

Advice and Information

Finance

A Guide to VAT

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Introduction

VAT stands for Value Added Tax. It is the UK-wide sales tax that is applied to supplies of goods and services. VAT was introduced in 1973 to replace Purchase Tax and Selective Employment Tax. Since then, successive governments have adjusted the rules in line with their economic strategy.

Most, but not all, community transport organisations levy charges for supplying transport, as well as paying VAT on supplies of fuel, vehicles and other expenses. As such, they are treated as “businesses” and will therefore be covered by VAT regulations. There is no blanket exemption from VAT for charitable organisations, although there are some particular dispensations. There are also some important financial advantages in becoming registered for VAT, which also apply to private sector businesses.

This guide is intended as an introduction to VAT, it is not a substitute gaining for professional advice and CTA recommend that organisations contact the Charity VAT Team directly.

HM Revenue & Customs

HM Revenue & Customs (HMRC) is the government agency responsible for collecting VAT revenue. HMRC’s main help and support is extensively through their website [HMRC](#). However, there is also a move towards regionalising HMRC offices with the majority being opened by 2022. Further contact details are contained towards the end of this leaflet.

Online, HMRC provide a number of useful resources in the form of videos, webinars, online courses and email updates, more can be found here: [Help and support for VAT](#)

Qualified accountants

Most CT organisations will need to obtain professional accountancy advice, and many will need a formal annual audit as required by company law or by funding bodies. These should be either certified or chartered accountants.

As well as checking that your financial position is reported accurately, they will be in a prime position to advise you on VAT issues. In particular this will include the key question of if, and when, to register for VAT and once registered, how to keep the appropriate books. They can also make sure that you do not pay unnecessary tax and that you reclaim all the tax to which you are entitled. In some cases, this can mean that you will be better off than not being registered at all.

Some CT organisations manage to cut the cost of accountancy advice. It is possible that your local authority funds a non-profit Community Accountancy Service to provide free or low-cost advice to non-profit organisations and small businesses. Contact your Centre for Voluntary Services (CVS) or equivalent for details.

An even better way might be to “head hunt” a professional accountant based in the local community to sit on your management committee. Check for possible candidates through your committee members and supporters. It won’t hurt to ask.

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The basic principles

Inputs and Outputs

In VAT jargon, the costs incurred by a business are known as *inputs*, whilst sales are known as *outputs*. In VAT literature both inputs and outputs are also known as *supplies*. A CT organisation’s business “adds value” to its inputs (such as vehicle and office costs) so as to provide transport or training services in the community. If you are registered for VAT, this added value is taxed - hence “value added tax”.

Tax received on *outputs* is paid to HMRC, but registered businesses can deduct tax paid on their *inputs*, subject to certain conditions. For many, if not most CT projects, input tax will be higher than output tax, meaning that they will be able to reclaim more tax than they pay out. There is also surprisingly little work involved in keeping the books.

VAT rates

There are currently three rates of VAT in the UK:

- Standard - 20% Standard rate applies unless Parliament has set a lower rate or exempted the supply. This rate applies, for example, to self-drive vehicle hire and to charges for transport (with a driver) on a vehicle with 8 or less passenger seats + the driver, e.g. any car.
- Reduced - 5% This rate applies to a small number of supplies. Of particular benefit to CT organisations is the 5% rate on heat and fuel bills for charities for non-business activities.
- Zero-rated - 0% This is the rate applied, for example, to the purchase of certain wheelchair accessible vehicles by some, but not all, charities and to charges for passenger transport (with a driver) on a vehicle with 10 or more passenger seats (the number of seats includes the one for the driver), e.g. any bus. In addition, some items are exempt from VAT altogether. This includes charges for vocational training, such as MiDAS assessments and training (see [Charging VAT on CT services](#)). The difference between zero-rating and exemption may seem puzzling, but is important when it comes to working out how much input taxes can be claimed back, if you become registered (see [Reclaiming VAT car scheme fuel](#)).

Purchase, maintenance and repair of vehicles by charities

There is still a widespread myth that all charities can get the purchase of accessible vehicles zero-rated. In addition to the VAT reliefs allowed under the law, an Extra Statutory Concession (ESC), introduced in 1997, extended the list of charities which were entitled to claim VAT relief on the purchase of wheelchair accessible vehicles. The rules are still complicated, and you should not assume that just because you've always had zero-rated supplies in the past, you will still be included.

