

## Fundraising events: VAT and Direct Tax



Although widely used, our experience is that a number of charities continue to be caught out when they try to take advantage of this relief. This is because there are a number of conditions that are strictly enforced in order for this relief to apply. Allied to the fact that, where a charity qualifies for VAT relief on its fundraising income, it would equally be entitled to benefit from direct tax relief. Fundraising is often trading activity which falls outside of a charity's primary purpose and would otherwise be subject to corporation or income tax.

Given the above, we have in this article, tried to explore those circumstances where doubts might arise in implementing this relief.

### What is a one-off fundraising event?

From a tax or VAT perspective, a one-off fundraising event is: "any event organised and promoted primarily to raise funds (monetary or otherwise) for a charity". Therefore, it is important that attendees, participants, as well as members of the public are made aware that the motive for holding the event is fundraising. Of course, any other benefit that accrues as a result of the event would be a welcome bonus! Bearing that point in mind, it is crucial that tickets, leaflets, posters and all other materials used to promote the event clearly states that the event is to be held for the purposes of raising funds for the charity. So long as an event is advertised as a fundraiser, and it does not happen to be of a type specifically excluded from the relief (e.g. activities which are regular or continuous, such as the running of a charity shop), then the fact that there is an intention for it to make a profit, or at least break even, should not affect its entitlement to VAT exemption.

### Examples of qualifying fundraising events

- A ball, dinner dance, disco or barn dance
- A performance, e.g. concert, stage production, film presentation, or any other event which has a paying audience
- A fete, fair, festival or a horticultural show
- An exhibition – such as art, history or science
- A bazaar, jumble sale, car boot sale
- A sporting performance or sporting participation, e.g. sponsored walk or swim
- A game of skill, a contest, or a quiz
- Participation in an endurance event
- A fireworks display
- A digitised event, for instance, on the charity's own website or that of a 3rd party

One of the most valuable and widely used VAT reliefs from which charities benefit is their ability to exempt from VAT, the income generated when they hold events for the purposes of raising funds. This is generally referred to as a "one-off fundraising event".

HMRC is in agreement that where an event is designed in such a way as to span more than one day, it would be considered to be a single event (e.g. a golf tournament). However, where an event clearly starts and finishes in one day, but happens to be repeated on successive days, each one of those days would be considered to be a single one-off fundraising event (e.g. a jazz concert).

#### A limit on the number of local events

Crucially, there is a restriction on the number of “events of the same kind” that can be held at any “one location” per financial year. Where a charity holds more than 15 events of the same kind at any one location in any one financial year, none of the events would be regarded as qualifying for the fundraising exemption. However, where its gross takings from those multiple events in any week, happens to be on average, less than £1,000, the fact that the 15 event limit has been breached would be ignored.

So what exactly does “one location” mean for the purposes of the one-off fundraising exemption? In general, it means, held in the same place. Similar events held in different locations would still qualify for exemption even if the 15 event threshold is exceeded. The example HMRC gives is: 20 balls held by a national charity each in different towns around the country in the same financial year. These would all qualify for the VAT exemption. However, a car boot sale held 15 times a year in a charity car park and then a further 5 times in an adjacent field would not qualify and counts as “one location”.

#### How does the VAT relief work?

This relief enables all income generated from the supply of goods and services at, or in connection with, a fundraising event, with the exception of income streams that would ordinarily benefit from being treated as zero rated, or non-business, to be treated as exempt from VAT. In other words, fundraising event income such as ticket sales, admission charges, advertising space in programmes and/or brochures merchandising, non-donated auctioned goods, auctioned services, bar income, catering supplies and sponsorship income would all potentially benefit from VAT exemption under this relief.

Where supplies (such as, the sale of programmes/brochures, sale of donated goods, children’s clothing and advertising sold to other charities etc.) made at an event would ordinarily be treated as zero rated, the VAT treatment of these would not be overridden by the exemption. In addition, non-business incomes such as donations received at an event would remain outside the scope of VAT altogether.

The following diagram shows the common income types that can be generated at a typical fundraising event, as well their applicable VAT treatment:

Income types	£ VAT liability
Ticket sales	1500 Exempt
Sponsorship from a corporate	750 Exempt
Programme sales	300 Zero rate
Auction income	
– Sale of donated goods	3000 Zero rate
– Sale of donated services	2500 Exempt
– Sale of bought in	2000 Exempt
Merchandise sales on night	800 Exempt
Donations collected on the night	1000 Non-business
Bar sales commission	700 Exempt
Sale of commemorative DVDs post-event	4500 Taxable
Total	12,000

In this example, the costs incurred in respect of the fundraising event would be partly recoverable, because a proportion (approximately 45%) of the income generated is taxable. However where an event qualifies for the relief, the one-off fundraising exemption will be mandatorily applied and VAT would not be recoverable on costs. This could therefore have an adverse effect and the charity may not wish to fall within the fundraising exemption (please see further details on recovery of VAT below).

