VAT

Jargon Buster

A Guide for DTAS Members

COOPER PARRY

VAT: Jargon Buster

This list is not exhaustive but is a companion document to VAT seminars undertaken by Cooper Parry for members of the DTAS in October & November 2025. The explanations were accurate at the time of issue, and we would recommend that professional advice is sought in relation to VAT issues in case of a change in law.

Cash Accounting

See Tax points/Time of Supply. Businesses and organisations can elect to use the receipt or payment of cash as the tax point for both sales and purchases for the purposes of reporting VAT to HMRC, as opposed to invoice dates. This can be beneficial where there may be a length of time between the issue of a sales invoice (which normally creates a tax point) and payment. The bank account is used to generate the relevant VAT dates.

The scheme is available for any business or organisation with a taxable turnover of less than £1.35m

Cultural Exemption

This provision applies to bodies who do not distribute profits and who are managed on an essential voluntary basis. Qualifying bodies who receive income from admission to cultural events such as artistic and musical performances, zoos and museums should treat this income as exempt from VAT.

Education Exemption

This provision applies to bodies who do not distribute profits and who reinvest any profits made from educational activities back into similar activities. It also applies to other traditional educational institutions such as Universities. Fee paying private schools were recently excluded from this provision although this does not impact on other charities.

Education means a course, class or lesson of instruction or study in any subject, regardless of when and where it takes place.

Education includes lectures, educational seminars, conferences and symposia, recreational and sporting courses and distance teaching and associated materials.

Education also includes vocational training. It covers training or re-training and work experience for paid employment and voluntary employment in areas beneficial to the community as a whole, education, health, safety, welfare, and charity work in general.

Vocational training occurs where trainees attend courses, conferences, lectures, workshops or seminars and the purpose is to prepare for future employment and add to their knowledge to improve their performance in their current work.

Vocational training does not occur where (through counselling, business advice or consultancy) the purpose is to improve the working practices and efficiency of an organisation as a whole.

Eligible Bodies

The VAT exemptions that apply to a number of potential activities undertaken by charities such as education, welfare, sporting activities and culture require the organisation undertaking the activity to be "eligible" in order to qualify. Each exemption has its own requirements and conditions which need to be strictly met.

Exempt Supplies

VAT law exempts rates certain sales of services (and goods), some of which apply to charities and not for profit bodies, and other that apply to any suppliers.

For not for profits: Health, Welfare, Cultural Services, Sporting Facilities, Education, Fund Raising Events.

For all: Financial Services, Insurance, Postal Services, Betting & Gaming, Land & Property (leases and sales although an option to tax can apply to commercial property), Burial & Cremation.

Where a VAT registered organisation has exempt income, it does not account for VAT on this income, but it will have to restrict its VAT recovery on expenditure using a **partial exemption** method.

Grant Funding

Many charitable and not for profit bodies apply for funding and receive this funding in the form of grants. Typically, grants are freely given in that the funder does not receive any tangible benefits in return for this funding. Grant funding can also subsidise a charity's operations such as paying salaries or it can fund specific activities to lower the cost of operating the activity or to lower the costs the charities charge third parties.

There is no VAT to pay on grant funding, however this can have a significant impact on an organisation's VAT recovery position.

Also, there can sometimes be a thin line between what is a grant and what is a service agreement which is crucial to ensure that the VAT treatment of income is correct.

Health & Welfare Exemption

Medical services provided by registered health professionals—such as doctors, dentists, nurses, opticians, and pharmacists—are exempt from VAT so long as their primary purpose is to protect, maintain, or restore health. Recent legislative changes have further extended this exemption to include services delivered by staff directly supervised by registered pharmacists, bringing pharmacist services in line with other health professionals.

Similarly, welfare services and associated goods provided by charities, state-regulated welfare institutions, or public bodies are exempt when these services are non-profit and directly related to welfare. This includes personal care, domestic help, child protection, and spiritual welfare (e.g., retreats), provided they are part of an individual's welfare plan and not primarily recreational. Services ancillary to the core welfare provision—like catering or accommodation—are also included where integrated into the exempt supply.

Input Tax

Input Tax or Input VAT is the VAT that is paid by an entity on the purchase or expenditure. If the entity is VAT registered or entitled to be VAT registered, it is entitled to recover this input tax through its VAT return.

Non Business

Non business activity is normally where a charity or not for profit organisation undertakes an activity which is essentially free of charge. Usually, but not always, this will be grant funded. The impact of these activities is that it will lead so some sort of restriction in the organisation's ability to recover VAT on expenditure. This would include expenditure which wholly relates to that activity (which is likely to be fully irrecoverable) and expenditure which relates to the running costs of the organisation as a whole (which is likely to be partially recoverable and restricted due to these activities).

