

Understanding Direct Taxation and VAT on Fundraising Activities

Charity + Caring

| Type of Fundraising Activity | Gift-Aid | Direct Tax | VAT |
|-----------------------------------|---|--|---|
| Donations from individuals | <p>Gift Aid uplift available with a valid declaration and subject to the trivial donor benefits* rules.</p> <p>(*See Gift Aid info sheet for more details)</p> | <p>Donations given in furtherance of the charity's objects are exempt from direct tax.</p> | <p>Donations are outside the scope of VAT subject to no substantial benefit being received by the donor.</p> |
| Sale of donated goods | <p>Generally only monetary gifts can be Gift Aided. Retail Gift Aid Scheme (RGAS) aims to make sales from donated goods eligible.</p> <p>The donor and charity enter into an agency agreement. The charity sells the goods as agent and the proceeds, less a commission, belong to the donor who is encouraged to donate the monetary proceeds to the charity who also claims Gift Aid.</p> | <p>This is generally considered to be the realisation of a donation and therefore exempt from direct tax.</p> <p>HMRC allow certain handling and cleaning but where the extent of work is significant and constitutes renovation this may be considered trade in nature.</p> <p>Where the charity has sold goods as agent (under RGAS) the commission income would be considered trading activity for direct taxation.</p> | <p>Donated goods sold by charities (and trading subsidiaries that distribute profits to the charity parent) are generally zero rated. HMRC allow cleaning and repair to items to the extent that this does not alter their original use.</p> <p>Zero rating the income means no VAT is charged on the sales and VAT on costs relevant to the sales can be reclaimed.</p> <p>An exception to this is goods sold under the Retail Gift Aid scheme, as these are donations they are effectively outside the scope. However the general approach to RGAS sales is for the seller to charge a commission to the donor for selling the goods. This creates a taxable business activity so that shops selling donated goods under RGAS can continue to retain full VAT recovery on shop costs.</p> |
| Sponsored events | <p>Sponsorship for events can be Gift Aided subject to having a valid Gift-Aid declaration. If the sponsorship is from a connected person Gift Aid can only be claimed if the participant only receives benefits below the trivial donor benefit rules*.</p> | <p>Sponsorship and registration fees for sponsored events are not considered to be trading and are exempt from direct tax if they are applied to the objects of the charity.</p> | <p>An event with no participation fee and no substantial benefits of participation HMRC accept that the income is outside the scope. HMRC accept that event support which may include medical, refreshment's, t-shirts do not constitute substantial benefits.</p> <p>Where there is a fee to participate and a mandatory minimum sponsorship the mandatory element is considered to be fees for the right to participate and will be standard rated with the excess raised been outside the scope. This is unless the event meets the criteria for a qualifying fundraising event, in which event all income would be exempt for VAT purposes.</p> |



