in goods may include items bearing the charity's logo eg mugs, aprons etc. These are still liable to VAT.

Some merchandise may appear to be new and available in a range of sizes. However, do not assume that these goods are bought in; manufacturers may have donated end of lines or have goods that they have been unable to sell in their own outlets.

7.3.4 Restricted access

There are a number of shops, mainly those selling second-hand furniture, that restrict sales to certain categories of the public. The sales still qualify for zero-rating as long as the goods are made available to either disabled people or to people entitled to one or more of the following benefits:

- Income Support
- Housing Benefit
- Council Tax Benefit
- Job Seeker's Allowance

- Any element of Child Tax Credit other than the family element
- Working Tax Credit

7.4 Fairtrade items

Many charity shops sell Fairtrade goods, ranging from foodstuffs to toys. Although the Fairtrade organisation is itself a charity whose aim is to ensure that the initial provider of the goods receives an economic return for their labour, the goods are bought in by the charity selling them. This means that the goods will normally be standard-rated, unless the goods are zero rate by statute (such as coffee).

7.5 Dress exchange schemes

Some charities have become involved in a scheme where a person has a garment which they are not willing to donate, but are willing to give a percentage of the sum the garment sells for to charity. The liability of this type of sale depends on how the scheme is set up.

- (a) Charity accepts garment for sale. When it is sold the garment's owner donates as much or as little of the sum received as they wish to the charity. All transactions are outside the scope of VAT.
- (b) Charity accepts garment for sale on condition that a set percentage of the sale price is paid to the charity. The charity is effectively charging a commission and the amount the charity receives will be taxable at the standard rate.
- (c) Charity accepts garment for sale at a set price eg £1 per week. When the garment is sold the owner is invited to make a donation to the charity, but is under no obligation to do so. The charge made by the charity for displaying the garment for sale is taxable at the standard rate. Any donation is outside the scope of VAT.

In all the above cases the ownership of the garment never passes to the charity, so the garment can never be treated as donated goods. It is normal for the charity to only hold the garment out for sale for a limited period. If, at the end of that period, the garment has not sold the owner may then wish to donate the garment to charity. The ownership then passes to the charity and the sale can be treated as one of donated goods and zero-rated.

7.6 Other types of sale

7.6.1 Auction

As long as the goods to be sold have been donated to the charity the sale can be zero-rated. However, the charity cannot limit access to selected individuals - the sale must be open to the general public. Access should only be limited for health and safety grounds. However the charity can advertise the auction as it sees fit and may choose to limit adverts to those areas where they feel they are likely to attract potential buyers.

7.6.2 Stalls or tables selling goods within another event

As long as all the goods have been donated to the charity the sales will be zero-rated, even if the event qualifies for exemption as a fund-raising event.

7.6.3 Goods not suitable for sale to the public

These are goods which may be such poor quality that the charity cannot sell them in a shop, or that the charity is unable to sell because of trading standards regulations, such as electrical goods. Such goods can be sold to scrap merchants or the like at the zero rate under Extra-Statutory Concession 3.21 *VAT*: Sales of poor quality goods.

8. Free export of goods

8.1 The VAT treatment of free exports

Like purely commercial organisations, charities sometimes sell goods to customers outside the EC. In such circumstances the normal export rules apply. However, charities (primarily those engaged in international relief) will sometimes export goods to disaster areas. For example, medical equipment, tents, blankets, food etc. These exports are likely to be made up of goods that have been donated to the charity and goods that the charity has purchased for the specific circumstances of the particular disaster.

The supply of these goods by the charity will be free of charge. As such the supply would not normally qualify as a business supply. This would mean that the charity was unable to recover any input tax incurred on the purchase or export of the goods.

In order to enable charities to recover input tax associated with such supplies Section 30(5) of the VATA 1994 was amended as follows:

- 30(5) The export of any goods by a charity to a place outside the member States shall for the purposes of this Act be treated as a supply made by the charity –
- (a) in the United Kingdom, and
- (b) in the course or furtherance of a business carried on by the charity.

By making the export a business supply the charity is able to recover any VAT on the purchase of goods and the overhead costs associated with the export. A charity that is not registered for VAT may also register for VAT on the basis of this provision.

9. Fund-raising

9.1 Introduction

Charities raise funds in many different ways. This section contains information on:

- donations (paragraph 9.2)
- exempt charity fund-raising events (paragraph 9.3)
- charities' trading subsidiaries and the Inland Revenue corporation tax relief (paragraph 9.4)
- charity challenge events (paragraph 9.5)
- sponsored participation events, held in the UK (paragraph 9.6)
- sponsorship (paragraph 9.7).

Charities are constantly devising new and unique ways to raise funds. If you are in any doubt about the VAT treatment of a fund-raising event please contact the Charities and Health Care Unit of Expertise or the Charities Policy Team.

9.2 Donations

9.2.1 Introduction

You may have to decide whether an amount of money received by a charity is a donation or a consideration for a supply of goods and/or services.

A donation is an amount (or amounts) which is freely given and to which no conditions are attached by the donor, who receives nothing in return for making the payment. Donations are outside the scope of VAT.

A consideration is an amount or amounts received in return for goods and/or services. In order that a supply for a consideration can be made there must be at least two parties and a written or oral agreement between them under which something is done or supplied for the consideration. There must be a direct link between the supply and the consideration. A consideration, received in the course of business, is within the scope of VAT.

To assist you in deciding whether an amount is a donation or a consideration you will need to consider the following:

- Does the donor receive anything in return for the amount given?
- Are there any conditions attached, that go beyond the requirement to account for the expenditure of the funds?

- If the donor does not benefit, does any particular third party benefit instead? ie is it consideration for a supply to a third party?
- What do the terms and conditions of the contract indicate?

Further information can be found in V1-3 *Supply and consideration*.

9.2.2 How do charities seek donations?

Charities seek donations in a number of different ways, some of the most common are:

(a) Street collections

This is a traditional form of fund-raising where volunteer collectors stand in the street with collecting tins or buckets and solicit donations from the passing public. In most cases those contributing will be offered a token or acknowledgement of their donation in the form of a lapel sticker, emblem or badge. Providing such tokens have no intrinsic value and are low cost we do not regard the payment as the consideration for the supply of the token. We would normally regard low cost to be less than £1 per token.

However if a minimum or fixed price is *required* before a token is given such a payment is regarded as the consideration for the supply of the token. The value of the supply would be either the fixed or minimum price. Any amount above the minimum price can be treated as a donation. This is because the payment cannot be said to have been freely given. If an amount is *suggested* for the token, any amount actually given will be regarded as a donation. This is because the donor decides how much to pay and any amount is therefore freely given.

(b) Mail shots

Many charities send requests for donations to both known supporters and, more randomly, to households. As well as a letter requesting a donation such mail shots may include tokens such as pens, car stickers carrying the charity's logo or a basic flat sheet calendar. As in all cases, whether a donation is made or not, the recipient of the mail shot retains the tokens, any monies sent to the charity are regarded as donations. (Please see paragraph 12.9 for more information on postal appeal packs.)

(c) Face to Face

Nowadays many charities raise funds by face-to-face collecting. Charities that use this type of fund-raising will normally employ commercial agents, although some will use their own employees. Whatever the case the canvasser, wearing a bib bearing the charity's name, will approach members of the public in the street and ask them to sign a direct debit mandate in favour of the charity for a regular amount, decided by the donor. We regard such payments as donations, as the donor usually neither expects nor gets anything in return. In some cases charities will send the donor a magazine three or four times a year that shows the donor how their donations are being spent. Some charities have tried to claim that the donation is consideration for a supply of a magazine (which is zero-rated and allows the charity full input tax recovery). We maintain that the donation made by the member of the public is outside the scope of VAT. This position was recently challenged in the tribunal case of the Church of England Children's Society (VTD **18633)**. The Tribunal decided that the giving of the donation and the receipt of the magazine were not dependent on each other and therefore separate transactions. Consequently the Tribunal did not accept the charity's argument. However, the charity has appealed the decision to the High Court. Please contact the Charities Policy Team for advice if you find a charity operating this, or a similar, scheme.

(d) Charity shops

Charity shops are common on most High Streets. Unwanted items of clothing, books, toys etc are given to charities by members of the public. As such items are almost always freely given; with the donor receiving nothing in return, they are donations of goods, mostly for onward sale but sometimes for use in the charitable activities.

However there may be instances when a commercial organisation gives goods to a charity for onward sale. Where such goods are freely given and the organisation receives no benefit in return they too are regarded as donated goods. But when, by prior arrangement, the commercial organisation receives a benefit from the 'donation' the goods are not regarded as 'donated'. This will happen, for example, if a supermarket chain donates goods to a charity and agrees, for a fee, to sell them, on behalf of the charity, in their stores. If you identify transactions where it is unclear whether the goods have been donated you should examine all contracts, agreements and correspondence to determine the true nature of the

transaction. Please see Section 7 for more information on charity shops.

9.3 Exempt charity fund-raising events

9.3.1 Law

VAT exemption applies to some fund-raising events by charities and other qualifying bodies (see paragraph 9.3.2). The law relating to this is in Group 12 to Schedule 9 of VAT Act 1994.

The exemption covers supplies made **by** the charity running the fund-raising event. It does not exempt supplies made to that charity by organisations or other charities. This means that the charity running the exempt fund-raising event will invariably incur non-recoverable input tax.

Comprehensive guidance on fund-raising events can be found in Notice CWL4 Fund-raising events: Exemption for charities and other qualifying bodies

9.3.2 What is a qualifying body?

Certain qualifying bodies may also take advantage of the exemption for fundraising events. A qualifying body is:

- Any non-profit making organisation that is a membership organisation within Group 9 to Schedule 9 of VAT Act 1994 – see also V1-7, Chapters 24 Trade unions and professional bodies and Chapter 24A Clubs and associations.
- Any body that is an eligible body for the purposes of Group 10 to Schedule 9 of VAT Act 1994 and whose principal purpose is the provision of facilities for persons to take part in sports or physical education – see also V1-7, Chapter 25 Sports.
- Any body that is an eligible body under the cultural exemption provisions in Item 2 to Group 13 of Schedule 9 of VAT Act 1994 – see also V1-7 Chapter 28 Cultural services.

Therefore, whether or not they are a charity, if an organisation falls under any of the above exemptions they may organise an exempt fund-raising event under the provisions of Group 12 to Schedule 9, providing all the conditions are met.

Policy responsibility for these kinds of organisations rests with the Social Reliefs Team and any queries should be addressed to them in the first instance.

9.3.3 What constitutes a fund-raising event?

There are two main criteria that must be met:

(a) The event must be organised by a charity (or qualifying body). Sometimes this will be obvious from the advertising literature, but at other times you may need to consider this carefully. The main question to ask is "who has financial responsibility?" For example, an event requires at least 500 tickets to be sold in order to break even. Who is responsible for covering any losses made if less than 500 tickets are sold? We would expect the responsibility to lie with the charity (or qualifying body) organising the event.

