

Facts about UK VAT for Scout Groups, Districts & Counties

General

General charities – which includes Scout Groups, Districts & Counties – do not have widespread exemption from VAT on their expenditure. The circumstances in which you can claim back any VAT charged to your unit are very limited. For example, when a Group purchases a tent it cannot recover any VAT charged.

Reliefs and exemptions

Charities do benefit from a number of specific VAT reliefs and exemptions.

Most of the income a typical Scout Group receives is either:

- 'Exempt' from VAT under exemptions which apply to membership organisations or not-for-profit education providers; or
- 'Non-business' and therefore outside the scope of VAT. That includes subscriptions and donations. See [VAT Notice 701/1 section 4](#) for information on the meaning of the word 'business' in the context of VAT.

Registration

You do not charge VAT unless you are registered. It is compulsory to register for VAT if your income after excluding everything which is exempt or outside the scope of VAT exceeds £73,000 (from 1 April 2011). Hence most Scout units are not compelled to register and will not need to learn the complexities of VAT.

5. If your income is less than the compulsory registration limit – £73,000 from 1 April 2011 - and you have 'business' activities you might possibly benefit from registering voluntarily for VAT. Because of the complexity of the system, you will need to have a fairly precise knowledge of your future income and expenditure and perform careful calculations to know whether you would benefit. In our experience most Scout units would not benefit. Registering also commits you to charging VAT on your non-exempt business income, and since most of the 'customers' are unlikely to recover VAT your charges are effectively higher.

Recovery

Registering for VAT does not mean that you can recover all the VAT you pay on your expenses. Because much of your income is exempt from VAT your ability to recover VAT is severely restricted. Complex rules apply which can be found in [HMRC VAT Notice 706](#).

For example, camping equipment supplied by the Group for use by members represents either a non-business or exempt supply by that Group, and as a result the Group cannot recover any VAT on the purchase of that equipment. If the Group hires out that equipment to a non-Scout organisation then if the Group has registered for VAT it would need to charge VAT on the hire fees. It could then recover VAT on the equipment cost, but only a percentage of that VAT.

That percentage is normally calculated by dividing the value of income of all types on which VAT is due by the total of all income, excluding non-business income. This percentage will normally be small.

Buildings

Construction of buildings is mentioned section 6.1.3 of Notice 701/1 and covered in detail in VAT Notice 708, with items relevant to facilitating access by disabled persons covered in VAT Notice 701/7. Most VAT Notices are well-written but the subject matter can be very complicated.

The following is intended as a quick introduction to the rules. However, this is a very complex area with many exceptions to general rules. Do not act solely on what is written here. Study the VAT Notice or other information given by HMRC. You might also wish to contact HQ as set out below or to seek professional advice.

New buildings with 'Relevant Charitable Use'

If you purchase or construct a new freehold building or a building on a long lease exceeding 21 years, and it is for a 'relevant charitable use' then the construction cost can be zero-rated for VAT. 'Relevant charitable use' means it is either used solely for non-business charitable purposes or as a 'village hall or similarly'.

The word 'business' has a wider interpretation in VAT legislation than usual. For many years HMRC maintained that buildings used for typical Scout Group activities had a 'business' use because payments were made by or on behalf of members to take part. That meant the only way to qualify for zero-rating was to fall within the 'village hall' provisions. Following long negotiations HMRC have modified their approach and many Scout buildings will now be accepted as having "non-business" use.

HMRC have recently accepted that subscriptions are not 'business income'. If the only use of a building is Scouting activities financed by subscriptions and donations, then the building has non-business use and can qualify for zero-rating subject to meeting detailed requirements.

Fundraising events and lotteries

Exemption on profits from fundraising events

There is an exemption from tax for profits from fundraising events such as fairs, fetes, barbecues and barn dances. The exemption applies for VAT as well.

The detailed rules found on [HMRC's website](#) refer only to VAT. If these conditions apply then as long as the profits are used for charitable purposes they will also be exempt from income and corporation tax.

If the same kind of event is held more than 15 times in a year in the same place, the exemption cannot apply for any of the events, not even the first 15.

Exemption on profits from charity lotteries

Profits from lotteries organised by charities for fundraising purposes are exempt from tax as long as the lottery is promoted and conducted with a lottery operating licence, and all the proceeds are used for the charitable purposes of the charity.

Trading

Any profits that your charity makes from trading activities - selling goods and services to customers, including members – may be taxable. However, there are some important exemptions:

A 'primary purpose' trading exemption

Where a charity carries on a trade as a means of fulfilling its charitable objectives the profits/surpluses are exempt from tax. Charging members to participate in activities and trips could be classed as 'trading', but if profits/surpluses arise, they are exempt from tax under the 'primary purpose' trading exemption. This exemption extends to trading which is ancillary to the charitable objectives, including things such as the sale of uniform items. This exemption will cover the majority of regular Scouting activities. More information is available on the [HMRC website](#).

Exemption for trading activities that are mainly carried out by the people who benefit from the charity – ie its beneficiaries.

More information is available on the [HMRC website](#).

If your youth members carry on a trade then the profits can be exempt provided they are used for the charitable purposes. In most cases the activity would already be exempt under one of the other categories.

A 'small trading' exemption

The small trading exemption will often deal with any profits which do not fall into the exempt categories. If you have trading income which does not qualify for one of the other exemptions, then the profits will be exempt if the gross income (ie turnover before expenses are deducted) from activities which are not already exempt does not exceed £5,000. That limit applies where the gross annual income of the charity from all sources is under £20,000. If the charity has total income between £20,000 and £200,000 then the small trading exemption covers turnover up to 25% of the total income. The limit does not increase if total income is higher than £200,000. More information is available on the [HMRC website](#).

Note: Any trading income that is exempt under the other categories is not brought into the reckoning when calculating the small trading exemption. To illustrate with an extreme example, you can have £300,000 income from camping trips, etc. which is exempt as 'primary purpose' trading and still have a further £50,000 income not already exempt from tax treated as exempt under the 'small trading' exemption.

Summary

Although most aspects of VAT can be outlined simply there are usually many exceptions or detailed conditions which must be met for a particular relief to apply.

[HMRC VAT Notice 701/1](#) summarises how VAT affects charities. Scout Groups will mostly be interested in Section 6.1 which deals with reliefs relevant to expenditure. Section 5 deals with VAT on different types of income, but remember that you do not charge VAT at all unless you are registered.

HQ contact details:

Ian Russell, Chief Accountant [Email](#) Direct line: 020 8433 7236.

Note: This does not apply within Jersey, Guernsey or to British Scouting Overseas, but the Isle of Man has VAT legislation that parallels UK legislation.