

Budget 2018

VAT Compensation Refund Scheme for Charities

A Factsheet for Members of The Wheel

Background

Budget 2018 introduced a VAT Compensation Refund Scheme to compensate charities for the VAT they incur on their inputs in recognition of the work undertaken by the charities sector.

The scheme is designed to compensate charities for a proportion of the VAT they pay on goods or services bought using non-statutory or non-public funds.

Under Irish and EU VAT law most charities are exempt from VAT, the possible exception being charities that carry on trading activities as part of their nonprofit remit. This means that most charities and nonprofits do not charge VAT on their services and cannot recover VAT incurred on goods and services that they purchase. Non-entitlement to VAT deductibility is a general feature of VAT exemption.

Over the last six months, The Wheel has put a great deal of effort into campaigning for the introduction of a VAT compensation scheme (building on the great work done by ICTR, the members of CII and the sector at large over many years) and we are delighted at the outcome for the sector.

The scheme is relatively limited. The total fund is €5m. Policy research has indicated that the VAT paid by charities on fundraised income could reach an estimated €40m. While technically the scheme provides for a refund of only one euro in eight of estimated VAT spent by charities, the actual percentage is likely to be significantly higher for applicant charities, when the impact of the €500 threshold and those who fail to apply, for any reason, is taken into account.

How the Scheme will work

- The Charities VAT compensation scheme will take effect from 1 January 2018 but will be paid one year in arrears i.e. in 2019 charities will be able to reclaim some element of the VAT costs arising in 2018.
- Charities will be entitled to a refund of a proportion of their VAT costs based on the level of non-public funding they receive. For example, where a charity's gross income for 2018 involves 30% funding from State/EU/international organisations and 70% privately sourced income including fundraising, subscriptions and donations, they may claim 70% of their VAT input costs for the year.
- Not eligible for relief under the scheme will be VAT incurred on private non-charity-related expenses; VAT incurred that is subject to an existing VAT refund order and VAT incurred that is otherwise deductible.
- A capped fund of €5 million will be available to the scheme in 2019. This €5M cap will remain in place for the next three years.

- Where the total amount of claims in a given year exceeds the €5 million capped amount, charities will be paid on a pro rata basis, e.g. where the total value of claims by all charities in 2019 amounts to €10 million, each charity will receive 50% of their claim.
- Whereas detail of the operation of the scheme still has to be worked out, it would appear that as a minimum, qualifying charities must be registered with the Charities Regulator, have tax clearance, and provide a set of audited accounts for the year in which the claim is being submitted.
- For administrative purposes, claims valued below €500 will not qualify.
- Claims under the scheme cannot be made until 2019 as it will take some time for Revenue to establish IT and administrative systems.

Priorities for organisations

As there was little detail in the Finance Bill, it is likely that there will be minimal further information on how the claims will be made and administered by Revenue until late in 2018.

However the immediate priorities for charities should be to establish:

1. Does VAT on your inputs form a significant source of unrecoverable expenditure?
2. Are you substantially publically or privately funded, or a mix of both? If both, what is the approximate proportion?

Based on the answer to the above two questions, you may decide that it is necessary to start capturing VAT on inputs from January 2018.

Things to consider in your approach to capturing VAT in your accounting system:

1. Most accounting packages have the facility to record VAT on inputs, the net cost being charged to the relevant expenditure code and the VAT being posted to a VAT control account.
2. It is unlikely that this facility will work for capturing VAT for the VAT compensation scheme as only a portion of the VAT input may be claimable and then, depending on the overall claim by charities for 2018, only a further portion may be actually refunded.
3. It seems that, in most cases, some kind of parallel methodology of recording will be required which might add additional complexities to the organisation's accounting system.
4. We are aware at The Wheel of at least one bespoke solution being developed by a service-provider to the accounting sector – based on capturing an on-line record of the invoice at point of entry which would then accumulate and report at the end of the year.

We are happy to work with organisations and to share information as further clarity and ideas emerge – this VAT compensation scheme is a great boost to the sector but thought will need to be put into systems and methodologies to make it work efficiently.

If you have further questions, please get in touch with The Wheel's Director of Finance, Tony Ward via tony@wheel.ie.