The rules on zero-rating

The charities which can get zero-rating under the law are:

- Those providing care or medical or surgical treatment for chronically sick people in registered institutions or those which have been exempted from such registration and in day centres provided that disabled or chronically sick people are the majority.

(Please note that day centres which provide social or recreational facilities for chronically sick or disabled people do not count.)

Also qualifying under the ESC are charities:

- Whose sole purpose and function is to provide a range of care services to meet the personal needs of chronically sick or disabled people (of which transport might form a part); or
- Who provide transport predominantly for disabled people

You should note that charities which are treated as providing care to blind, deaf, mentally handicapped or terminally sick people whether either under the law, or under the ESC, and which mainly transport such people can buy zero-rated motor vehicles with more than 6 but less than 51 people and in these cases the vehicles need not be wheelchair accessible.

The words “chronically sick” or “disabled” are not defined in VAT law and so the words have their ordinary everyday meaning. “Chronically sick” means long-term and deep-rooted and would cover conditions like diabetes. Someone would be “disabled” if he or she has a mental or physical impairment which has a substantial long-term adverse effect on the ability to carry out normal day-to-day activities. The only elderly people who qualify for VAT relief are those who are chronically sick or disabled.

Accessibility requirements

Vehicles are wheelchair accessible for the purposes of VAT if they are fitted with a lift (or ramp in the case of cars and minibuses) and equipment for the safe carriage of people in wheelchairs. In practice this means compliance with the Department for Transport’s (DfT) Code of Practice on the Safe Carriage of Passengers in Wheelchairs on Buses (VSE 87/1).

There is no minimum seating capacity, but there are minimum requirements for wheelchair spaces as follows:

| Seating capacity | Min w/c spaces |
|------------------|----------------|
| Up to 16 | 1 |
| 17 – 26 | 2 |
| 27 – 36 | 3 |
| 37 – 46 | 4 |
| 47 or more | 5 |

The paperwork

If you think you qualify you should fill out a declaration form for *each supplier*. The form for eligible charities (except those claiming under the ESC) is contained in the Supplement to VAT Notice [701/6](#) “Charity funded equipment for medical, veterinary etc uses”.

In the case of the two categories introduced under the ESC, you should fill out a form for *each supplier* and attach evidence, such as your aims and objectives (as set out in your constitution), publicity, funding applications and operational data.

If any of these indicate that your services are borderline, you should seek guidance from the HMRC Charities VAT Team, see [HMRC contact details](#). The legal responsibility for applying the correct rate of VAT rests with the supplier of the goods and/or services. However, you are under an obligation to provide the supplier with truthful information.

For those that qualify, zero-rating applies not only to the purchase of qualifying motor vehicles, but also to the subsequent maintenance and repair bills. However, if the vehicles were converted to take people in wheelchairs after purchase, then only repairs and maintenance of goods supplied in connection with the adaptation of the vehicles will qualify for relief.

Zero-rating does not apply to the purchase of road fuel.

Eligible and non-eligible supplies

It is also possible for eligible charities to reclaim retrospectively VAT paid on supplies that should have been zero-rated. You should contract the supplier about such matters.

You should note that it is important that if you are an eligible charity and wish to take advantage of full VAT relief on the purchase of a vehicle you should ensure that the vehicle has been adapted so that it is wheelchair accessible before you pay for it.

It should be noted that if an eligible charity offers its vehicle to others “out of hours” - for example, in a minibus brokerage scheme - this will not affect its entitlement to zero-rating.

If you provided a service for both disabled and non-disabled people, the vehicle may not qualify. However, by registering for VAT, you may be able to claim back all or most of the VAT paid out.

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Other VAT reliefs for charities

A number of other reliefs from VAT are available to organisations with charitable status. “Charities” normally include organisations that are:

- registered with the Charity Commissioners in England and Wales
- those bodies which are exempted from having to register with the Charity Commissioners;
- some Industrial and Provident Societies granted charitable status by the Inland Revenue (UK-wide); or
- organisations in Scotland and N Ireland recognised as charities by the Inland Revenue (Please note that these will need to be checked with the Charity Commissioners for England and Wales).