Some events, such as a film premiere or gala, may be advertised as raising funds for charity. You will need to check carefully whether it is a charity organising the event, as it is more likely that the event is organised by a corporate body which is donating the proceeds of the event to a charity.

(b) The primary purpose of the event must be to raise money. The main and overriding purpose of holding the event should be to raise funds and people attending should be aware of that. This means that the advertising literature, tickets, programmes etc make this clear. On occasion you may need to look at background papers, such as minutes of meetings, to confirm that the main reason for holding the event was to raise funds.

9.3.4 Internet fund-raising

Fund-raising events held over the Internet that meet the conditions set out in Notice CWL4 can be treated as exempt from VAT. A charity's entire website is treated as a location.

Fund-raising over the internet often takes the form of an auction. These usually take place over a number of days and may include a variety of items (or lots) for sale. This can be a single event if:

- there is a specified closing date
- bidding closes at this date
- goods are not sold before the closing date.

When these conditions are not met, the sale of each item (or lot) would be a separate event.

9.3.5 Fund-raising events held in association with other events

Sometimes a charity may be able to organise an exempt fund-raising event in association with a different event (which may or may not be an exempt fund-raising event in its own right). An example might be a national sporting event where the charity plans to have a marquee and hold an auction of sporting memorabilia. The charity can use the fund-raising exemption as long as the event it is organising meets the conditions set out in Notice CWL4.

9.4 Fund-raising events and a charity's trading subsidiary

9.4.1 When can a charity's trading subsidiary hold exempt fund-raising events?

In order to be eligible to hold VAT exempt fund-raising events, a charity's trading subsidiary must:

- be wholly owned by the charity
- transfer all profits, from whatever source, to the charity.

By retaining profits, the trading subsidiary could find itself ineligible to hold exempt fund-raising events.

However, we will accept that for the purposes of this exemption, the transfer of profits condition is met when:

- the arrangements are compatible with charity law
- profits are paid to the charity
- the only profit retained annually by the subsidiary is not subject to corporation tax (see paragraph 9.4.2)
- the profit is retained for development which has the clear aim of increasing funds going to the charity
- the subsidiary is not involved in any abuse or avoidance.

This approach may be reviewed if the amount proportion of profits that is eligible for corporation tax relief changes or abuse occurs.

9.4.2 What is the nil rate of corporation tax?

The Inland Revenue introduced nil rate of corporation tax for small businesses. This allows small businesses to keep a small profit, which is free from corporation tax, to support development. A company can keep up to £10,000 of profit in an accounting period. Information on corporation tax can be found on the Inland Revenue website at www.inlandrevenue.gov.uk.

9.5 Charity challenge events

Health warning: This policy area is under review. We hope to provide guidance shortly. If you have any difficulties please contact the Charity Unit of Expertise or the Charities Policy Team.

9.6 Sponsored participation events, held in the UK

9.6.1 Introduction

Many charities organise walks, runs, swims and other similar sponsored events or arrange for teams of representatives to participate in these events in order to raise funds.

- 9.6.2 Are such events eligible for the fund-raising exemption? If a charity is organising and promoting the event it may be able to take advantage of the fund-raising exemption. The charity will need to meet the conditions set out in Notice CWL4.
- 9.6.3 What if the event does not qualify for the fund-raising exemption? Many events that individuals, or teams, take part in to raise funds for charity will not fall within the fund-raising exemption. For example a commercially organised sports event such as a marathon, half marathon or triathlon. It is important to consider the VAT implications of the income a charity may receive from such events.

In many cases the charity will pay for places within a commercially organised event and then offer those places to individuals. Where a charity allows individuals to take part in the event regardless of the amount they raise and the individuals do not receive any benefits in return, the monies raised are regarded as donations are therefore outside the scope of VAT.

The following are **not** considered to be benefits:

- provision of free training and health advice
- a free t-shirt, running vest or similar that clearly portrays the charity the individual is taking part on behalf of
- free massages and support for physical well-being during the event
- free pre-event meeting, which may include free professional advice or support, a simple meal, energy drinks and encouragement from the charity and other participants
- free post-event meeting, which may include medical treatment or advice, changing facilities, light refreshments and gives the charity an opportunity to thank participants.

However many charities will vary conditions and incentives in relation to the places they have paid for, some examples follow.

(a) Entry and registration fees

Any amount described as an entry fee or registration fee that participants have to pay to gain entry to the event will be taxable at the standard rate.

(b) Minimum sponsorship

Some charities insist that the participants raise a minimum amount of sponsorship before they can take part in the event. If there is such a condition and it is, in practice, enforced ie participation is denied to those who do not raise the minimum amount, this is effectively an entry fee and is taxable at the standard rate. In these circumstances any payment in excess of the minimum sponsorship is regarded as a donation and is outside the scope of VAT.

(c) Pledges or commitments to raise specified amounts
If a charity asks individuals to 'pledge' or 'commit' to raise
a certain amount of sponsorship, but do not insist on any
payment before allowing the individual to take part in the
event, the total amounts raised can be treated as
donations and are outside the scope of VAT.

A charity may encourage individuals to pass on sponsorship monies as they receive it and before the event takes place. Providing they do not insist on receiving a certain amount before allowing the individual to take part, such amounts are donations and outside the scope of VAT.

(d) Benefits and incentives

Benefits and incentives other than those listed above may be provided. For example, some charities will provide free travel and/or accommodation or other benefits such as gifts of watches or bikes to participants (however, if such items are offered as prizes to highest fund-raisers please see example (e) below). If a charity provides such benefits or incentives the amount raised by the participant is a consideration for the benefit or incentive and is therefore taxable.

(e) Prizes

Some charities offer prizes to top fundraisers. These are not benefits and do not affect the VAT treatment of income from participants.

9.6.4 What is the position when sponsored participation is not via a place paid for by a charity?

Where a participant raises sponsorship on behalf of a nominated charity but does not participate as one of the charities paid entries, for instance because there is free entry to the event or if the participant has personally paid the entry fee directly to the organiser of the event, all monies raised will normally be regarded as donations and be outside the scope of VAT. However if there are any arrangements or agreed conditions etc between the charity and the participant they may have VAT implications and should be considered in this context on an individual basis.

9.6.5 Are there any input tax considerations for the charity?

The conditions imposed by the charity or the benefits and incentives the charity offers participants may have an impact on the amount of VAT the charity can recover on related expenses.

Where a charity has purchased a place in a commercial event, and makes an onward taxable supply of that place by insisting on a payment from the participant, such as a registration fee or minimum amount of sponsorship, then the charity can reclaim in full the input tax it has incurred on purchasing the place. We expect the charity to make it clear to the participant that the minimum payment is for entry to the event.

9.7 Sponsorship

Sponsorship arrangements are common in a wide range of sectors, both commercial and charity; commercial organisations sponsor charities, and charities associate themselves with commercial organisations and products. The reason any organisation, whether charitable or commercial, enters into these type of arrangements is because such associations are perceived to be beneficial to all parties involved in terms of promoting, advertising, raising their profiles etc. Sponsors, whether commercial or charitable, will usually receive benefits related to their sponsorship. Such benefits can range from an acknowledgement on a list of supporters to the naming of an event after a sponsor.

In contrast a donation is something that is entirely freely given, with the person or organisation making the donation receiving nothing in return, and is consequently outside the scope of VAT.

If a sponsor receives benefits directly linked to their sponsorship then there is a supply for VAT purposes. Everything given by the sponsor constitutes the consideration for the supply. There are, however, a few exceptions that relate specifically to charities. Detailed guidance on sponsorship and the few exceptions for charities can be found in Notice 701/41 *Sponsorship* and V1-3 *Supply and consideration*.

10. Grant funding

10.1 When does funding become consideration for a supply?

Charities often receive funding from local authorities and Government Departments to support their charitable activities. You will need to consider whether the funds received by the charity are an outside the scope grant or are consideration for a supply. The guidance in V1-3 *Supply and consideration* will assist you in making that decision.

10.2 What if a charity has incorrectly treated funding as an outside the scope grant?

You will need to consider the correct liability of the supply being made by the charity. If the supply is taxable then it may be appropriate for you to assess the charity for the tax due on the supplies made, which the charity can in turn charge on to the funder. However, before assessing you should carefully consider all the papers available regarding the funding. The responsibility is on the charity, as the supplier, to determine the VAT liability of the supply. This is not always a straightforward task. You may find that the charity has made reasonable enquiries of the funder in an attempt to establish whether they are making a supply, but has effectively been misled by the funder or the funder has been less than helpful. For example, the funder may have insisted that the monies are a "grant" or specifically said in accompanying contracts or paperwork that the funding is either exempt from VAT or outside the scope. You should also consider other factors, such as whether the charity is VAT registered and is likely to have had access to appropriate professional advice, and whether the charity has charged VAT in respect of other funding agreements it has with Government. If you conclude that the charity took reasonable steps to establish the supply position you should take a pragmatic approach and ensure that you inhibit any interest and penalties on any assessment you may raise. If you are in any doubt please contact the Charities Policy Team for advice.

11. Reliefs available

11.1 Introduction

Where possible we have provided additional guidance to that available in Notice 701/1 *Charities*. In some instances additional information can be found elsewhere in departmental guidance. Where no additional guidance is available we have referred to the appropriate VAT Notice. If you need any help or advice please contact the Charity Unit of Expertise or the Charities Policy Team.

VAT Relief	Further information
Advertising and goods connected with collecting donations	Section 12
Aids for the disabled	V1-07, Chapter 12 VAT reliefs for disabled people
Construction	V1-08A Construction
Drugs and chemicals	Section 16
Energy-saving materials	V1-07, Chapter 6 <i>Energy-saving</i> materials
Equipment for talking books and newspapers	Section 13
Fuel and power	V1-07, Chapter 5 Fuel and power
Lifeboats, slipways etc.	Section 14
Medical and scientific equipment ("relevant goods")	Section 15
Medicinal products	Section 16
Rescue equipment	Notice 701/1 Charities
Resuscitation training models	Notice 701/1 Charities

12. Advertising

12.1 Introduction

Relief on supplies of advertising services to charities under Item 8 of Group 15, Schedule 8 of the VAT Act 1994 is now given broadly, subject only to the notes (10, 10A and 10B) in the Schedule itself.

You should always bear in mind the potential availability of other reliefs if zero-rating is not available under the terms of Schedule 8 Group 15, in particular:

- Schedule 8, Group 3 covering printed and similar matter
- Schedule 9, Group 12 exemption covering fund-raising events.

12.2 Background

In 1984 VAT was introduced on newspaper advertising, which had previously been zero-rated. Reliefs for adverts placed by charities were restored in 1986. The relief at that stage was limited to non-classified advertising which was intended either to educate people in the objects of the charity or to encourage fund-raising. The relief was also restricted to adverts placed in a newspaper, periodical or magazine.

