



# Helping our charity clients prosper

VAT case studies



With the right professional support, a charity's VAT liability can be minimised.

## Helping our charity clients prosper

How often do you hear: "charities do not pay tax"? In reality, this couldn't be further from the truth. Almost every charity operating in the UK bears the burden of incurring irrecoverable Value Added Tax (VAT) costs. However, with the right professional support, the liability can be minimised.

### The hidden tax burden on charities

VAT can affect almost every transaction. Although the basic concept is relatively simple, the legislation and regulations governing VAT are ever changing, making it a complex area.

For charities and not-for-profit entities, VAT can be particularly uncertain. Issues can arise in respect of the treatment of income which can be difficult to determine from a VAT perspective. Incorrect treatment of VAT can result in fines or even an investigation from HMRC, which can be stressful and can often lead to financial struggles.

### It's all about being fit for purpose

VAT recovery for charities is normally determined by a methodology agreed with HMRC. However, every charity is different, and the emphasis must be on understanding individual problems and resolving them in a practical and realistic manner. Costs can be reduced by ensuring recovery methods are fit for purpose, considering effective arrangements with trading subsidiaries and third parties, and maximising available reliefs.

### The right advice resulted in a £7m refund for a NFP client with an annual income of £15m!

London VAT partner, Sean Glancy, has secured over £120m in refunds and savings for clients, including a £7m refund for one NFP client who only had an annual income of £15m, clearly demonstrating the importance of seeking professional advice. But don't just take our word for it. Here are some examples of how Sean and his team have supported our charity clients with VAT issues recently.

### VAT treatment of a new building, resulting in a £9m saving

#### The situation

A charity client was commissioning a new building. The building would be used for the charity's purposes and also by third party tenants. The management team were uncertain of the VAT treatment of the costs in respect of the project for both budgeting, and also if any mitigation could be made.

#### The UHY solution

We had initial discussions with the project team and explained the likely issues. We were appointed to develop and implement a tax risk and mitigation strategy. The issues were explained to the project board and stakeholders, and the implementation included successful negotiations with HMRC.

#### The result

The VAT costs were mitigated by 95%, resulting in a £9m saving. The charity could evidence reasonable care to HMRC. They were aware of the red lines, and the Trustees and funders were reassured that the issue was properly managed. We also secured as much certainty from HMRC as possible in respect of future reviews (which are nearly always retrospective).

#### Learning point

The amounts involved were significant and the management team did not have the in-house expertise to assess the VAT treatment. By bringing in external advisers, this met the standard of reasonable care expected by HMRC and resulted in a significant saving. The strategy developed was within both the letter and spirit of the law.

The VAT costs were mitigated by 95%, resulting in a £9m saving. The charity could evidence reasonable care to HMRC.

## A review of VAT accounting arrangements, resulting in a £600k refund

### The situation

A charity client had a new finance director who wanted a review of the VAT accounting arrangements of the charity. These had not been reviewed for some time and he was seeking assurance that the accounting processes were fit for purpose.

### The UHY solution

We considered the activities of the organisation and its past and future income and expenditure profile. Our view was the client had not made fair and reasonable VAT recovery. The VAT recovery method had been unchanged for several years and did not reflect the use of the income received.

We developed a method we considered produced a fair and reasonable recovery for the client. This included an adjustment to income treated as grant income that had been wrongly characterised. On behalf of the client, we raised and dealt with the issue with HMRC's charity specialist teams.

### The result

The client received a £600k refund from HMRC in respect of under recovered VAT over the last four years. A method for future recovery was agreed with HMRC producing prospective savings.

### Learning point

A charity has an obligation to regularly review VAT recovery methods to ensure they produce a fair and reasonable result. This is also evidence of reasonable care.

The VAT treatment of grant income can cause issues and HMRC revised the guidance for their officers in respect of this income in recent years. If they consider VAT is due, the funding agreement normally prevents any recourse to the funder.

## Application of VAT reliefs, saving £500k

### The situation

The client was upgrading elements of their computer equipment. This was a £3m procurement. The client asked if there was anything that could be done to mitigate the VAT cost.

### The UHY solution

We reviewed the business case and draft procurement documentation. This allowed us to fully understand the purpose of the upgrade and use of the new equipment. We felt there was a case for a VAT relief to apply. However, HMRC have litigated to limit the scope and application of the relief, so we prepared a submission on behalf of our client and made our case for zero rating to HMRC. HMRC asked some clarification questions, which we dealt with.

### The result

HMRC ruled that the relief could be applied to the procurement, which saved the client £500k.

### Learning point

The client approached us before the procurement was made. This was part of our regular dialogue with them. By using HMRC's internal manuals, we were able to identify areas of potential concern for HMRC and address them. We avoided this becoming a potential issue at an inspection and were able to gain certainty for the supplier and charity, removing risk.

**Our view was the client had not made fair and reasonable VAT recovery.**

## The right advice to help your charity prosper

VAT can pose a significant burden on charities, often diverting valuable resources away from core missions and initiatives. These simple case studies underline the importance of seeking expert guidance and exploring available exemptions and reliefs to mitigate the financial strain.

Through our technical VAT centres in our London and Manchester offices, our dedicated VAT specialists help clients manage risk through planning, review and control strategies. Fundamental to our offering is an acute awareness of the sensitivities of tax compliance; not only doing the right thing but also being seen to be doing the right thing. As a firm we operate within the spirit of the legislation, not the letter, limiting any reputational risk through association.

Our tax advice is focused on risk management and cost reduction. Risk management encompasses both financial and reputational risk. Cost reduction is achieved through acceptable planning. By focusing on both risk and cost, our aim is to empower our charity clients to operate efficiently, enabling resources to be effectively utilised to make a positive impact.



# The next step

The UHY Hacker Young Group is one of the UK's Top 20 accountancy networks with 95 partners and 640 professional staff working from 23 locations around the country. The offices within the Group provide a wide range of accounting, tax and business advisory services.

At UHY all of our member firms and our teams within them are driven by our purpose of helping you prosper. We see ourselves as more than just accountants. Whether you are a client, a team member or part of the community local to our firms, our goal is to understand your definition of prosperity and to work out how we can help you in your pursuit of that.

**Read more about us  
on our website at  
[uhy-uk.com](http://uhy-uk.com).**

UHY Hacker Young Associates is a UK company which is the organising body of the UHY Hacker Young Group, a group of independent UK accounting and consultancy firms. Any services described herein are provided by the member firms and not by UHY Hacker Young Associates Limited. Each of the member firms is a separate and independent firm, a list of which is available on our website. Neither UHY Hacker Young Associates Limited nor any of its member firms has any liability for services provided by other members.

UHY Hacker Young (the "Firm") is a member of Urbach Hacker Young International Limited, a UK company, and forms part of the international UHY network of legally independent accounting and consulting firms. UHY is the brand name for the UHY international network. The services described here in are provided by the Firm and not by UHY or any other member firm of UHY. Neither UHY nor any member of UHY has any liability for services provided by other members.



This publication is intended for general guidance only. No responsibility is accepted for loss occasioned to any person acting or refraining from actions as a result of any material in this publication.

© UHY Hacker Young 2023

[www.uhy-uk.com](http://www.uhy-uk.com)

**Helping you prosper**