Heating fuel and power

The reduced rate of 5% - applies to heating fuel and power bills (gas, electricity, etc.) incurred by charities for non-business activities. The procedure for claiming this is contained in VAT Notice [701/19](#). (Please note that your transport activities are considered to be business activities and therefore would not come within the scope of the reduced rate.)

If you have non-business activities you will need to make a declaration to the supplier which includes the following:

- Address of the premises
- Name of the charity
- VAT number
- % of power used for charitable purposes (a precise percentage should always be given - do not say “over 60%” or use any similar form of words)
- an endorsement that the person signing has read and understood the guidance, and that he/she knows that he/she must notify the supplier if there is a change in the qualifying use
- Full name and status of the person signing the declaration.

There is a penalty under the VAT Act 1994 for supplying false information.

Advertising

Payments by charities for advertising in a “medium of communication with the public” are zero-rated. For more information please see VAT Notice [701/58](#) “Charity advertising and goods connected with collecting donations”.

Shopmobility scooters

Charity schemes which buy wheelchairs or scooters for loan to disabled people can get them zero-rated. (See VAT Notice [701/6](#) for the certification procedure required.)

Building construction

There is zero-rating for construction or sale of a new building or self-contained annex which will be used by a charity solely for non-business purposes or as a village hall. Zero-rating does not apply to any professional fees – architects, solicitors, etc. – involved one of the criteria for zero-rating is that the charity must provide its supplier with a certificate explaining how they will use the building. The certificate must be provided before the building is constructed or sold.

VAT Notice [701/1](#) explains what activities are classified as business for VAT purposes, and what qualifies as a village hall. VAT Notice [708](#) explains what buildings qualify for this relief, what services and goods are included in zero-rating, and gives an example of the certificate the charity must provide.

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Registering for VAT

Registering for VAT is one of the most important long-term financial decisions CT organisations will need to make. It is therefore particularly important to seek professional advice from the sources mentioned in the [Introduction](#).

Should you register?

If your total sales income subject to VAT, your taxable turnover, is more than £85,000 in any one 12-month period, it is obligatory to register and charge for VAT. The figure given is for 2017/18. The registration threshold is reviewed in the annual government Budget. Details of current and past registration limits can be found in the supplement to VAT Notice [700/1](#).

In terms of VAT for non-profit organisations, you need to count the sales value of all fares, contract or vehicle use payments and (in most cases) membership payments, but not grants or donations or charges for training which are exempt from VAT. It is therefore important to decide whether services supplied under service level agreements - for example, funding from a local authority for dial-a-ride

services – have the legal status of a contract or a grant. If in doubt, get legal advice via your council liaison officer.

Please note that there is a big difference for VAT purposes between donations and sponsorship. You must make sure that you correctly identify what type of supplies you are receiving. (See VAT Notice [701/41](#).)

Registration under the threshold

Smaller schemes may have a turnover under the threshold. It may still make sense to register voluntarily. This is possible, providing that you do have some sales. There are a number of issues you will need to consider, such as:

- Do you have the staff or volunteer capacity to keep the “books”?
- Charges for passenger transport in a minibus are zero-rated, whilst charges for transport in a MPV or for a car scheme will be standard-rated; how will your clients be affected?
- What are the implications for membership and training charges?
- How will the rules for “partial exemption” affect you?
- To what extent will you be a net gainer in terms of inputs and outputs, and does this match up to the extra work involved?

These issues are explored later in this leaflet.

It is possible to apply for dispensation from registration if your sales are mostly of zero-rated items. However, you will not be able to reclaim any VAT due on inputs – which may be against the interests of the organisation and your service users.

There are also some options for small businesses that might work in your favour.

The annual accounting scheme

This scheme works by allowing you to complete and send off one VAT return each year instead of the usual four. You make a number of interim payments throughout the year (usually nine) and a balancing payment with your return. You also get 2 months from the end of your period end date to submit the return and make any balancing payment. One advantage is that you will be able to manage your cash flow with more certainty by paying a set amount each month. You also get an extra month to complete and send in the annual return and any balancing payment due.

You are eligible to use this scheme if you're a VAT-registered business and your estimated VAT taxable turnover is £1.35 million or less in the next 12 months.

The flat rate scheme

This is designed to simplify VAT calculations for those whose VAT turnover is less than £150,000 (VAT taxable turnover is the total of everything sold that isn't VAT exempt). If you join the scheme, you calculate what you owe HMRC at a rate fixed for the sector on your total sales for the period, irrespective of whether the service is exempt, zero-rated or standard-rated. From this figure you can deduct the amount of VAT you have paid out for your purchases as part of the normal input/output exercise.