Because of the difficulties in determining what was meant by the term 'non-classified' the relief was extended to include classified advertising in April 1989. At the same time the opportunity was taken to extend the range of places in which an advert would qualify to include programmes, annuals, leaflets and similar publications, and on posters.

In April 1991 the relief was extended to zero-rating for airtime purchased on television, radio and cinema for qualifying adverts.

Problems continued with 'dual purpose' advertisements, such as recruitment advertisements with a 'qualifying message' displaying the charity's objects, and in September 1996 the relief for recruitment advertisements was withdrawn. An exception was made for Voluntary Service Overseas (VSO) volunteers and similar adverts.

Following a review of Charity taxation in1999 a more far-reaching change in reliefs was effected in April 2000. This was done by recasting the scope of the relief in Item 8 and introducing the current qualifying notes 10A to 10C. All remaining restrictions in the medium used to advertise and the purpose of the advert were removed. The relief for associated design and production costs was extended accordingly where there was an associated supply of advertising.

An extra-statutory concession was also introduced giving relief to the supply of various goods connected with charitable collections (see ESC 3.3 in Notice 48 Extra-statutory concessions or Notice 701/58 Charity advertising and goods connected with collecting donations). This included relief on certain items contained in direct mailing applications.

12.3 UK VAT law

The current law allows zero-rating of advertising services of:

- 8. The supply to a charity of a right to promulgate an advertisement by means of a medium of communication with the public.
- 8A. A supply to a charity that consists in the promulgation of an advertisement by means of such a medium.
- 8B. The supply to a charity of services of design or production of an advertisement that is, or was intended to be, promulgated by means of such a medium.
- 8C. The supply to a charity of goods closely related to a supply within item 8B.

The word 'promulgate' is used in Items 8,8A, and 8B. Words carrying a similar meaning are broadcast, propagate, spread, disseminate, circulate and publish. The word carries an active meaning to what constitutes an advertisement. The charity should be paying to use someone else's time or space. For supplies which are, in themselves, insufficient to constitute an advert see paragraph 12.4.

These provisions are subject to the following notes:

10A Neither of items 8 and 8A includes a supply where any of the members of the public (whether individuals or other persons) who are reached through the medium are selected by or on behalf of the charity.

For this purpose 'selected' includes selected by address (whether postal address or telephone number, e-mail address or other address for electronic communications purposes) or at random.

10B None of items 8 to 8C includes a supply used to create, or contribute to, a website that is the charity's own.

For this purpose a website is a charity's own even though hosted by another person.

10C Neither of items 8 to 8C includes a supply to a charity that is used directly by the charity to design or produce an advertisement.

The effect of the notes is to make restrictions in the relief in respect of direct mailshots (see paragraph 12.9), charity websites and in-house supplies (see paragraph 12.5).

12.4 What is an advertisement?

There is no statutory definition of the word 'advertisement'. It may be taken as a notice made available to the public in any form with the purpose of making a message known whether commercial or otherwise. The reproduction of a charity logo, even when unaccompanied by any further text, is an advertisement. The supply of advertising is the purchase of somebody else's time or space.

In order for zero-rating to apply the supply must be to a charity. A supply to a charity's subsidiary trading company will not qualify for relief (see paragraph 2.6).

12.5 In-house supplies

Charities may choose to produce their own advertising material. This may be either by way of a supply used to create or contribute to a website giving information about the charity or by the production of display material which is then put into use directly or by the direction of the charity. Zero-rating does not apply to these supplies – see notes 10B and 10C of the Schedule reproduced above.

The charity advertising reliefs introduced in 2000 have not been examined by the Courts. However the 1996 High Court case of The Royal Society for the Encouragement of Arts, Manufacture and Commerce still provides useful guidance:

The charity produced posters advertising a special awards scheme designed and prepared outside the group but printed within the group. The charity treated the self-supply of the posters as zero-rated. The Commissioners issued an assessment on the basis that the supply did not qualify for zero-rating. The tribunal held that the purpose of Item 8 was to help charities obtain supplies of advertising from third party supplies and not to promote in-house advertising which did not need such assistance.

12.6 Medium of communication

If the public is reached by the message given by the charity then the supply to the charity is zero-rated under Items 8 to 8C. Any medium of communication may be used. New media will be found from time to time but the test is essentially the same one. Means of communication such as signwriting, peelable plastic stickers or banners and repeating loop systems, such as those found in post offices, will all qualify as media.

12.7 Communication with the public

It is essential that there is effective contact with the public at large. Hence we would accept a cinema advert as being within Item 8 but not an advert placed on a video. By its nature a video is normally the property of a single household and does not reach the wider public. This applies both to advertisements inserted on a video and a video describing the work of a charity, even if the video promotes the objects of a charity or serves a fundraising purpose. A CD-Rom promoting a charity would not attract relief for the same reason.

The liability of the supply can be apportioned if necessary. For example, a charity needs 100 banners for public display but finds that the print run is barely more expensive for 200 and orders the larger amount, using only the first 100 for public display.

The preparation of posters or other items falling outside the reliefs for books, etc for use in-house by a charity (in its own offices) are standard-rated as the public would not have access to these.

12.8 What services qualify for relief?

Where there is a single supply of services of preparing and publishing an advertisement the whole supply will qualify for zero-rating under Item 8A. Where the preparatory services/goods are supplied separately they will fall within Items 8B and 8C.

Services or goods which qualify for relief under Items 8B and 8C extend beyond the cost of publishing the advert to the costs of producing the advert.

Supplies which qualify include:

- printing
- design or artwork
- typesetting.

Supplies which do not qualify include:

- courier services
- distribution and mailing services.

This is because the services of distributing a leaflet, poster or other publication are not themselves promulgations of an advertisement.

12.9 Postal appeals packs

Many charities send out appeal packs by post. These packs are **NOT** covered by the relief for advertising as Note 10A specifically excludes direct mail packs.

A printing company normally puts these packs together for the charity. Where there is a multiple supply of a package consisting entirely of items printed on paper or card and the items have a common link, the supplier can use a "package test" to determine the overall VAT liability. If there are more zero-rated items than standard-rated items then the supplier can zero rate the whole package. See Notice 701/10 *Books etc* for more information.

Since August 2003 ESC 3.3 for charity stationery can be used in conjunction with the "package test". This means that pre-printed appeals letters and outer and return envelopes will count as zero-rated for the "package test". However, printed lapel stickers count as standard-rated for the "package test" as they are only eligible for zero-rating under the ESC when they are given away in acknowledgement of a donation – if a charity includes them in a postal appeal pack it is giving the sticker away before any donation has been received.

Where an appeals pack contains an item which is not printed on paper or card, each item supplied to the charity must bear its own individual VAT liability – the supplier cannot use the "package test". Many charities include 'token' items such as a charity pen, ribbon or bulb. These are taxable at the standard rate when supplied to the charity. We maintain that the supply of the pack to the charity in such instances is a multiple supply of goods and not a single supply with dominant and ancillary elements.

12.10 Appeal letters whose primary purpose is to appeal for money

Item (e) in Extra Statutory Concession 3.3 allows relief for pre-printed letters the primary purpose of which is to appeal for money for charity. The term 'primary purpose' should be construed broadly. It includes 'thank you' letters and 'remember us in your will' letters. It does not include lobbying 'write to your MP' letters, but we would consider zero-rating if such a letter also called for a donation. Cases of doubt or difficulty may be referred to the Charities Policy Team.

13. Talking books

13.1 Introduction

The relief under Schedule 8 Group 4 is for talking books for the blind and handicapped, and wireless sets for the blind. It is very specific both in terms of what it covers and who is eligible to claim it.

13.2 Relief available under Item 1

This covers talking books for the blind and handicapped. The relief covers certain supplies made by bodies such as the Royal National Institute for the Blind, the National Listening Library and other similar charities.

The relief is restricted to the use of magnetic tapes, which excludes the relief being applied to modern methods of recording, such as digital methods. This means that the user's equipment must also be capable of using magnetic tapes.

The limitation of the relief has caused problems, as bodies looking to update their equipment have found that they do not qualify for relief under Group 4. However, if new equipment has been designed solely for use by disabled people relief may be available under Item 2 to Group 12 of Schedule 8. For more guidance see V1-07, Chapter 12 *VAT reliefs for disabled people*.

13.3 Relief available under Item 2

This covers supplies of designed or specially adapted wireless receiving sets or apparatus solely for the making and reproduction of a sound recording on a magnetic tape contained in a cassette to charities who will loan the equipment to blind people free of charge.

13.4 Meaning of "designed or specially adapted"

Unfortunately, there are no precise meanings within the law for the term "designed or specially adapted for the blind or severely handicapped". On this basis we can only accept magnetic tapes and related apparatus for playing them as qualifying for the relief under Group 4 of Schedule 8 if they have Braille markings or other specific adaptations on them. However, if relief is not available under Group 4 it is possible that the equipment will qualify for relief under Group 12 as being designed solely for disabled people. For more guidance see V1-07, Chapter 12 *VAT reliefs for disabled people*.

The relief does not apply to spoken word cassettes widely sold in bookshops, nor does it apply to ordinary cassette players.

14. Lifeboats

14.1 Introduction

Zero-rating is allowed for certain supplies in relation to lifeboats. The reliefs are specific and detailed, and are directed towards specific organisations, for example the Royal National Lifeboat Institute (RNLI). It follows that you will rarely experience practical difficulties with these reliefs. The purpose of this section is to:

- explain which craft qualify as lifeboats
- explain possible difficulties with the reliefs.

14.2 UK Law

The law relating to reliefs for lifeboats can be found in Item 3 to Group 8, Schedule 8 and legal notes 2 to 4.

14.3 Definition of a lifeboat

There is no definition of the type of boat which is a lifeboat. The only conditions are that:

- a lifeboat should be a "vessel" this means that it should have the character of a ship or boat
- it should be used solely for rescue or assistance at sea.

We would accept that any boat used by the RNLI qualified as a lifeboat. The scope of the term is sufficiently wide to include vessels such as surf rescue craft, provided they are capable of carrying persons and have some artificial means of propulsion for example sails, engines or oars.

Craft with the character of surf boards do not qualify. However, particular care needs to be taken with craft described as "surf skis" and "jet skis". Some types are boats, others are not.

Once you are satisfied that the craft is a vessel you need only to consider the use to which a boat is put.

- If the boat is used solely to provide rescue services at sea it may be regarded as a lifeboat.
- If the boat is put to any other use in addition to sea rescue services it is not a lifeboat.
- If the boat is not used for sea rescue services it is not a lifeboat.

14.4 Definition of sea rescue services

"Rescue or assistance at sea" covers not only the saving of human life or assisting other ships or boats in difficulty but can also include assistance to marine life such as beached whales.

However, the term does not cover rescue of any kind on canals, rivers, lakes, etc.