### Who is entitled to benefit from the relief?

This exemption is unusual in that it is one of the few VAT reliefs that is not restricted just to the charity. Where it is clear that the event is for the benefit of the charity, a trading subsidiary could equally also benefit from this relief (for VAT purposes only\*), provided:

- a) It is wholly owned by a charity; and
- b) Donates all profits made, from whatever source, to a charity.

It should be noted that even though an event may be organised for the benefit of a charity, the event would still not qualify for VAT exemption unless it is organised by a charity, or other qualifying body. For example, where an individual, volunteer group, corporate, or any other entity independent of the charity, holds an event, the VAT exemption would not apply. The exemption would however, apply where a charity appoints a promoter, or an agent to organise the event on its behalf. It should be borne in mind that the agency agreement would need to be documented, should HMRC choose to verify its existence.

In the case of events that are jointly organised with another charity, these should still qualify for the fundraising exemption, provided all of the conditions outlined above are met.

\*For direct tax, profits generated in a trading subsidiary, are subject to corporation tax, regardless of the VAT exemption. However these can be reduced to nil by gifting profits to the charity.

### VAT recovery on event-related costs

This VAT relief would only apply to income generated from the fundraising event. It for instance, would not apply to any goods or services purchased in relation to the event. For instance, where a charity appoints an agent, or promoter to organise the event on its behalf and the agent retains a proportion of the gross receipts from the event, this would be an agency fee and should be treated as subject to VAT at the standard rate.

That being so, charities should expect that VAT would be incurred on most, if not all of their event related costs, as the normal VAT treatment would be applied to these by their suppliers. Whether those VAT amounts can be recovered would therefore be dependent on the VAT treatment of the income generated by the event.

For instance, if the only income generated is exempt from VAT (e.g. ticket sales/ admissions) then the VAT incurred is either wholly recoverable or irrecoverable, depending upon whether the entity putting on the event has managed to stay below the partial exemption 'de-minimis' limits.

However, if the event generates both exempt and zero rate income (e.g. sale of programmes brochures, or the sale of donated goods at auction), then a proportion of the VAT incurred could potentially be treated as partially recoverable. Therefore, it is advantageous if an event generates some zero rated income by enabling an apportionment of the VAT incurred on certain costs.

Where the event generates sponsorship income as well as income from merchandise left unsold at the event, then the charity must be careful to ensure the following:

### Sponsorship

Corporate sponsorship of events (i.e. where the sponsor receives a tangible benefit in return for its funding (e.g. advertising / exposure) would generally benefit from the fundraising exemption. However, that would only be the case, where the sponsorship payment relates solely to the qualifying fundraising event. In all other circumstances, the sponsorship payment is liable to VAT at the standard rate in the normal way and potentially liable to direct tax.

### Unsold merchandise

Event-specific merchandise and commemorative items such as adult T-shirts, mugs, posters, etc. are exempt from VAT when sold during a qualifying fundraising event. However, when they are left unsold, and are sold after the event, they would be liable to VAT at the standard rate, unless they qualify for the zero rate treatment. For instance, video and audio recordings of a fundraising event, sold after the event, should be treated as liable to VAT at the standard rate.

### Summary

It is clear that the one-off fundraising exemption is an extremely valuable VAT relief to the Charity and not for profit sector. However, where it is anticipated that VAT recovery might be restricted, the use of zero rate income generated at the event, to enable a partial VAT recovery, is an effective, but very straightforward, solution.

## How can we help?

If you have any further questions, please speak to your usual Buzzacott contact or our specialists below:

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The direct tax exposure is often removed where a wholly charity-owned trading subsidiary is used to carry out events. The profits in the subsidiary subject to corporation tax are reduced to nil by a Gift Aid donation to the charity equal to those profits. The charity may therefore not need to rely on the fundraising exemption for direct tax.

In addition for VAT purposes, where it is considered more beneficial to charge VAT on admission tickets in order to enable a full recovery of VAT incurred on event costs, it might be simple enough to use a subsidiary company which does not gift all of its profits to the charity, or perhaps is not wholly owned, in order to prevent having to apply the VAT exemption, where this would not be beneficial. Of course, this may leave some profits chargeable to corporation tax.

As a final comment, you might want to consider whether over the last four years, your charity has properly benefitted from this relief. For instance, there might be an opportunity to make a retrospective claim where supplies of zero rated items at fundraising events had not previously been separately identified in collating the income generated from the event. In such a situation, it is more than likely that your charity would benefit from making a windfall claim for additional VAT recovery on historic fundraising event costs.