



PKF
Francis Clark

Not for profit VAT risk review



As the UK continues to feel the effect of a series of economic shocks in recent years, it is no surprise that tax revenue raising pressures are being seen across the operations and activities of the tax authorities.

HMRC are increasingly placing the onus of VAT compliance upon businesses, organisations, and their advisors to police the system whilst continuing to operate on a 'process now, check later' basis.

As VAT is a self-assessing tax, HMRC are challenging organisations to justify the decisions made and to be proactive in managing their risks across the range of potential VAT and tax issues.

From 1 January 2023 HMRC lost their power to waive interest when another party was able to recover any uncharged VAT, so with interest charged at the Bank of England base rate plus 2.5% there will almost always be a cost for underpaying or overclaiming VAT. A consultation has also been opened to consider further changes to the penalty processes that are likely to reward proactivity in VAT affairs and penalise passivity or worse.

We have set out some of the common areas that HMRC review when inspecting those in the charity/not for profit sector.

Key questions for not-for-profit organisations

VAT treatment of supplies

Have you confirmed that your income is taxable, exempt, or outside the scope of, VAT? This is a very complex area and income treated incorrectly can result in a missed obligation to become VAT registered and impact the ability of registered organisations to correctly recover VAT.

VAT registration

Have you checked and confirmed if you are required to be registered for VAT? Reverse charges count towards taxable business turnover.

Business/non-business grants and apportionment

- Should your 'non- business' grant be correctly treated as a supply subject to VAT?
- Is a business/non-business apportionment required to determine how much VAT you are entitled to reclaim?

Partial exemption calculations

Are you required to carry out partial exemption calculations? Have these been reviewed?

VAT reliefs for charities

Is your organisation applying all the relevant reliefs and exemptions available? If so, are these being applied correctly?

Trading subsidiaries

Have you considered that VAT exemptions may not apply to the subsidiary? How do the charity's objects apply? What is the overall impact of the different VAT treatments?

Aims and objectives

Are these in alignment the relevant VAT exemptions? Is relevant profit ringfenced where required?

Record keeping

Do your records accurately reflect all of the above factors?



At PKF Francis Clark our experienced not-for-profit VAT team have assisted many clients in evaluating the impact of VAT on their operations. This not only ensures compliance but also identifies opportunities to minimise the impact of VAT.

Our VAT risk reviews provide you with:

Certainty regarding the VAT liability of supplies

- We review grants and contracts to ensure the correct VAT treatment is applied, including relevant VAT recovery from grantor where applicable
- Ensure conditions for relevant VAT exemptions are met - e.g. proof of education or fundraising exemption documented and provided to HMRC
- Certainty that VAT registration obligations are met and when the VAT threshold will apply
- How the VAT liabilities can impact costs, and what your organisation can recover from HMRC

Structure and plan efficiently for charitable property projects

- Look at 'relevant charitable purpose' and 'relevant residential purpose' for zero-rating to apply
- Consider capital goods scheme and how this may impact VAT recovery to enable better planning

Recover further VAT

- Identify VAT reliefs for charities that have not previously been considered

Improve standards, processes and awareness

- We deliver training to not-for-profits (both remotely and onsite) at all levels across the charity sector - from small/large charities to private schools
- Provide relevant VAT liability memorandums as guidance for bookkeeping entries
- Produce partial exemption calculation and business/non-business apportionment templates

Correct errors and mitigate penalties

- We liaise with HMRC before, during and after compliance checks to minimise penalties
- We provide guidance and assist in the correction of errors found and the process of error notification to HMRC to reduce complications and mitigate penalties (and, sometimes, recover further VAT from HMRC)



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We want to help, so if you feel you would benefit from an initial free of charge call to assess your needs, please contact one of our VAT team below.



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