The rate fixed for the transport sector is 10%. The scheme will therefore, in CTA's opinion, only be of benefit to those who operate mainly cars or MPVs, which would otherwise be standard-rated (20%). It is best to look at the scheme in detail to see whether it is applicable or suitable for you, as it will affect each CT organisation differently.

Registration

Once you make the decision, the local VAT office can help you in 3 different ways:

- Inviting you to a free VAT seminar
- Holding an informal meeting to discuss your circumstances
- Sending a free video and leaflet

The initial procedure involves sending a form ([VAT1](#)) to the relevant VAT Registration Unit (the supplement to Notice [700/1](#) explains where to send your application form). This must be sent within 30 days of the month end in which the threshold has been reached for those who have to register (there are penalties for late notification).

The date of registration will normally be the first of the month after you send the form. Within 3 weeks you will receive your VAT registration number which you will need for future correspondence with the VAT Office as well as for invoicing.

It is possible for those registering voluntarily to request an earlier registration date, but this cannot be more than 3 years previously. You might, for instance, want to reclaim input taxes for that period. But you will also be liable to pay tax on services delivered during that time. Make sure you're going to gain – and take advice, if you're not sure! Please note that if you wish to apply for an earlier registration date you must do so at the time of your application – you cannot register first and then apply for an earlier date later.

You should begin charging VAT, where applicable, as soon as your registration has been accepted.

VAT Notice [700/1](#) “Should I be registered for VAT?” gives detailed information about registering and VAT Notice [700/11](#) sets out procedures for cancelling your registration.

Quarterly returns and administration

The main paperwork is the quarterly return – or report – which you must submit online. This will need to be completed every 3 months by the “due date” and will show itemised totals for VAT received from your outputs set against VAT paid out on your inputs. You will then either pay the difference or – in many cases – make a claim for repayment.

Whether your services are standard or zero-rated will make no difference to the amount you can reclaim. If, however, you provide some exempt services, you will not be able to claim back inputs

which relate directly to exempt sales or a proportion of those which you incur for a mix of taxable and exempt services. If this is the case, see Section 8 on “Partial exemption”.

One obvious requirement is to make sure your expenditure receipts specify the VAT number of the supplier and, wherever possible, separate the VAT actually paid. Similarly you will need to record the same on your own invoices. If you reimburse staff or volunteers for expenses, make sure they realise why the organisation needs them to get VAT receipts.

For many schemes, computerising your invoice and accountings procedures will save time and automate the work for your quarterly returns. Your first port of call for advice should be your accountants or auditors.

Charging VAT on CT services

The application of VAT to the services you offer is an important responsibility of VAT-registered businesses. CT organisations are no different, and you should seek advice from the usual sources if you are in any doubt.

Transport in a bus, minibus or coach

VAT regulations now state that any passenger transport provided on a vehicle with 10 or more seats (including the driver) will be zero-rated. This ‘10-seat rule’ replaces the old ‘12-seat rule’ you may still find in some out-of-date literature on VAT. Since this now coincides with the legal minimum seating capacity of a minibus, all transport services – except self-drive hire – will be zero-rated. So, registering for VAT need make no difference to what your passengers pay, although you may be able to enhance or extend the service because you can reclaim VAT on your costs – see Notice [700/64](#) “Motoring Expenses”.

Removable seats on buses

HMRC has also extended the legislation to include part of an Extra Statutory Concession whereby zero-rating is allowed on passenger charges in vehicles where the vehicles would have had 10 or more seats, but have less because the seats have been removed to accommodate wheelchairs.

However, the Concession has not been changed concerning the input tax position. Input tax can only be reclaimed on these vehicles if they were originally designed to have 12 or more seats.

CT operators should note that they should fill out a simple form contained in Notice [744A](#) for every vehicle to which the Concession applies.

The full details of how VAT applies to the passenger transport sector are explained in VAT leaflet [744A](#). You should note that the rules are the same irrespective of whether the operator is non-profit or commercial. You can zero-rate charges for any bus service operated with your own driver under Section 19 (10B in N Ireland), Section 22 or PSV Operator Licence.