Provided that a boat is also used for sea rescue purposes its use in the following ways would not compromise its "sole use":

- exercises training people in rescue work, or
- trips to prove and test a lifeboat's seaworthiness.

Consider the following cases we have dealt with:

- (a) An organisation bought a lifeboat from the RNLI and used it to support the RNLI in their rescue activities. We agreed that although the service provided by the organisation did not necessarily encompass a full range of sea rescue activities it was nevertheless the case that the boat was used solely for rescue services. Accordingly we allowed the boat to be zero-rated.
- (b) An organisation requested zero-rating for a boat which it would use for the rescue of marine and human life at sea. However, the boat was also to be used as a research and educational base. This secondary use debarred the boat from zero-rating.

14.5 Design features

Although we do not stipulate that a boat must possess certain features to be eligible for zero-rating, it is likely that a large sea rescue boat genuinely intended solely for sea rescue would possess the following:

- navigational equipment
- radio transmitters
- radar
- oxygen resuscitation equipment
- first aid equipment
- a prominent indication on both sides of the boat that it is a rescue boat
- salvage pump
- blue flashing beacon, and/or
- special tow lines and posts.

Smaller craft for surf rescue would be less likely to have these features.

14.6 Parts and accessories

The most likely difficulty that you will encounter will probably centre on whether something is a part of or an accessory to a lifeboat. There should be few problems in relation to parts as it should be obvious whether an item is necessary to the functioning of the boat. Whether an item constitutes an accessory is more problematical. As a guide, an accessory is an optional extra which can be used to improve the operation of the equipment or to enable it to be used to better effect. Examples of accessories are life rafts, life buoys and dinghies.

14.7 Equipment installed, incorporated or used in a lifeboat

This new category was added to the relief with effect from 1 April 2002 and is designed to cover items essential to the specific task of sea rescue, extending zero-rating to items such as life jackets and protective clothing. You should note that it may also be possible for certain medical equipment and certain telecommunication, aural, visual, light enhancing or heat detecting equipment to be zero-rated as donated medical or scientific equipment under Group 15.

15. Medical and scientific equipment ("relevant goods")

15.1 Introduction

This section provides further guidance on reliefs available for specified goods supplied to certain charities and eligible bodies which pay for the goods with charitable funds. The specified goods are referred to in the legislation as "relevant goods". The most common supplies of relevant goods are medical and scientific equipment, but relief is also available for certain vehicles, rescue equipment and aids for disabled people.

15.2 UK VAT law

The law covering the reliefs is contained in Items 4, 5, 6 and 7, Group 15, Schedule 8. There are also a series of legal notes relating to these items.

Item No.

- 4. The supply of any relevant goods for donation to a nominated eligible body where the goods are purchased with funds provided by a charity or from voluntary contributions.
- 5. The supply of any relevant goods to an eligible body which pays for them with funds provided by a charity or from voluntary contributions or to an eligible body which is a charitable institution providing care or medical or surgical treatment for handicapped persons.
- 6. Repair and maintenance of relevant goods owned by an eligible body.
- 7. The supply of goods in connection with the supply described in item 6.

Items 4 and 5 basically set out the supply and consideration requirements that must be met if the relief is to apply.

Item 6 provides the only relief for services supplied in connection with relevant goods.

Item 7 ensures that the relief continues to apply if the original equipment goes wrong.

15.3 What are relevant goods?

The term "relevant goods" appears in items 4, 5 and 6 and is defined by Note (3) to Group 15. The legal note forms a comprehensive list of items. We have not reproduced the full text of the note here, but some examples of "relevant goods" are medical equipment for use in medical training, ambulances, vehicles designed, or adapted, to carry disabled people in wheelchairs and heat-seeking equipment for use in rescue.

Please see paragraphs 15.16 and 15.17 for more guidance on determining whether "relevant goods" have been supplied.

15.4 Who is an eligible body?

Eligible bodies are referred to in Items 4, 5, and 6. The term "eligible body" is specifically defined in Note (4) to the group. We have not reproduced the full text of the legal note here but some examples of "eligible bodies" are NHS Trusts, not for profit hospitals and charities that provide first-aid services.

Please note that the definition of "eligible body" in Group 15 differs from that of "eligible bodies" for the purposes of Group 6 to Schedule 9 which is concerned with educational establishments.

Please see paragraph 15.15 for more guidance on determining whether a supply has been made to an eligible body.

15.4.1 Is a university an eligible body?

A university can normally only qualify as an eligible body if it carries on research (under Note 4(e)). However, once the university qualifies because of its research activity the *entire* university becomes an eligible body. This means the university can obtain relief on relevant goods purchased for use in medical or veterinary training (also see paragraph 15.20.3 on funding).

15.4.2 Is a GP or GP practice an eligible body?

You may encounter arguments from medical practices or individual GPs that they should be regarded as eligible bodies. These arguments should be rejected as they are not eligible bodies in their own right. Goods donated to a GP or a group of GPs become their property not the property of the National Health Trust or other eligible body. If you come across a GP who maintains he is employed directly by the NHS please contact the NHS Unit of Expertise for assistance.

15.4.3 What charitable institutions qualify as eligible bodies? This is explained in more detail in paragraphs 15.8 to 15.11.

15.5 Definition of handicapped

The term handicapped which is used in item 5 is explained by Note (5).

(5) "Handicapped" means chronically sick or disabled.

You should note that the only time that we refer to "handicapped" now is when quoting directly from the law. In all other matters, such as explanation of the law or in discussing general issues, you should use the general term "disabled" which will obviously include the chronically sick.

15.6 Funding arrangements

Notes (6), (7) and (8) reinforce the funding arrangements which need to be in place if the reliefs provided in items 4, 5, 6 and 7 are to apply.

٨	lotes:
1 V	ULC 3.

- (6) Item 4 does not apply where the donee of the goods is not a charity and has contributed in whole or in part to the funds for the purchase of the goods.
- (7) Item 5 does not apply where the body to whom the goods are supplied is not a charity and has contributed in whole or in part to the funds for the purchase of the goods.
- (8) Items 6 and 7 do not apply unless -
- (a) the supply is paid for with funds which have been provided by a charity or from voluntary contributions; and
- (b) in a case where the owner of the goods repaired or maintained is not a charity, it has not contributed in whole or in part to those funds.

Please see paragraph 15.20 for more guidance on funding.

15.7 Scope of items 4 and 5

Note 9 includes goods which are let on hire within the scope of items 4, 5, and 6

Note 10 includes computer services and software within the scope of item 5, but there is a greater restriction on their usage that is they must be solely for a qualifying use and the qualifying uses do not include veterinary uses nor medical training.

15.8 Effect on charities of the legislative changes made in 1996

15.8.1 Background

Since 1981, VAT law has allowed "charitable institutions providing care or medical or surgical treatment for handicapped persons" to be treated as "eligible bodies" and to purchase a specified range of "relevant goods" (including motor vehicles adapted for the use of disabled people) at the zero rate. The relief was intended to apply only to certain types of charities but its scope was extended beyond its original intention by decisions of the VAT Tribunal and the High Court. In these decisions the courts held that:

- providing suitable accommodation
- providing for daily needs (not further defined by the Court)
- providing a secure environment,

all constituted the provision of care. If Customs had accepted this then the relief would have been extended to virtually any charity that provided any service in a caring manner and had amongst its clientele a minimal number of disabled people. Legislation was therefore introduced in the 1996 Budget to ensure that zero-rating did not extend beyond its original intention.

The following Notes 4A, 4B, 5A and 5B were added with effect from 26 November 1996. These Notes qualify the definition in Note 4(f).

- (4A) Subject to Note (5B), a charitable institution shall not be regarded as providing care or medical or surgical treatment for handicapped persons unless –
- (a) it provides care or medical or surgical treatment in a relevant establishment; and
- (b) the majority of the persons who receive care or medical or surgical treatment in that establishment are handicapped persons.
- (4B) "Relevant establishment" means -
- (a) a day-centre, other than a day-centre which exists primarily as a place for activities that are social or recreational or both; or
- (b) an institution which is -
 - (i) approved, licensed or registered in accordance with the provisions of any enactment or Northern Ireland legislation; or
 - (ii) exempted by or under the provisions of any enactment or Northern Ireland legislation from any requirement to be approved, licensed or registered;

and in paragraph (b) above the references to the provisions of any enactment or Northern Ireland legislation are references only to provisions which, so far as relating to England, Wales, Scotland or Northern Ireland, have the same effect in every locality within that part of the United Kingdom.

- (5A) Subject to Note (5B), items 4 to 7 do not apply where the eligible body falls within Note (4)(f) unless the relevant goods are or are to be used in a relevant establishment in which that body provides care or medical or surgical treatment to persons the majority of whom are handicapped.
- (5B) Nothing in Note (4A) or (5A) shall prevent a supply from falling within items 4 to 7 where-
- (a) the eligible body provides medical care to handicapped persons in their own homes:
- (b) the relevant goods fall within Note (3)(a) or are parts or accessories for use in or with goods described in Note (3)(a); and

those goods are or are to be used in or in connection with the provision of that care.

15.8.2 Subsequent problems and introduction of ESC

It soon became apparent that the revised legislation excluded from the relief some charities which specifically targeted their caring upon disabled people but which did not meet the requirements of the amended legislation. Consequently, we introduced an extra-statutory concession to enable **certain** charities to continue to purchase relevant goods (in practice adapted motor vehicles) at the zero rate:

VAT: Supplies of "relevant goods" to charities

Where "relevant goods" of a kind described in Note (3) to Group 15 of the Value Added Tax Act 1994 are supplied to a charity –

- (a) whose sole purpose and function is to provide a range of care services to meet the personal needs of handicapped people (of which transport might form a part); or
- (b) which provides transport services predominantly to handicapped people,

then, by concession, the supply of those goods will be zero-rated, as will the repair and maintenance of those goods and the supply of any further goods in connection with that repair and maintenance.

"Handicapped" means chronically sick or disabled.

In order to be eligible for this concession, a charity must demonstrate that it meets the requirements of sub-paragraphs (a) or (b) above by way of –

- its charitable aims and objectives;
- its publicity and advertising material;
- any documents which it has issued for the purpose of obtaining funding from a third party such as a local authority;
- its day to day operations; and
- any other evidence that may be relevant.

In practical terms the relevant goods that are most likely to be purchased by these charities are motor vehicles adapted for use by disabled passengers (with space for at least one wheelchair user), or a motor vehicle to transport mainly blind, deaf, mentally impaired or terminally sick persons. Boats that are designed or permanently adapted for use by disabled people are also eligible for relief.

Customs do not want to force charities to keep detailed records of the passengers they care for or transport simply to prove their eligibility. Customs have decided to utilise records and documentation which charities already keep for non-VAT reasons.

For example the charity's aims and objectives (which may be an extract from the constitution). Often a charity's eligibility will be clear from this document but in other cases additional supporting evidence will be provided by:

the charity's publicity and advertising material

- any documents which the charity has issued for the purpose of obtaining funding from a third party, such as a local authority
- evidence of its day to day operations
- any other evidence that may be relevant, for example an analysis of passengers carried out over a representative period.

