

Distinguishing between business and non-business income

Garbutt + Elliott

Charity VAT – how to distinguish between business and non-business income

Business income may or may not be subject to VAT, however non-business income is outside the scope of VAT. Understanding the distinctions could help your charity or organisation.

The Main distinctions between business and non-business income

Business income	Non-business income
<ul style="list-style-type: none">• Consists of consideration for a supply of goods and/or services by the charity.• There is a direct link between the income and the goods/services supplied.	<ul style="list-style-type: none">• Consists of donations and other forms of funding where the donor/funder does not receive anything in return.• There is no direct link between the income and the goods/services supplied.

- The fact that the income does not cover the cost of providing the goods or services does not in itself mean that the income is non-business income.
- The fact that the funder provides funding that will benefit other parties, for example the local community, does not in itself mean the income is non-business income.
- The description of the funding (for example - contract, grant or subsidy) does not in itself determine whether the income is business or non-business income.

Government funding to charities

The question of whether each source of government funding is business income or non-business income is a challenge for many charities. Central or local government funding is often provided to charities to support specific community activities or initiatives that benefit the public, with the result that the funder can achieve its aims without having to be directly involved in managing the projects. This benefit to the funder does not in itself result in the funding being business income of the charity.

Table 3 provides indicators of whether government funding received by a charity is business or non-business income. Each source of funding and the related documentation should, however, be considered on its own merits. The indicators are provided as a general guide.

This document is intended to provide general guidance that should be helpful when distinguishing between business and non-business income of charities. It is not intended as a substitute for specific advice.



Email: enquiry@garbutt-elliott.co.uk | Leeds: 0113 2739 600 | York: 01904 464100

Web: www.garbutt-elliott.co.uk

 [Garbutt_Elliott](https://twitter.com/Garbutt_Elliott)

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