With or without a driver

One longstanding issue was clarified in a letter to CTA in February 2001 – the VAT position when CT organisations offer minibus transport to local community and voluntary groups. If any of the user groups use their own driver (whether paid or a volunteer) for the minibus, then the CT will have no choice but to treat this as self-drive hire and charge VAT at standard rate.

CT organisations should note that VAT offices have been circulated with information about these arrangements. Local VAT offices are therefore likely to follow this issue up on regular or one-off inspections. If you offer self-drive minibus hire, HMRC can backdate VAT charges for up to 3 years.

CT organisations must be able to satisfy HMRC's requirements in order that charges can be zero-rated. Each driver, from whatever source they originally come, will need to be taken on as one of the CT's own volunteers or staff. HMRC will expect the following evidence in relation to all services that you zero-rate:

Community Transport Association | ctauk.org | advice@ctauk.org
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- A single register of all paid and volunteer drivers, to include names, addresses and driving licence information
- A single system of recruitment, including references, criminal records vetting (if required), etc.
- The issue of a community transport driver identity card
- A single job description and/or statement of conditions and duties
- Evidence that all these records are updated at least annually
- You must be able to show that the CT group has some control over the driver allocated to the journeys made.

In terms of meeting the final condition, the CT organisation must be able to show, for each journey, that either the group has used its own driver (standard rate) or has used one on the relevant register (zero-rate). Where a driver is both a member of the user group and on the CT's register, there has to be evidence that the CT has approved the driver for that journey and has some control over the choice of driver.

Your insurance, publicity, invoices and funding applications should all carry the same message. Any mention of terms such as "minibus hire" or "group hire" can be misunderstood. You must be able to show what supplies are being made in order to allocate the relevant VAT rate.

Transport in smaller vehicles

CT organisations should understand that transport services using vehicles with less than 10 passenger seats (including one for the driver) must be charged at standard rate, once you are VAT-registered. This will apply to the use of MPVs or "people carriers", mopeds on Wheels-to-Work schemes and on community car schemes.

Use of lower capacity vehicles may therefore be a valid reason for not registering if your turnover is below the VAT threshold. However, you should still look at the level of input tax which you could recover, if registered. It might be possible to use the amount claimed back to offset all or most of any increase in direct charges to service users. Increased charges made to local authorities or VAT-registered client organisations will not be damaging because they can themselves claim the tax back.

Mixed use of vehicles

Some CT organisations use a mix of smaller vehicles and minibuses on services such as dial-a-ride. The issues here are more complicated, and the CT will have to choose between one of two options:

- Setting two fare rates depending on the vehicle used. This is generally undesirable since it can lead to unfairness, especially if you tend to use a smaller vehicle for people living in more rural locations or if they have particular mobility needs. This approach might be more justified if the service in the smaller vehicle is of a different nature or quality.
- Setting a single fare rate, and effectively spreading the VAT add-on for the smaller vehicle(s) across all trips on the service. This will actually be fairer, but may require more work to set up and administer.

You should take advice from the usual sources.

Welfare provision

Some organisations provide “welfare” services, charges for which are exempt from VAT. However, exemption is strictly limited to the provision of care, treatment or instruction to promote the physical or mental well-being of elderly, sick, distressed or disabled people. This can include services for the protection of children.

CT organisations for which transport is the main or sole purpose will not be able to benefit from this exemption, even if they have the same target groups.

Membership fees

In general, membership fees will be fully exempt from VAT if the member is entitled to take part in the running of the organisation and to vote at general meetings and receive other benefits which relate to the organisation’s aims.

However if membership includes benefits that may be zero-rated, such as the use of a minibus transport service for no extra charge, and/or other non-exempt benefits, then you may wish to take advantage of a concession that allows you to apportion the total VAT on the fee to take account of the different VAT rates.

Anything that the member has to pay extra for should always be taxed at the normal rate for that service.

Fees which are in fact an annual charge for using a particular service and which confer no rights to take part in the running of the organisation should be taxed at the rate at which that service is itself taxed. For example, you should zero-rate an annual charge for using a minibus passenger transport service, but standard-rate a similar charge for using a community car service.

The VAT liability of membership fees can be quite complicated and you should therefore read the latest (updated October 2013) edition of VAT Notice [701/5](#).

