

Are you registered for VAT - or should you be?



Welcome to the first of my articles on the ABC of VAT. Each week there will be an article published both on my website and on LinkedIn about a subject which often comes up when dealing with my clients or is a basic fundamental of understanding how VAT affects a charity. The first issue is a common question about whether a charity should be registered for VAT – a topic which is more often overlooked.

When to register

An organisation is required to VAT register when one of two things occurs :

- a) The level of their taxable supplies in the last twelve months has exceeded the VAT registration limit; or
- b) They expect the value of their taxable supplies in the next 30 days to exceed the VAT registration limit.

The current VAT registration limit is £85,000 and this has been stable for some time. This limit is raised normally in the Chancellor's Budget.

When working out your value of taxable supplies, it is important to note that any income which is exempt or non-business such as grants, donations, legacies, residential rents or fundraising event income for example are excluded from this value.

It is important to note as well that the value of taxable supplies also includes any supplies received from outside the UK such as professional and legal fees which are treated as being received in the UK. These are referred to as reverse charge supplies

Telling HMRC

If you exceed the limit under test A or B above then you need to notify HMRC within 30 days of breaching the limit. If you do notify HMRC of your requirement to register then you will be liable to a late registration penalty.

Why does a Charity have to register for VAT

The point that an organisation has to register can be triggered by a number of common events. A few examples are listed below :

- Diversification of income eg setting up a charity shop for example
- Setting up a trading subsidiary and recharging staff and management fees across to this new entity
- Change in HMRC law
- Using an overseas subcontractor

Exemptions

VAT registration is compulsory if you breach the registration limit. However, there are some exemptions from registration which can apply. These are:

- The level of taxable income has exceptionally breached the registration limit - by way of having an unexpected event; or
- The value of taxable supplies made are mainly zero rated.

In these circumstances you still have to notify HMRC that you have breached limit but can claim exemption from VAT registration.

To apply for VAT registration the most straight forward way is to apply via www.hmrc.gov.uk using your Government Gateway.

Guidance

The information in this article is for guidance only and should not be used as advice to any individual organisations VAT position. Should you require professional advice please do not hesitate to contact our Director on the details below.

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