Option to Tax

Most income receive from grants in relation to land and property are exempt from VAT. Typically this would include leases, licences and the outright sale of the land/property. As exempt income is not beneficial to VAT recovery, it is possible for any business or organisation who has an interest in land or property to "opt to tax". This is a property specific election which needs to be submitted to HMRC via a VAT1614A form.

By submitting this form, the organisation is required to charge VAT on all rents, licences and future sales of the property for at least 20 years.

This is usually undertaken where there are significant VAT costs associated with the property such as acquisition costs, renovations or construction. By charging VAT on the future use of the property, this enables VAT to be recovered on the costs associated with the property. The actual VAT recovery will depend on what other activities take place in the building.

The option to tax applies to leases, lettings and disposals of the property. It does not make other activities in the building taxable.

Output Tax

Output Tax or Output VAT is the VAT that is charged by an entity on the sale of goods or services. This will vary depending on what the goods or services are and whether any VAT reliefs (at 0% or 5%) apply to the sale. **Tax Points and Time of Supply** rules determine when the VAT needs to be accounted for an in which VAT return.

Partial Exemption

Where a VAT registered business or organisation receives a mix of taxable and exempt income (see **Taxable Supplies** and **Exempt Supplies**) it needs to do a calculation to determine how much VAT it can recover on expenditure. Partial exemption is the method used to calculate this. It is normally done through a three-stage process:

1. Attribution: Where specific costs are attributed to specific activities or categorised as an overhead cost;

2. Apportionment: Overhead or Residual ("pot") VAT costs need to be recovered based on an apportionment calculation. This can either be done as using income "the standard method" which does not require HMRC approval. Alternatively, special methods can be proposed which need prior approval from HMRC. Typical special methods income floor space, staff numbers, staff time, transaction numbers etc. Any method must be fair and reasonable and be easy to monitor. Any significant changes in the operations of the business and organisation must be notified to HMRC.

3. Adjustments: Partial exemption calculations are undertaken on a quarterly basis and also on an annual basis. Depending on which VAT stagger is used, the partial exemption year will end on 31 March, 30 April or 31 May. The annual calculation is designed to iron out any seasonal variations or changes in income or expenditure at certain times during the year which are not reflective of the whole year.

   Where exempt input VAT is below £7,500 per year and less than 50% of total input VAT, the organisation is entitled to recover all the VAT in that particular year. This is the **de minimis** test.

Reduced Rating Provisions (5%)

Certain supplies of goods and services are subject to 5% VAT, some of which relieve charities from paying 20% VAT on certain expenses.

Supply	Notes
Domestic fuel and power	Residential or non-business charitable use
Children’s car seats	Includes booster cushions and carrycots with restraint straps
Mobility aids for the elderly	Includes walking frames, stairlifts
Smoking cessation products	Includes nicotine patches and gum
Renovation of empty dwellings	Where residential property un-occupied for at least 2 years
Property conversions to residential use	Commercial to residential conversions
Central heating systems	Installation, repair, and maintenance
Renewable source heating	Includes heat pumps
Gas-fired and oil-fired boilers	Includes electric storage heaters and immersion heaters
Closed solid fuel fire cassettes	Used for heating purposes
Mains gas connection or reconnection	Residential use

Service Level Agreement (“SLA”)

SLAs, as opposed to grants, are usually arrived at through a tender process, though not always. Normally confirm a specific or measurable service must be provided in return for return for funding. Funders will expect to receive goods/services in return for payment, and some form of legal or contractual responsibility is discharged.

Where there is an SLA in place, the income will either be classified as a supply of goods/services for VAT purposes and liability should be confirmed (0%, 5%, 20%, Exempt).

Sporting Exemption

Organisations who are not for profit and cannot distribute profits can treat income receive from access to sporting facilities including memberships can treat the income as VAT exempt. The exempt limits access to individuals and groups rather than corporate organisations.

Taxable Supplies

Where any business or organisation supplies goods and/or services in return for any form of payment or consideration. The goods or services must not be treated as exempt under the VAT legislation (see Exempt Supplies). Taxable supplies include sales of goods and services that qualify under the zero rating and reduced rate (5%) provisions.

Time of Supply/Tax Points

The time of supply rules govern when a supplier or purchaser needs to account for or recover VAT in the relevant VAT period the sale and purchase takes place. In general, the payment of monies towards the supply of goods and services is treated as a tax point, as is the issue of a tax invoice, however much will depend on the nature of the supply being made.