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| <p>Fundraising events</p> <p>For example:</p> <ul style="list-style-type: none"> ▶ ball or dinner ▶ a ticketed performance ▶ fete or festival ▶ a ticketed exhibition ▶ jumble sale ▶ quiz ▶ sponsored walk or swim ▶ an auction of new goods | <p>The constituent parts of an event may include entrance charges, sales at the event and connected sales such as advertising or sponsorship. As no part of this is a donation for which no significant benefits are received there will be no Gift-Aid on these amounts.</p> <p>Charities may be able to take advantage of the Gift Aid Small Donations scheme where they have collection boxes and plates at where people can make voluntary donations.</p> | <p>Any trading at or in connection with an event which qualifies as a qualifying fundraising event is exempt from direct tax.</p> | <p>If an event qualifies as a qualifying fundraising event the charity is VAT exempt on that income. If some element of the income otherwise qualifies for zero rating (e.g. the sale of donated goods) that element of the income is zero rated, therefore improving VAT recovery.</p> <p>A qualifying fundraising event is:</p> <ul style="list-style-type: none"> ▶ Organised by the charity or its trading subsidiary ▶ The primary purpose must be to raise funds ▶ The event must be promoted as a fundraising event ▶ There is a limit to 15 events of the same kind at the same location each year ▶ Any event which falls in the Tour Operator's Margin Scheme and includes packages of travel and accommodation would not be qualifying fundraising events |
| <p>Challenge events (where substantial accommodation is provided or where the event is arranged by a third party)</p> | <p>Challenge events are the same as sponsored events for Gift-Aid.</p> | <p>As the event is not a qualifying fundraising event there is no exemption and this may be considered to be trading income.</p> <p>In reality HMRC seem to accept the position that Sponsorship and registration fees is not trading income.</p> | <p>VAT around these events can be quite complex and range from the participant/agent simply making an outside the scope donation to the event being captured under the Tour Operator Margin Scheme.</p> <p>We would recommend that the VAT position of these events is closely reviewed before organisations enter into any binding commitments on these events.</p> |
| <p>Participation in 3rd party events e.g. London Marathon</p> | <p>A paid for place in a third party commercial event is considered to be a donor benefit for the participant. The benefit is measured as the cost the participant would have paid if they had entered not the actual cost to the charity. If the participant pays a fee to enter this reduces the benefit amount.</p> <p>Sponsorship for events, in excess of benefit received, can be Gift Aided subject to having a valid Gift-Aid declaration.</p> | <p>As the event is not a qualifying fundraising event there is no exemption and may be considered to be trading income.</p> <p>In reality HMRC seem to accept the position that Sponsorship and registration fees is not trading income.</p> | <p>VAT around these events can be quite complex and we recommend that the VAT position of these events is closely reviewed before organisations enter into any binding commitments on these events.</p> |



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| Charity auctions | <p>Many items in such auctions are "celebrity enhanced" e.g. a signed football shirt. HMRC do not accept that any part of the bid for these items is a gift and no Gift Aid can be claimed.</p> <p>For more commercially available items Gift Aid can be claimed on any amount paid over the commercial value. The bidder (potential donor) must however be aware of the purchase price of the item when they make their bid. Practically this can be done via printing RRP's in the auction catalogue.</p> | <p>If the auction is structured so that it is part of a qualifying fundraising event it will be exempt from direct tax to the extent that it is applied to the charities objects.</p> | <p>Charity auctions that are qualifying fundraising events usually benefit from zero rating for the income from the sale of donated goods and VAT exemption for the income from the sale of goods that are bought for re-sale. The difference between the two treatments is that VAT cannot generally be recovered on costs relevant to exempt income.</p> |
| Income from Property | <p>Not available.</p> | <p>Income from leasing or letting charity property is exempt from direct tax to the extent that it is applied to the charities objects.</p> | <p>Income from the sale or letting of land and property is generally exempt from VAT, but there is a long list of exceptions to this general rule.</p> <p>When the sale or letting is subject to VAT there is the opportunity to recover VAT on relevant costs e.g. a landlord can recover VAT on refurbishment costs when the rental income is subject to VAT.</p> <p>There are special rules around certain types of let and where there is a service provided alongside the let e.g. wedding packages.</p> <p>VAT is complex in this area and we would recommend that any arrangements are carefully reviewed before the organisation enters a binding arrangement.</p> |

* For donations of up to £100 the benefit can be worth up to 25 per cent of the donation, for donations of between £100 and £1,000, the benefit value is capped at £25, for donations of more than £1,000 the benefit can be up to 5 per cent of the donation, with an absolute maximum benefit of £2,500.

Further information

If you would like further information, or for how our Charities, Tax + VAT team may be able to help you, please contact us at hello@garbutt-elliott.co.uk

We would always advise that you seek appropriate professional guidance, as felt necessary, to ensure that advice is appropriate and also optimises to your particular circumstances. Garbutt & Elliott LLP accepts no responsibility or liability to any party in respect of the use and application of this information sheet.