Vocational training

“Vocational training” provided for a charge by non-profit organisations that meet certain conditions to volunteers or paid staff in order to add to their knowledge or improve their performance as individuals in their current work is exempt from VAT. This might include MiDAS or PATS training provided to individuals by a CT organisation. Charges for transport, catering and accommodation provided as part of the training package will also be exempt.

Counselling, business advice or consultancy of any kind provided to improve the working practices and efficiencies of an organisation should be standard-rated. (See VAT Notice [701/30](#).)

Self-drive vehicle hire

The self-drive hire of any size of vehicle – including mopeds in Wheels-to-Work schemes – should be standard-rated, although certain motor vehicles that are wheelchair accessible and for the exclusive personal use of a disabled person are zero-rated.

Sponsorship

Sponsorship from private sector sources is usually outside the scope of VAT. However, if the sponsor receives a benefit, such as displaying the company’s logo on publicity or on a vehicle, standard-rate VAT should be charged by the CT organisation. Note that this does not apply in the case of simple acknowledgements of the support given. (See VAT Notice [701/41](#).)

Staff costs

The payment of staff salaries, wages and the expenses are outside the scope of VAT. However, it is possible to reclaim the input tax on the fuel element on expenses reimbursed for mileage on your organisation’s business. This applies to both staff and volunteers, including those paid to management committee members.

Reclaiming VAT on car scheme fuel

HMRC have given CTA some new guidelines on the circumstances in which a VAT-registered CT organisation would be able to claim back the VAT paid on fuel and hidden in expenses payments to car scheme drivers. The rules are outlined in paragraphs 8.6 to 8.8 of VAT Notice [700/64](#) “Motoring Expenses”. The HMRC guidance to CTA in June 2002 stated:

“It is important that each [CT] Group applies the rules in Chapter 8 [of VAT Notice [700/64](#)] as they relate to the activities of its individual operations.

Paragraphs 8.6 – 8.8 of the Notice outline the rules for deducting input tax on employees' fuel expenses. The Commissioners are prepared to treat [car scheme drivers] as employees for the purpose of the input tax they incur on their motoring expenses, provided the [CT group] meets the conditions covered in my previous letter of 12 February 2001 and in addition comply with all the additional conditions detailed below:

- a) Records are kept by the Groups to show that the services of each volunteer to them are on-going,
- b) Records are kept of all the work they assign to volunteers to do for them,
- c) The volunteer's expenditure (other than private use) is in respect of providing work only to the [CT organisation].
- d) The volunteer does not personally receive payment from the [CT's] customers. If the volunteer receives payment directly from the CT's customers, the CT group must keep suitable records as evidence that the supply of transport was made by the CT group, not the driver acting independently.
- e) The volunteers are reimbursed at cost including VAT, full records being kept in the normal business accounts.

Provided all the above conditions are met, [CT] groups may treat input tax claimed on road fuel in accordance with paragraphs 8.6 – 8.8.

If the [CT] groups use a vehicle for business purposes, they can reclaim the VAT they were charged on repairs and maintenance as input tax as long as the business paid for the work. It does not matter if the vehicle is used for private motoring or if they have chosen not to reclaim VAT on road fuel."

If these conditions are met, there will be a benefit to the CT – depending on the engine size of the volunteers concerned. The rates are updated from time to time; you can access the current rates through the following website address: www.gov.uk/government/publications/advisory-fuel-rates
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Partial exemption

In addition to their taxable supplies, many, if not most, CT organisations will make exempt supplies (discussed earlier) such as:

- Vocational training, such as MIDAS
- (Some) membership fees - but see Charging VAT on CT services

An organisation that makes exempt supplies as well as taxable ones is normally unable to claim the input tax incurred on expenses that relate to exempt supplies. “Partial exemption” is the procedure for working out the amount that can be claimed. (See VAT Notice [706](#) for the full rules.)

De minimis

Fortunately, there are some lower limits below which you can still claim back all your input tax, this concession is known as “de minimis” and applies if:

- your exempt input tax is no more than £625 per month on average and
- your exempt input tax is not more than half your total input tax in any one quarterly period or the tax year as a whole

Note that some CT organisations will fall below or above these limits in different quarters of the year. You will need to work out your position each quarter. (See below under “annual adjustment”.)

Residual input tax

If you are partially exempt, you should seek advice from an accountant. However, the basic rules are that you:

- can claim back input tax that wholly relates to taxable supplies; and
- cannot normally claim back input tax that wholly relates to exempt supplies.

