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Charity advertising – new scope for VAT savings

HM Revenue & Customs has just issued guidance on a revised interpretation of the scope for zero rating on charity advertising. The issue relates to pay-per-click charity advertising via sponsored links.

Background

Charities are entitled to receive zero rating for the preparation and placing of most kinds of advertisements in another party's space, e.g. advertisements in newspapers, magazines, television and on other organisations' websites.

One increasingly popular method of generating visits to a charity's website is by the charity paying a search engine business, such as Google, for sponsored links. In this way, when the search engine is used and it lists the charity website as a sponsored link, the charity pays a fee each time a user clicks through to the charity website.

VAT treatment

HMRC has taken the view that these charges are not for advertising and so do not qualify for zero rating. However, following representations from charities, HMRC has changed its view and has now confirmed that zero rating applies to the following services:

- Payment to a search engine company for pay-per-click sponsored links.
- Copyright and design services associated with such links.

Scope for VAT reclaims

HMRC has also confirmed that this ruling is retrospective and so suppliers can issue VAT credit notes to charities where the services qualify for zero rating. This will clearly be beneficial where the charity was not entitled to reclaim the VAT on the original charge.

Conclusion

If you feel you might be entitled to a VAT refund in respect of this issue then please contact your usual Liaison adviser or our dedicated VAT Helpline on 0845 603 9000.

Every effort has been made to ensure the accuracy of this information. However, it may not be comprehensive for your particular situation and recipients should not act upon it without first seeking professional advice.