

VAT recovery on fundraising costs – The Children’s Society Case

The Children’s Society Case concerned whether VAT recovery was possible on fundraising costs.

The Facts

The Charity had employed street canvassers to canvass members of the public and encourage them to become regular donors. Donors who gave more than £5 per month would become members of a ‘Committed Givers Club’ and receive 3 special newsletters a year.

The Charity argued that the £5 monthly payments should be regular as ‘consideration’ for a VAT zero rated supply of a newsletter to those members of the public who had signed up. Customs originally accepted this but soon changed their minds when they realised the amount of Input VAT on costs the charity would recover. The matter went before the VAT tribunal and then on appeal before the High Court. Judgement was given on 1 August 2005.

There were essentially two issues:

- Whether VAT was recoverable on newsletter costs
- Whether VAT was recoverable as the fundraising charge made by the street canvassers

In respect of the newsletter costs, both the tribunal and court found that the VAT was recoverable. However, it should be noted that the VAT legislation that led to this decision has since changed. Although it may still be possible to argue for VAT recovery on the production costs of free newsletters, this will be by using a different argument.


In respect of the VAT on the fundraising costs: the tribunal found that this could not be recovered as the £5 monthly payments should not be regarded as consideration for any supply and were in reality outside the scope of VAT donations. This meant that VAT on costs directly attributable to the donation (e.g. street canvassing costs) related to a non-business activity and was irrecoverable. In essence the ‘membership scheme’ argument failed.

Before the High Court, the Charity changed its argument and did not seek to overturn the tribunal’s findings over the true status of the £5 payments. Instead it relied upon a relatively recent European VAT case concerning VAT recovery on share issues. The Court accepted that the same principles applied to fundraising costs. Where the money raised funded a charity’s general purposes which involved the making of taxable supplies, the VAT was recoverable in part. It was residual VAT for partial exemption and business/non-business purposes.

What does the case mean?

The Case means that charities which are VAT registered and make some taxable supplies can now partially recover VAT on their fundraising costs.

How much VAT will be subject to discussions with Customs. Unfortunately the High Court did not give clear guidance as to what percentage could be recovered, leaving the matter to the parties to sort out between them or else the VAT tribunal to consider. In view of this uncertainty it is unclear if Customs expect there to be separate business/non-business & partial exemption calculations used for fundraising costs or if a normal method can be used.



Experience to date is that it depends upon the VAT Officer. It is also not certain as to whether HMRC will appeal. What is clear is that VAT registered charities can now recover some VAT on fundraising costs and should make a claim for under recovered **input** VAT covering the last 3 years.

For further information or to discuss the impact of the Children's Society case on your charity, please contact:

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