The evidence should all show a consistent theme i.e. that the charity serves or the community transport charity predominantly serves one client group — disabled people. This does not mean that they will be precluded from the relief if they provide help to or transport for other people. But they must be able to demonstrate that they focus their activities upon disabled people and cater predominantly for their needs. If you have any problems please contact the Charities Policy Team.

15.8.3 Effect on charitable institutions

This means that charitable institutions providing care or medical or surgical treatment for handicapped persons may now qualify for zero-rated purchase of relevant goods by one of two routes:

- under the ESC detailed in paragraph 15.8.2, or
- under the VAT law, as amended in November 1996 (see paragraphs 15.9 to 15.11).

15.9 Charitable institutions that qualify as eligible bodies under Note 4

Two categories of charitable institution are eligible to purchase goods at zerorate as eligible bodies, provided certain conditions are met. The two charitable institutions are those providing:

- institutional care
- domiciliary care.

15.10 Charitable institutions providing institutional care

15.10.1 What tests must be met?

The amended legislation sets out three tests that must be met in order to qualify as one of the charitable institutions, and thus be eligible for zero-rated purchases of any of the relevant goods in Legal Note 3 to Group 15. These are:

- it must be a "relevant establishment" providing care or medical or surgical treatment, and
- the majority of the persons who receive that care or treatment must be handicapped, and

• the relevant goods must be used in the relevant establishment.

If these tests are satisfied then the organisation can purchase the relevant goods at zero-rate.

15.10.2 What is a "relevant establishment"?

A relevant establishment is one of two things:

- a day-centre (Note (4B)(a) to Group 15), or
- an institution which is approved, licensed or registered or is exempted from those requirements (Note (4B)(b) to Group 15).

A day-centre must be something more than a social or recreational centre. It must concentrate on providing some form of care or treatment to those attending. Examples of centres that would qualify include physiotherapy centres for disabled children or charitable establishments that run daily rehabilitation or training classes for adults.

Institutions that are approved, licensed or registered include the wide range of residential care institutions such as nursing homes for disabled adults or residential homes for disabled children.

15.10.3 The majority test

The majority of those cared for in a relevant establishment must be handicapped. Customs will be flexible when applying this test. We will accept that the majority of people provided for are disabled if this is the normal and consistent pattern for the relevant establishment, and will not refuse claims for zero-rating simply because an establishment falls slightly below this level temporarily. This pattern should be evident from the home or day-centre's own records. If those records show that over an extended period of time, 51% or more of the people who are residents of a home or of those who attend a day centre are disabled people, the body will be eligible.

15.10.4 How must the relevant goods be used?

The relevant goods (including adapted motor vehicles) must be used in the relevant establishment. If, for example, a charity provided a range of activities which included the running of a home for disabled children, then its vehicle would have to be used to transport residents of that home and not put to more general use.

15.11 Charitable institutions providing domiciliary care

The tests for these charities are less exacting, predominantly because they will be involved in purchasing a restricted range of relevant goods due to the nature of the services provided.

15.11.1 What services must be provided?

The charitable institution must demonstrate that they provide medical care to the disabled person in their own home.

15.11.2 What do we mean by "medical care"?

"Medical care" in this context refers to the sort of care a nurse would carry out or supervise, for example:

- washing
- getting people out of bed
- administering drugs etc.

It does not refer to supplies of basic domestic help services such as:

- cooking
- cleaning
- shopping, or
- laundry.

Help with such domestic tasks is taxable.

15.11.3 What relevant goods can they purchase at the zero-rate?

Charities who provide domiciliary care are eligible to purchase any of the relevant goods in Legal Note (3)(a) to Group 15 at the zero-rate. This means that items that a nurse would take out to a disabled person's home are covered, for example:

- stethoscopes
- bandages
- syringes
- blood pressure equipment.

15.11.4 How must the relevant goods be used?

The relevant goods must be used in the course of the provision of domiciliary care and must not be used for general purposes.

15.12 Administrative and control procedures

There are certain fundamental difficulties associated with the zero-rating of relevant goods. You need to be aware of these difficulties if the relief is to be controlled effectively.

You can find more guidance on	in paragraph
determining the liability of a supply	15.13
eligibility declarations and certificates	15.14

determining whether the supply was made to an eligible body	15.15
determining whether relevant goods were supplied	15.16
determining the use to which the relevant goods are put	15.17
determining the source of funding	15.20

15.13 Determining the liability of a supply

The responsibility for determining the liability of any supply rests with the supplier. However, with this relief it is accepted that the recipient has a role as there are factors over which the supplier has little or no knowledge. There are four main criteria:

- the supply must be of relevant goods
- they must be paid for with charitable funds or voluntary contributions
- the goods must be supplied to an eligible body (or for donation to an eligible body)
- they must be put to a qualifying purpose.

15.13.1 The supplier

The supplier is entirely responsible for determining whether the goods are "relevant" goods. For example, if plastic aprons have been supplied as medical goods, which clearly they are not, then the supplier should be assessed for the tax. Additionally the supplier should take all reasonable steps to ensure that the goods are being supplied, or will be donated, to an eligible body and for a qualifying purpose. For example, if the supply is to a GP practice then enquiries should be made as to the claimant's status. If the supplier has any doubts, the goods should not be supplied at the zero rate until proof of status is produced.

15.13.2 The customer

It is the responsibility of the customer to establish to the satisfaction of the supplier that they are:

- an eligible body, or
- that they are donating the goods to an eligible body.

This is normally done by means of a declaration. However, if required, the customer should be prepared to furnish further proof of eligibility. The customer is the only person who can attest to the use to which the goods are to be put.

15.14 Eligibility declarations

There is no legal requirement for the purchaser to provide a certificate or declaration. In order to qualify for relief you will need to be satisfied that a supplier has obtained the necessary information to confirm that the purchaser intends the criteria for zero-rating to be fulfilled. You cannot insist on this information being produced in a fixed format. However, the Department has produced various specimen declarations that are generally used. Specimen declarations are given in the relevant VAT notices. You should note that these have no legal basis and the absence or lack of completeness of any such documents would not, by itself, render the supply ineligible for zero-rating. If the supplier is able to demonstrate, in some other way, that the conditions for zero-rating have been met or, if they haven't, that they took reasonable steps to confirm eligibility, then, zero-rating is appropriate. The following paragraphs cover this in more detail.

An electronic version of a declaration is acceptable, but the supplier should ensure they have a full audit trail to prove the declaration has come from a genuine source. For example, the supplier should keep the email from the charity to which the declaration is attached.

Please see paragraphs 15.14.1 to 15.14.4 for more information on declarations.

15.14.1 Alternative evidence when specimen declarations are not used When visiting suppliers you may find that the specimen declarations have not been used. In order to be satisfied that a supply qualifies for zero-rating, it is reasonable to expect a supplier to be in possession of the following information in some written form:

- name of the eligible body
- name and signature of an appropriate responsible member of the eligible body
- description of goods or services qualifying for relief
- statement that the goods or services are to be used for a purpose that qualifies for relief
- date of supply
- steps taken to confirm correctness of customer declarations.

15.14.2 Annual or bulk declarations

We would normally expect a charity to give a separate declaration for each purchase of relevant goods. However, where a charity places an order for a regular supply of identical products an annual or bulk declaration can be accepted.

Officers may receive requests from suppliers to enter into formal, written agreements regarding annual or bulk declarations. The decision whether or not to enter into such an arrangement should be made locally, taking into consideration local knowledge of the supplier and the systems they have in place.

In addition to the normal information required on individual declarations the supplier should also have systems in place that enable them to confirm with the customer that:

- the status of the organisation and/or the goods has not changed
- any goods said to be covered by such a declaration are indeed covered eg they have been purchased with charitable funds and are to be used for qualifying purposes.

The systems should be suitable for audit by visiting officers and the supplier should be able to demonstrate what steps **they** have taken to confirm that supplies are covered by the annual/bulk declaration. Details of the systems/procedures etc. to be used should be detailed within the written agreement. Any agreement should be time limited with provision for regular review by Customs.

The use of annual/bulk declarations, once Customs have agreed their use, is a matter of agreement between suppliers and their customers. Customers cannot be compelled to submit such declarations and, if they choose to, can continue to provide declarations on an individual transaction basis. Where officers find that suppliers have used annual or bulk declarations without entering into a formal agreement with Customs they should be strongly encouraged to do so. Lack of a formal agreement does not however prevent a supplier using annual/bulk declarations if they agree with some, or all, of their customers to do so. As this may increase the risk for both the supplier, the customer and Customs, suppliers should be reminded of their responsibilities to correctly account for VAT.

15.14.3 Completion of declarations by eligible bodies

Eligible bodies, such as educational or research establishments, can be large organisations and the detail regarding the purchase and use of goods that may be eligible for zero-rating are usually known to the particular department ordering or using the piece of equipment rather than the finance department who is normally responsible for the organisation's VAT affairs. The finance department usually requests a responsible officer of the specialist department ordering or purchasing the goods or services to make the declaration.

In these circumstances it may be difficult for officers visiting such organisations to confirm whether the declarations have been correctly completed, particularly in respect of the use to which the goods have been put by the eligible body and to decide whether it is an aspect of an eligible body's activities that they want to examine. In making this judgement it should be noted that providing a supplier has taken reasonable steps to check the correctness of a declaration, that is subsequently discovered to be wrong, then by concession (see paragraph 15.14.4) the supplier is not assessed for any tax due. This may mean that despite the fact that a declaration is incorrect no VAT can be recovered in respect of the transaction.

Depending on the resources available, it may therefore be advisable for officers visiting eligible bodies to carry out checks of declarations in response to requests from officers for suppliers, to first establish what steps the supplier has taken to check the correctness of the customer's declaration. Such decisions should be made locally.

In any case examination of the documentation and systems used by several eligible bodies indicate that the following points of best practice should be strongly encouraged:

- (a) The declaration the finance department asks the specialist department to make should contain as much basic information as possible, for example:
 - the department buying or ordering the goods
 - a person within the department who can be contacted for further information regarding the goods
 - a description of the goods being purchased or ordered
 - what category the goods fall under eg medical, scientific or laboratory equipment
 - what the goods are to be used for e.g. medical or veterinary research or training
 - a statement to be signed by a responsible officer within the department to the effect that they are aware of and understand the rules concerning the zero-rating of eligible goods, and confirming that the goods subject to the declaration are eligible for zero-rating
 - a note that the declaration does not authorise zero-rating and that it is the responsibility of the supplier to ensure that the good are eligible before zero-rating the supply.