This will still leave expenditure on items such as office costs, a proportion of which can be attributable to exempt supplies. This is known as “residual input tax”. The amount of residual input tax that can be attributed to taxable supplies can also be claimed back.

There are two ways of calculating how much of the residual input tax can be attributed to taxable supplies, the standard method or a special method.

The standard method is to derive the percentage using this formula:

Value of taxable supplies (excluding VAT) divided by Total value of all supplies (excluding VAT) multiplied by 100 = % of input tax which you can claim.

This percentage is then calculated to derive the relevant figure for each quarterly return (note the percentage is rounded up to the nearest whole percent).

If you feel that this does not fairly reflect your situation, you can apply to the VAT office to adopt another “special method” which you negotiate to meet your particular circumstances. Your accountant can advise you.

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Annual adjustment

At the end of each VAT tax year, the provisional apportionment of residual input tax must be reviewed, taking into account the de minimis rule. You then make a final claim revising, if necessary, the figures given for the first 3 quarters.

VAT invoices

The UK has implemented the European Invoicing Directive between April 1st, 2003 and January 1st, 2004. The Directive covered:

- Mandatory items on invoices
- Simplified arrangements for small businesses

- Electronic billing
- Outsourced billing and self-billing
- Electronic storage

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Further information from HMRC

The HMRC website can be found here; www.gov.uk. By clicking on [Charity, money, tax and accounts](#) you can access many of the [VAT Notices](#) leaflets below.

VAT Notices

| | |
|------------------------|---|
| 700 | The VAT guide |
| 700/1 | Should I be registered for VAT? |
| 700/11 | Cancelling your registration |
| 700/64 | Motoring expenses |
| 701/1 | Charities |
| 701/19 | Fuel & power |
| 701/30 | Education & training |
| 701/41 | Sponsorship |
| 701/5 | Clubs & associations |
| 701/58 | Charity advertising and goods connected with collecting donations |
| 701/6 | Charity funded equipment for medical, research, veterinary etc uses |
| 701/7 | Reliefs for people with disabilities |
| 706 | Partial exemption |
| 708 | Buildings and construction |
| 708/6 | Energy-saving materials |
| 744A | Passenger transport |
| 744B | Freight transport & associated services |
| 1002 | Motor vehicles for disabled persons |

HMRC contact details:

Phone

The HMRC Charities VAT Team's telephone numbers are:

(English) 0300 123 1073 Mon – Fri (8:30am till 5pm)

Information on how to contact HMRC if you have additional needs can be found here; [help contacting HMRC](#).

Those with hearing difficulties should dial 18001 0300 123 1073 for text relay

Post:

Charities, Savings and International 2

HM Revenue and Customs

BX9 1BU

United Kingdom

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About the Community Transport Association

The Community Transport Association is a national charity that represents and supports providers of community transport: thousands of other local charities and community groups across the UK that all provide transport services that fulfil a social purpose and community benefit. We are for, and about, accessible and inclusive transport.

We help our members remain relevant and responsive to key areas of public policy and to make a big difference for the people and families in the communities in which they work. Our vision is of a world where people can shape and create their own accessible and inclusive transport solutions and our mission is to achieve this through championing accessible and inclusive transport, connecting people and ideas and by strengthening our members and raising standards.

Keep up to date with CTA via our website or by signing up to our monthly [News Brief](#).

About CTA's Advice Service

The CTA's Advice Service is available to CTA members, community and other voluntary groups, local authorities and other statutory bodies. It offers information and support on any aspect of non-profit transport operations. The CTA's Advice Service covers the whole of the UK and is supported by national governments. We will only ever explain the most accurate and commonly accepted interpretation of regulations and best practice. We do this by providing support and information on a wide range of community transport related topics such as permits and licensing regulations and by signposting to other agencies. The Advice Service does not exist to provide legal advice on any topics. If you are still unsure you will need to seek [legal advice](#).

For more information, contact
advice@ctauk.org | 0345 130 6195 | www.ctauk.org

This leaflet has been primarily produced for members of the CTA. If your organisation has benefited from using it but isn't a member please consider joining us, for more details please see: <https://ctauk.org/why-become-a-cta-member/>.

Disclaimer:

The Community Transport Association has made every effort to ensure the accuracy of the information contained in this leaflet, but it should be noted that this is only a guide, and should be treated as such.