

VAT Compensation Refund Scheme for Charities

Aug 2018

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.

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 took effect from 1 January 2018 and 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.
- For administrative purposes, claims valued below €500 will not qualify.

Update as of August 2018

The Wheel and Charities Institute Ireland have formed a joint working group and have developed a line of communications with relevant Department of Finance and Revenue officials. Details of how the Scheme will operate are still being worked on by Revenue who hope to have operational details in place by the end of 2018.

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Priorities for organisations

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 easily 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.

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.