- (b) Some finance departments provide, in varying degrees of depth, an aide-memoire to specialist departments to assist them in deciding whether purchases are eligible for zero-rating. Communication of some kind between the finance and other departments regarding the topic should be encouraged.
- (c) Where the individual items are highly specialist the declarations can be cross-referenced to catalogues, details of research projects to be carried out using the goods, or the procurement/ tendering process etc. Such information may help confirm the type and use of the goods.
- (d) Finance departments should be encouraged to have their own systems and controls in place which provide them with some assurance that the declarations made by specialist departments are correct.

15.14.4 What can you do if declarations are issued incorrectly?

The onus for ensuring that a supply is eligible for zero-rating lies with the supplier, and it is the supplier who must receive any assessment for under-declared VAT. There can be difficulties for the supplier in being satisfied that the goods or services are actually put to the purpose for which zero-rating is allowed. However we recognise that the supplier can only take reasonable steps to establish that the customer is eligible for relief and the goods are put to a qualifying use.

This difficulty is recognised, and allowance made for the situation by means of an extra statutory concession (ESC).

3.11 Incorrect customer declarations

Where a customer provides an incorrect declaration claiming eligibility for zero-rating under Group 2, 4, 5, 6, 8, 12 or 15 of the zero rate Schedule of the VAT Act 1994, or eligibility for a reduced rate under Schedule A1 [now Schedule 7A] for the qualifying use of fuel and power, and where a supplier, despite having taken all reasonable steps to check the validity of the declaration, nonetheless fails to identify the inaccuracy and, in good faith makes the supply at zero rate, or at a reduced rate, Customs and Excise will not seek to recover the tax due from the supplier.

For the concession to apply you will need to be satisfied that the supplier took all reasonable steps to ensure that the declaration was correct. There are no hard and fast rules as to what constitutes reasonable steps but we would expect the supplier to have:

- asked for independent proof of status if it was not obvious that the claimant was an eligible body
- obtained more information, or a specific statement from the claimant, about the use if the amount of equipment requisitioned appeared excessive for the use claimed.

If reasonable steps have not been taken, or if you suspect that the supplier has knowingly zero-rated ineligible items, you should assess the supplier for the under-declared tax. **Note: If the supplier has zero-rated ineligible goods the ESC does not apply.**

15.15 Is the supply to an eligible body?

In this section you will find guidance to assist you in establishing that a supply has been made to an eligible body.

In reaching a decision in this area you will frequently need to consider the basic supply position. You should establish this before moving on to the considerations contained in this section. You will find guidance on supply in V1-3 *Supply and consideration*.

There are a number of parties who may be associated with a supply that is covered by Group 15 Items 4, 5, 6 or 7. These include:

- a supplier
- a charity
- a donor
- a donee
- an eligible body.

Remember not all charities are eligible for these reliefs.

The entitlement to relief depends in part on the funding arrangements for the purchase. You will find guidance on this issue in paragraphs 15.20 to 15.20.3.

15.15.1 Examples of eligible and ineligible supplies

The entitlement to relief also depends on how the supply is structured:

- supplier → charity → eligible body
 In this situation the supplier supplies goods to a charity
 which will donate them to an eligible body. Assuming that
 the goods are paid for by charitable funds or voluntary
 contributions, the supply to the charity will be zero-rated.
- supplier → eligible body
 In this situation the supplier supplies the eligible body
 direct. Providing the purchase is paid for with charitable
 funds or voluntary contributions the supply can be zerorated.

The main advantage of the relief when it is in this form is that it does not discriminate against charities that wish to donate funds rather than actual equipment. It is accepted that where an eligible body is also a charity all its funds are charitable.

- supplier → charity → other donee In this situation the supplier supplies goods to a charity which will donate them to a donee who does not qualify as an eligible body. The circumstances in which this might arise would be if a charity donated goods to a GP practice. As the GP practice does not qualify as an eligible body the conditions of the relief have not been met, and zero-rating is not possible.
- supplier → other donor → eligible body
 In this situation the supplier supplies the goods to a
 person or organisation that does not qualify as an eligible
 body. In these circumstances you will need to carefully
 consider the source of the funding. (You will find further
 guidance on this in paragraphs 15.20 to 15.20.3). Only if
 the funding has come from a charity or other voluntary
 contributions can the supply be zero-rated under item 4.
- supplier → other donor → or other donee
 In this situation the supplier supplies the goods to a
 person or organisation that does not qualify as an eligible
 body and is not intending to donate the goods to one. In
 this case the supply to the donor would not be eligible for
 zero-rating.
- supplier → other party
 In this situation where the supplier supplies another party,
 zero rating would not apply even if the supply was paid for
 out of charitable funds or voluntary contributions.

The following case illustrates the point that a supply may not meet the necessary criteria to qualify for relief.

A charity was set up in order to purchase medical equipment which it then loaned out to medical practices. The organisation was not entitled to relief on the equipment that it purchased even though the equipment was of a kind covered by Group 15. This was because the charity was not an eligible body in its own right.

15.16 Are relevant goods being supplied?

The goods that qualify for relief are listed in Note 3 to Group 15. The area which creates most difficulty is items which it is claimed fall within legal notes 3(a) and 3(c). These comprise medical, scientific, computer, video, sterilising, laboratory or refrigeration equipment. The following definitions will help clarify which equipment is regarded as falling within these categories:

Medical equipment:	equipment which is required for the practice of medicine.
Scientific equipment:	equipment used for observation, experimentation and measurement such as microscopes,

	thermometers and precision weighing machines.
Computer equipment:	equipment such as VDUs and keyboards. However where a complete network is being supplied only those items which are to be used for a qualifying use are eligible for relief; not the whole network. Note that here, computer software is not goods or equipment though relief could be available under legal note 10 (see paragraph 15.19.1).
Video equipment:	includes video recorders, tapes, video cameras. Ordinary and digital cameras are not included in this category. (Digital cameras do not qualify as a part or accessory to computer equipment either). Note: As technology advances video cameras will become obsolete. It is extremely unlikely that the relief will be amended to reflect this.
Sterilising equipment:	equipment for sterilising medical and laboratory instruments and includes autoclaves.
Laboratory equipment:	equipment such as laboratory benches, fume cupboards, test tubes, beakers and Bunsen burners but does not extend to the complete furnishing of a laboratory.
Refrigeration equipment:	includes items such as ice making machines.

Note: The equipment listed in the above table will only qualify for zero-rating if they are used for a qualifying purpose (see paragraph 15.17 for more guidance on qualifying purpose). For example, a computer network can only qualify for relief in its entirety if all the components are used for a qualifying purpose. Individual VDUs, keyboards, mice, floppy disks etc must each be supplied for a qualifying purpose in order to obtain relief. A network's master server could qualify if some of the work stations it serves are sited, for example, in a research laboratory and used for a qualifying purpose.

The term "relevant goods" has been considered by many tribunals. In the case of the **David Lewis Centre** (VTD 10860) the tribunal considered whether an observation window to a soft play area in a centre for people with epilepsy was a piece of medical equipment and as such "relevant goods". The tribunal found that the window was a piece of diagnostic equipment and aided the treatment of the people at the centre. The tribunal concluded that the function of the observation window was medical and within the definition of "relevant goods". However the case proceeded to the High Court (STD 485) where the decision was overturned. The High Court said:

"There is a test which is twofold: first the goods must be medical; and secondly they must be supplied for use in one of the medical areas set out in the definition."

"As I see it, the question which I have to ask myself is this; at the time of the

supply.... could these two-way windows sensibly be described as 'medical goods'? Bearing in mind the dual test which is necessary it seems to me that it is not possible to describe the window as 'medical goods'. They were goods, certainly, which were used for diagnosis and treatment but they were not medical goods. In those circumstances, it seems to me that the tribunal whose decision I have to consider was wrong and I find so."

This decision emphasises the importance of the two stage approach – are the goods supplied "relevant goods" and have those goods been used for a qualifying purpose (see 15.17)?

In the case **Supplier Ltd** (VTD 18247) the tribunal considered whether specialist animal cages were laboratory equipment and as such "relevant goods". (This tribunal decision was anonymised at the request of the appellant.) In finding that the cages were "relevant goods" the tribunal said:

"the specialist cages had a number of features identifying and limiting their use to a specified field, which, in this appeal, is that of a laboratory and that they are not suitable for use for other purposes." The tribunal concluded that the cages were made "of higher quality materials than those used for pet husbandry and were not available at retail outlets."

The tribunal then went on to consider whether animal bedding, nesting materials, cage liners and litter were "parts and accessories" for use with "relevant goods". The tribunal decided that the items were:

"optional extras which are used to improve the operation of the specialist cages (the equipment) and which enable the cages to be used to better effect. A car mat is usually regarded as an accessory for use in a car and so a cage liner can be an accessory for use in a cage. And as a cage liner is an accessory for use in a cage so also are animal bedding materials, nesting materials, tray liners and litter."

Whilst not in agreement with the tribunals comments on parts and accessories we decided not to appeal this decision. Business Brief 21/03 was issued on 11 November 2003 to ensure equity of VAT treatment for all suppliers of cage bedding and nesting materials etc.

In **Research Establishment** (VTD 19095) the tribunal considered whether an air ventilation system was laboratory equipment and as such "relevant goods". The tribunal found that the ventilation system was laboratory equipment, giving the following reasons in their decision:

"The equipment is not a general air supply to the whole complex. It is far more specific than that...for example, the equipment does not supply air to the main corridors."

The tribunal noted that the equipment incorporated the following special features:

"the air moved by ...piston effect"

"specially designed to ensure inward airflow did not create any draughts"

"rate of change of the air in the rooms was many times that of a normal air conditioning unit"

"high precision filtering of the outgoing air"

"filters and vents could be sterilised with minimum handling"

"designed to create invisible 'walls' of air within rooms"

"air pressure could be controlled in addition to temperature and humidity"

"items were to be made [for Research Establishment] to specific individual designs".

The tribunal added a final comment "that it does not regard this decision as a precedent for any other taxable person."

We accept that, in this case, an advanced air filtration and ventilation system was installed - it was designed to meet the specific needs of a limited number of specialist laboratory rooms and it did not serve common areas such as offices and corridors. Consequently, we now accept that such specialist equipment is laboratory equipment when, as a whole, it requires a high level of specification, functionality and performance to meet the purpose for which it is necessary.

However, we continue to maintain that low specification air ventilation/filtration systems and standard air-conditioning systems are not "relevant goods" and do not qualify for relief.

Any problematic cases involving "relevant goods" should be referred to the Charities Policy Team for consideration.

15.17 Are the relevant goods going to be used for a qualifying purpose?

In order for relief to apply the relevant goods must be used for a qualifying purpose. Again, the area which creates most difficulty is items which it is claimed fall within legal notes 3(a) and 3(c). The following definitions will help to clarify what is meant by "for use in", and what is a qualifying purpose in those legal notes. (Please remember that legal notes 3(f) and 3(g) also have a "use" test, although there are rarely problems with those.)

