



Charity VAT concession to be withdrawn

July 2009

HM Revenue & Customs has recently announced a change in its policy in relation to the scope for charities to obtain new buildings at the zero rate of VAT.

Background

Charities are able to purchase new buildings (or pay for their construction) at the zero rate of VAT, provided that they can certify that the building will be used solely for a relevant charitable purpose, as defined by the VAT legislation.

HMRC has, for many years, allowed an Extra Statutory Concession (ESC) whereby use which does not qualify as relevant charitable can be ignored, as long as it is less than 10% of the total use. This use has to be measured in one of three ways (time, floor area or headcount).

Withdrawal of the concession

HMRC has decided to withdraw this concession with effect from 1 July 2010 and allow a transitional period from 1 July 2009 to 30 June 2010, during which either the current ESC or the new rules (described below) can be used.

In addition, HMRC has decided that it will redefine the word “solely” such that it will include up to 5% non-charitable use and this use can be identified and measured in any way which produces a fair and reasonable result.

What do you need to do?

If you are planning a project which will start during the transitional period you will need to consider these changes carefully to determine which option you should choose.

If you believe these changes will affect you please contact your usual VAT Liaison adviser or our dedicated VAT Helpline on 0800 700 652.