The basic tax point is the default moment when VAT becomes due: for goods, it’s when they are removed, delivered, or made available; for services, it’s when they are completed. However, an actual tax point can override this. If a VAT invoice is issued or payment is received before the basic tax point, the earlier of these events sets the tax point. Additionally, HMRC allows a “14-day rule”: if a VAT invoice is issued within 14 days of the basic tax point, the invoice date becomes the tax point, unless the business or organisation has opted out.

Certain supplies have special provisions: for continuous services (like rentals or subscriptions), time of supply occurs each time a payment is due, or an invoice is issued—there is no basic tax point. For royalties and repeat fees, the rules depend on whether payments are periodic or related to future events but generally follow the earlier of payment or invoice issue dates.

VAT Assessment

A VAT assessment is what HMRC issue to a VAT registered organisation where there has been a discovery of either an underpayment or VAT or an over-recovery of VAT. This could be "unprompted", where the organisation discovers the error and discloses this voluntarily to HMRC. Or, "prompted", where the error has been found by HMRC as a result of an enquiry or VAT visit.

HMRC can levy penalties on top of the assessment which varies based on who found the error and whether it could be categorised as being careless, deliberate or deliberate and concealed. The penalties can vary between 15%-100%.

We recommend as much as possible that where an error is discovered on an unprompted basis it is disclosed to HMRC and that full cooperation is offered. In most cases, this will lead to minimal or suspended penalties.

VAT Enquiry

HMRC has powers to review any VAT registered organisation's records at any time. VAT is a self-assessed tax so there is an onus on a business or organisation to submit its VAT returns on time and accurately. HMRC tend to favour reviews of specific VAT returns rather than period VAT visits due to staffing restrictions.

VAT registered entitles can expect to receive VAT enquiries on particular VAT returns where their pattern of business has changed or where a significant refund of VAT has been submitted. HMRC will ask to see copies of invoices and more background on the organisation and its future plans.

VAT Periods

VAT registered organisations are required to submit VAT returns based on VAT periods, which are usually quarterly. VAT quarters can align with the financial year, and it is possible to change the cycle at any time.

Some organisations can opt to use monthly VAT returns but usually this is only accepted where the organisation expects to receive regular VAT refunds (i.e. where their main sales are zero rated).

Once a VAT period ends (at the end of a month, for example 31 August), the business or organisation has one month and 7 days to submit the VAT return and any payment to HMRC. In this example, the deadline date would 7 October.

There are penalties for the late submission of a VAT return or payment which vary between 5-15% of the net VAT due.

VAT Registration Threshold

VAT Registration can either be on a compulsory or voluntary basis.

Compulsory:

1. If taxable supplies > £90,000 in last 12 months; or
2. If expected taxable supplies in next 30 days > £90,000

Voluntary:

1. If engaging in an economic activity; and/or
2. There is an intention to make taxable supplies in the future.

Zero Rated Supplies

VAT law zero rates certain sales of goods (and services) some of which apply to charities, and other that apply to any suppliers.

For charities, the following apply: Advertising (supply to charities), sale of donated goods, construction of new charitable buildings inc village halls.

For all: Supply of books, magazines, newspapers, booklets, periodicals (including digital versions), passenger transport, Food, children's clothes, exports of goods/some services, sale of new charitable buildings, construction of new charitable buildings, installation of energy saving materials into residential and charitable buildings (until 31 March 2027).

Area	Item	Notes
Food	Basic foodstuffs (e.g. bread, milk, vegetables)	Excludes catering, confectionery, alcohol
Books & Publications	Printed books, newspapers, and leaflets	Includes electronic publications
Health	Prescriptions and medical supplies	Supplied by registered health professionals or under NHS
Health	Welfare services by charities	Must be non-profit and directly related to welfare
Transport	Public passenger transport	Buses, trains, flights.
Transport	Vehicles for disabled persons	Must meet HMRC eligibility criteria
Exports	Goods exported outside the UK	Must have valid export documentation
Children	Children’s clothing and footwear	Must be designed for under 14s
Education	Education services by eligible bodies	Includes tuition and examination services
Water & Sewerage	Domestic water and sewerage services	Supplied to households
Construction	New residential buildings	Includes first-time sales of new dwellings
Construction	Certain supplies to housing associations	Must meet specific criteria
Charities	Donated goods sold by charities	Must be sold in charity shops
International Services	Financial and insurance services	When supplied to non-UK customers
Construction	Installation of energy saving materials	In residential and charitable buildings (until 2027).