15.17.1 What is meant by the term "for use in"?

Prior to 1990 goods had to be "solely for use in medical research, diagnosis or treatment" in order for zero-rating to apply. Following representations by eligible bodies it was accepted as reasonable that minimal use of equipment in a non-qualifying capacity should not debar an element of zero-rating. The word "solely" was therefore deleted from the law. At the same time veterinary and training were added to the qualifying uses. (Please also see paragraph 15.19.1 if computer services are involved.)

However, since the removal of the word "solely" it has been argued that any use of equipment for a qualifying purpose, however small, would bring it within the scope of the relief. Customs do not accept this view. It is our contention that "for use in" means that substantial, real and continuing use in medical or veterinary research, training, diagnosis or treatment would be the main initiating factor behind the purchase.

At the time the purchase is made it must be known for what specific use the item is being bought. For example, if it is claimed that equipment is being purchased for medical research then the person receiving the goods must be able to identify in which particular medical research project it will be utilised. Where the equipment is of a specialised nature, for example for research by a university medical school, it is usual for a tender/specification document to be issued to prospective suppliers. Such documentation may well contain sufficient information to establish the intended use of the equipment.

15.17.2 What is a qualifying purpose?

(a) Medical and veterinary research

When attempting to construe legislation ordinary words must be given their ordinary meanings and technical words their technical meanings, unless absurdity would result. Research is both an ordinary and a technical word. The ordinary meaning, found in the Oxford English Dictionary, is "to search into, to investigate or study closely". Its technical meaning is that research is restricted to activities that are directed towards opening up new areas of knowledge or understanding, or initial development of new techniques, rather than towards mere quantitative additions to human knowledge.

You should remember that not every activity involving the gathering and processing of information undertaken by a Higher Education Institution is research, in just the same way as not everything that you could learn would be seen as higher education.

For the purposes of this relief it is our view that research is used in its technical sense. Several requests for zero-rating have been made in respect of supplies of equipment (usually computer equipment) that is claimed to be used for medical research. We would accept medical or veterinary research as being original systematic investigations undertaken in order to gain knowledge and understanding of the treatment or palliation of a physical or mental abnormality in humans or animals. It also includes the use of existing knowledge and experimental development to produce new or substantially improved materials, devices, products and processes including design and construction. It excludes routine testing and analysis of materials, components and processes - for example for the maintenance of national standards - as distinct from the development of new analytical techniques. In general we would not accept that undergraduates engage in research in the technical meaning of the word. Furthermore we would not accept that equipment purchased for general use within a university but which may be used by postgraduates or staff involved in medical or veterinary research would qualify for zero-rating. In this context we would expect to see, and should ask for if there are any doubts, evidence of a programme of investigation.

(b) Medical or veterinary training

This is professional vocational training. It is the process of bringing a person to an agreed standard of proficiency by practise or instruction. It does not include general preparatory scientific studies that are required before professional training can commence, for example biology or chemistry.

The course or programme of study should be looked at in its entirety. If it is 100% theoretical, it will not qualify as medical training but if it is part theoretical and part practical or 100% practical, it will.

Medical training is limited to doctors, nurses, surgeons and other health professionals who are or seek to be listed on an extant statutory register. (You can find more information in Notice 701/57 *Health professionals*.)

Veterinary training is limited to veterinary surgeons and veterinary nurses who are or seek to be listed on an extant statutory register.

(c) Medical or veterinary diagnosis

This the identification of diseases and examination of systems.

(d) Medical or veterinary treatment

This includes the administration of medicines, physiotherapy and surgery.

15.17.3 Non-qualifying purpose

Where it is not possible to give an eligibility declaration which states that all the goods are to be used for a qualifying purpose then the relief is not allowable. The circumstances in which this can arise include the following:

- common stores or stocks (see 15.17.4)
- where a qualifying use is not planned at the time of purchase
- minimal qualifying use.

15.17.4 Common stores

This situation occurs where an eligible body, say a university, is engaged in research across a broad scientific spectrum. Their activities include medical research as well as research in the fields of chemistry, biology and botany. For administrative purposes and for ease of access all items of general equipment, such as microscopes and test tubes, are kept in a central location. Researchers remove items from stock as they are required.

The problem arises when new equipment (such as a microscope) is bought for stock and it is not possible to know if it will be used for a qualifying purpose or not. Zero-rating of the supply is not possible, even though it may be put to a qualifying use.

We are aware from cases referred to us and from discussions with individual bodies, that a number of informal arrangements have been agreed by local offices to bypass this problem. Any such informal arrangements should be rescinded.

15.18 Approved list of items

We have deliberately refrained from publishing a list of items that are considered to qualify for relief for the following reasons:

- It is not sufficient to consider the nature of the equipment in isolation
- You also need to consider the use to which that equipment is put
- A nominated list would also run the risk of being out of date
- It could suggest that the scope of the relief could be interpreted more widely than intended.

15.19 Services that qualify for relief

15.19.1 Computer Software

Computer software qualifies for relief only if it is solely for use in medical research, diagnosis or treatment. It should be noted that this is a more restrictive relief than for computer hardware. It is included in the relief by Note (10). Further, relief is only allowable for the services purchased directly by the eligible body under item 5.

15.19.2 Installation, repair and maintenance of relevant goods

The only other services that qualify for relief in connection with donated medical and scientific equipment are those listed in Group 15 Item 6, namely the repair and maintenance of relevant goods owned by an eligible body. You may encounter a situation where an eligible body may argue that the supply of some services are essential if the goods are to be used and therefore should be covered within the zero-rating.

Only if the supply is one of installed goods will all elements of the supply be treated the same way. Some examples of the types of supply that would fall into this category are:

- where the price of a computer includes the connecting up to a network, or
- equipment such as medical scanners need to be installed and tested before the supply is complete.

If the service is separate from that of the qualifying goods, even if it is essential, zero-rating will not apply to the service element. The type of supply that would fall into this category would be the conversion of a building to house a piece of equipment.

If the supply of services is made by a third party it will not be within the scope of the zero-rating.

The different treatments are illustrated in the following example:

Example: An NHS Trust purchased a new scanner from ABC Ltd. The scanner was to be assembled on site by the supplier. It was necessary to remove a wall from the room in which the scanner was to be housed so that the amount of space available for the Trust's staff to work in was maintained. The supplier removed the wall two weeks prior to the delivery of the scanner. And, after the scanner was installed, a separate cleaning company brought the room up to the required standard of cleanliness.

Providing the funding criteria were met, relief was available to the Trust under Group 15, Items 4 to 7 for the supply and assembly of the scanner.

The removal of the wall and the cleaning service were standard-rated, as they were completely separate services from that of the qualifying goods.

15.20 Funding for the purchase of qualifying equipment

The final point on which you must be satisfied before agreeing that zero-rating is appropriate for a supply of relevant goods is that it has been paid for out of funds provided by a charity or from voluntary contributions.

15.20.1 Charitable funds and voluntary contributions

Charitable funds are those which are held by a charity and can derive from any number of fund-raising sources. Voluntary contributions are similar but do not necessarily have to be held by a charity. For example, a commercial company might collect contributions from its staff which it uses to buy a piece of medical equipment for a charity. This would qualify as having been purchased with voluntary contributions.

15.20.2 The need for this restriction

If this restriction were not in place any appropriate goods purchased by an eligible body would be relieved of VAT if they were to be used for an appropriate purpose. This would greatly increase the financial impact of the relief. It would also extend the relief to equipment which might generate personal profit, for example equipment used in a private hospital. An important point in this respect is that 100% of the funding must be from funds provided by a charity or from voluntary contributions. If the charity only makes a contribution towards the cost of purchasing equipment, or if the level of voluntary contributions needs to be supplemented by an eligible body's own funds, the supply of goods does not qualify for zero-rating.

15.20.3 Universities

All universities are charities and usually qualify as an eligible body by virtue of Group 15 Note (4)(e). This covers a research institution whose activities are not carried on for profit. Once a university qualifies because of its research activities, the entire university can be treated as an eligible body – the eligible body status is **not** restricted to the research department.

As you can see universities therefore qualify under both categories which must be present for the relief under Items 4 and 5 of Group 15 to apply – they are eligible bodies and funds are provided by a charity. Any of the university's funds, from whatever source, can be regarded as charitable funds. The university can receive funds as a charity (perhaps through grants) and spend them as an eligible body, effectively wearing two hats at once. In this way all relevant goods bought by the university **for use in a qualifying capacity** will qualify for zero-rating (for example, medical equipment purchased for use in medical training). Clearly goods purchased for a non-qualifying use, such as laboratory equipment that will not be used for medical or veterinary research/training etc, will not meet the criteria for zero-rating.

The same situation arises with other higher education institutions which qualify as a charity and as an institution carrying out research for no profit.

16. Medicinal products and substances

16.1 Introduction

Items 9 and 10 of Schedule 8 Group 15 allow zero-rating for the supply to a charity of certain medicinal products and substances which are to be used for specific purposes. The law contained in these items relies on definitions in the Medicines Act 1968. This section gives guidance on those definitions and interpretation of terms appearing in the law.

16.2 UK VAT law

The law allowing this relief is contained in Items 9 and 10 of Group 15 of Schedule 8 to the 1994 VAT Act. Those items are qualified by Notes 11 and 12.

Item 9 is qualified by Note (11):

Notes:

- (11) In Item 9 -
- (a) a medicinal product means any substance or article (not being an instrument, apparatus or appliance) which is for use wholly or mainly in either or both the following ways –
- (i) by being administered to one or more human beings or animals for a medicinal purpose;
- (ii) as an ingredient in the preparation of a substance or article which is to be administered to one or more human beings or animals for a medicinal purpose;
- (b) a medicinal purpose has the meaning assigned to it by section 130(2) of the Medicines Act 1968
- (c) administer has the meaning assigned to it by section 130(9) of the Medicines Act 1968.

Items 9 and 10 are both qualified by Note 12:

Notes:

(12) In Items 9 and 10 "substance" and "ingredient" have the meanings assigned to them by section 132 of the Medicines Act 1968.

These notes refer to sections of the Medicine Act 1968.

16.3 The Medicines Act

16.3.1 Medical purposes

Section 130(2) of the Medicines Act 1968 defines medical purposes as being:

- (a) treating or preventing disease;
- (b) diagnosing disease or ascertaining the existence, degree or extent of a physiological condition;
- (c) contraception;
- (d) inducing anaesthesia;
- (e) otherwise preventing or interfering with the normal operation of a physiological function, whether permanently or temporarily, and whether by way of terminating, reducing or postponing, or increasing or accelerating, the operation of that function in any other way.

16.3.2 Administer

Section 130(9) of the Medicines Act 1968 defines "administer" to mean:

"administer to a human being or an animal, whether orally, by injection or by introduction into the body in any other way, or by external application, whether by direct contact with the body or not;"

16.3.3 Substance/ingredient

Section 132 of the Medicines Act 1968 defines the terms as follows:

"any reference in this Act to administering a substance or article is a reference to administering it either in its existing state or after it has been dissolved or dispersed in, or diluted or mixed with, some other substance used as a vehicle"

16.4 Bodies eligible for the relief

The relief available under Items 9 and 10 is only available to charities. "Eligible bodies" are not entitled to this relief unless they are a qualifying charity in their own right. This means that a National Health Service Trust, which does not qualify as a charity, cannot obtain relief for medical products or substances which it buys. This is the case even if the goods are clearly to be used in medical or surgical treatment.

The relief under item 9 is restricted to charities that will be using the products or substances themselves. It is not possible for a charity to donate medical products or substances to another charity and obtain the relief. In this regard the objects of the charity will be a useful indication as to their eligibility for the relief.

16.5 Relevant goods

If an article does not qualify to be regarded as "relevant goods" under items 4 and 5 a charity may attempt to obtain zero-rating for it on the grounds that it is a medicinal product.

Note 11 to Group 15 is quite explicit in excluding from the relief an instrument, apparatus or appliance. Most of the goods that fall outside the terms of Items 4 and 5 will be excluded from Item 9 on the basis of this Note.

The clear implication from Note 11 is that medicinal products which qualify for relief are capable of being consumed or otherwise absorbed into the body. Clearly a syringe would fall outside this interpretation, whereas a contraceptive pill would fall within it.

16.6 Appropriate use

If you are not satisfied that the substances are being put to an appropriate use, you may wish to consider the following:

- Do the charity's objects include medical or veterinary research or treatment?
 If not, this may be an indication that the products or substances are not to be used for an appropriate purpose.
- Is evidence that the substances are to be used for an appropriate use?
 If not, this is a strong indication that the relief is inappropriate.
- Is the charity engaged in other research or treatment which does not qualify?
 If so, this is an indication that the products or substances may not be for an appropriate use.

If it is still not possible for you to determine whether or not the relief is available, and the liability depends on the definition of the terms used in the legislation, you should consult with the Charities Policy Team.

17. Index to the law

17.1 Index to the law on charities

(As referred to in paragraph 1.4.)

This index will help you to identify the goods and services for which reliefs may be available. You will find detailed guidance on some of the Schedule 8, Group 15 reliefs in this book. However, guidance on the reliefs available under Schedule 8, Group 12 will be found in V1-7. Guidance on the reliefs available under Schedule 8, Group 5 and Schedule 10 will be found in V1-08A *Construction*.

Adapted appliances	Schedule 8, Group 12, Item 2(g)
Adapting goods	Schedule 8, Group 12, Item 4
Adjustable beds	Schedule 8, Group 12, Item 2(b)
Advertisements	Schedule 8, Group 15, Item 8
Aids for disabled	Schedule 8, Group 12
Alarm systems	Schedule 8, Group 12, Item 19
Care (bodies providing)	Schedule 8, Group 15, Items 5 and 9
Chair lifts	Schedule 8, Group 12, Item 2(d)
Charitable buildings (change of use)	Schedule 10
Construction (charitable buildings)	Schedule 8, Group 5, Items 1(a)(ii) and 2
Customer declarations (incorrect)	Extra-statutory concession 3.11
Donation of goods	Schedule 8, Group 15, Item 2
Doorways (widening of)	Schedule 8, Group 12, Item 9
Eligible bodies	Schedule 8, Group 15, Items 4, 5, 6
Exports by charities	Section 30(5)
Fund-raising (exemption of)	Schedule 9, Group 12
Hoists	Schedule 8, Group 12, Item 2(e)
Installation (of equipment for disabled)	Schedule 8, Group 12, Item 7
Lifeboats and associated equipment/necessary facilities	Schedule 8, Group 8, Item 3
Lifts	Schedule 8, Group12, Items 2(e), 17
Medical appliances	Schedule 8, Group 12, Item 2(a)
t	•

Medical research	Schedule 8, Group 15, Items 4, 5, 9 and 10
Medical treatment	Schedule 8, Group15, Items 4, 5, and 9
Medicinal products	Schedule 8, Group 15, Item 9
Motability scheme	Schedule 8, Group 12, Item 14
Motor vehicles	Schedule 8, Group 12, Item 2(f) and 2A
Ramps (construction of)	Schedule 8, Group 12, Item 9
Repair and maintenance	Schedule 8, Group 12, Item 5 and
	Schedule 8, Group 15, Item 6
Spiritual welfare	Schedule 9, Group 7, Item 10
Stair lifts	Schedule 8, Group 12, Item 2d
Substances for testing and synthesis	Schedule 8, Group 15, Item 10
Talking books	Schedule 8, Group 4
Vehicles	Schedule 8, Group 12, Items 2(f) and 2A Schedule 8, Group 15, Items 4 and 5
Veterinary research	Schedule 8, Group 15, Items 4, 5, 9 and 10
Welfare	Schedule 9, Group 7, Items 9 and 10

18. Historical changes to VAT legislation affecting charities

18.1 Introduction

This section outlines major changes to the reliefs available to charities since the introduction of VAT Act 1983.

18.1.1 Schedule 8, Group 4

1 April 1986	Relief allowed for radios and cassette recorders for free loan to the blind.
	Relief allowed for the supply to the RNIB and similar charities of apparatus solely for the making on magnetic tape of sound recording for use by the blind.
	Relief extended to parts and accessories for goods which are zero-rated under the Schedule.
1 April 1992	Relief extended to the repair and maintenance of goods which are zero-rated under the Schedule.

18.1.2 Schedule 8, Group 8

1 May 1990	The zero rate reliefs available to the RNLI were extended to any charity providing rescue or assistance at sea.
	Relief allowed for construction for a charity providing rescue or assistance at sea of slipways for launching and recovery of lifeboats.
1 April 1992	Relief extended to spares and accessories for slipways used by sea rescue charities.
1 April 2002	Relief allowed for equipment installed, incorporated or used in a lifeboat.

18.1.3 Schedule 8, Group 12

1 May 1984	Relief allowed for motor vehicles designed or substantially and permanently adapted to carry a wheelchair or stretcher and no more than 5 other persons.
1 June 1984	Relief allowed for the supply to a disabled person or to a charity of a service of constructing ramps or widening doorways or passages to facilitate a disabled person's entry or movement within a building.
1 September 1984	Relief allowed for letting on hire of a motor vehicle for a period of not less than 3 years to a disabled person in

	receipt of Disability Living Allowance or a mobility allowance (commonly known as the Motability scheme).
1 April 1986	Relief allowed for supply to a disabled person of a lift for facilitating movement between floors in a private residence.
	Relief allowed for supply to a charity providing residence or a day-centre for disabled persons of a lift for facilitating movement between floors within the building.
	Relief allowed for supply to a charity of an alarm system capable of use by a disabled person, enabling them to alert a specified person or call centre.
	Relief allowed for services performed by a control centre in receiving and responding to alarms.
1 April 1987	Relief allowed for the supply to a charity run residential home of the provision, adaptation or extension of a bathroom, washroom or lavatory.
! April 1992	Relief extended to supply of provision, adaptation or extension of bathroom, washroom or lavatory in non-residential buildings run by charities, such as day-centres, churches and village halls.
	Relief allowed for boats designed or adapted for use by disabled persons.
29 December 1992	Relief allowed for first sale of a motor vehicle which had previously been let on hire by Motability.
1 April 2000	Relief for bathrooms, washrooms and lavatories extended to charity run day-centres where at least 20% of individuals using the centre are disabled.
1 April 2001	Relief allowed for supply of a qualifying motor vehicle to a disabled person who normally uses a wheelchair or stretcher, or to a charity for making available to such a person.

18.1.4 Schedule 8, Group 15

1 July 1984	Relevant goods extended to include motor vehicles designed or adapted for carriage of a disabled person in a wheelchair.
1 April 1986	Relief allowed for video or refrigeration equipment to an eligible body for use in medical research, diagnosis or treatment.
	Relief restricted to non-classified advertising placed by a charity for educational or fund-raising purposes in newspapers, periodicals or magazines.

	Relief allowed for medicinal products supplied to a charity providing care, medical or surgical treatment for people or animals or engaged in medical research.
1 April 1986	Relevant goods extended to include motor vehicles with more than 6 but not more than 50 seats for use by eligible bodies caring for the blind, deaf or mentally handicapped mainly for transporting such persons.
1 April 1987	Relief allowed for supply to a charity of substances used for synthesis or testing for medical research.
	Relevant goods extended to include motor vehicles for use by an eligible body providing care for the blind, deaf, mentally handicapped or terminally sick persons mainly to transport such persons.
	Relevant goods extended to include telecommunication, aural, visual, light enhancing or heat detecting equipment designed solely for use in rescue and first aid services undertaken by charitable institutions.
	Relief extended to donation of goods for export by a charity established primarily for relief of distress.
1 April 1989	Relevant goods extended to include autoclaves and sterilising equipment for use solely in medical research, diagnosis or treatment.
	Relevant goods extended to include use in medical training.
	Relief for charity advertising for education or fund-raising purposes extended to include newspaper classified columns, programmes, annuals, leaflets and similar publications and on posters.
1 May 1990	Relevant goods extended to include laboratory equipment for use in medical research, training, diagnosis or treatment.
	Relief extended to include the sale of goods by a taxable person who has covenanted by deed all profits from such sales to charity.
	Relief extended to donation of goods for sale or export by a taxable person who has covenanted by deed all profits from such sales to charity.
	Removal of restriction that relevant goods had to be used solely for medical research, training, diagnosis or treatment.
17 March 1991	Eligible bodies extended to include charitable institution providing care or medical or surgical treatment for disabled people.

1 April 1991	Relief extended to cover the sale of donated goods by any charity.
	Relief for charity advertising extended to include qualifying adverts on television, radio and cinema.
	The relief for medicinal products and substances was extended to include charities engaged in veterinary research.
	Relevant goods extended to include use in veterinary research, training, diagnosis or treatment.
26 November 1996	ESC introduced to allow zero-rating for sales of poor quality goods.
26 November 1996	ESC introduced to allow relief for supplies of relevant goods to a charity whose sole purpose and function is to provide care services to disabled people or transport services predominantly to disabled people.
1 April 2000	Relief for charity advertising was simplified and extended to include all adverts however promulgated and irrespective of purpose. At same time an ESC was introduced to allow relief for certain types of charity stationery, such as appeal letters and envelopes.

18.1.5 Schedule 7A

1 September 1997	Reduced rate of VAT lowered from 8% to 5% in respect of supplies of fuel and power when used by a charity otherwise than in the course and furtherance of a business.
1 April 2000	Reduced rate introduced for supplies of (and services of installing) energy-saving materials to buildings intended for use solely for relevant charitable purpose.

18.1.6 Schedule 9, Group 12

·	Fund-raising exemption extended to include charities providing up to 15 events during a financial year, and to small-scale events (such as coffee mornings) where the
	gross takings do not exceed £1000 in one week.