



Briefing for Parliamentarians: An Overview of Charities and Irrecoverable VAT

1. Overview

Charities are subject to a complex VAT system. Sue Ryder is affected by irrecoverable VAT in two key areas:

- Exempt business supplies: Through our health and welfare services. This forms the largest single component of our irrecoverable VAT.
- Residual VAT pool: The VAT incurred on costs that do not directly relate to our healthcare or retail business is put in a 'residual VAT' pool. We are able to recover a percentage of this pool (40%) from HMRC. Therefore 60% of this VAT is irrecoverable.

We are also subject to VAT through:

- Non-business supplies: In the form of donations and legacies.
- Taxable business supplies: Through zero-rated goods such as goods donated to our charity shops or through the sale of standard rated new goods in our charity shops. Our retail income is taxable and we are therefore able to claim back 100% of the VAT we incur for retail related costs.

In 2009-10 Sue Ryder lost £650,000 in irrecoverable VAT (a lower figure due to the VAT rate's move between 15% and 17.5%). In 2011-12 we project that we will lose almost £1m in irrecoverable VAT.

With this money we could fund:

- A 16 bed hospice for 6 months
- 50,000 hours of inpatient care or 25,000 hours of specialist palliative care in the home
- 30 nurses or 60 carers.

2. Why does this happen?

Sue Ryder has irrecoverable VAT in two key areas as highlighted above. The largest single component of this is lost through our health and welfare services.



Health and welfare services are VAT exempt. Exempt services do not charge any VAT and they are unable to reclaim VAT relating to VAT exempt sales.

- Healthcare: This exemption applies to medical procedures, general nursing, accommodation, meals and medicines provided to patients during the course of their treatment.
- Welfare: This exemption applies to the 'protection, control or guidance of an individual when this is provided to meet medical, physical, personal or domestic needs'¹

The majority of Sue Ryder's services are categorised as either health or welfare services and are therefore VAT exempt. For these services we do not charge VAT on the income we receive to fund these services. We are also not able to recover the VAT incurred on the costs of providing these services. This is the irrecoverable VAT.

3. The 1994 VAT Act

Section 33 of the 1994 VAT Act provides local authorities with relief so that they are able to reclaim VAT on exempt supplies. This has been extended to include national museums and galleries, and most recently to cover academy schools.

Section 41 of the VAT Act addresses the same issue for the NHS and PCTs. Local authorities enjoy greater VAT relief than the NHS and PCTs who only receive this for 'limited supplies'.

4. What should be done?

We believe there is a legislative solution to the problem of irrecoverable VAT faced by charities. We are seeking the expertise of lawyers, VAT experts and other charitable service providers to find the best way of implementing reform, and how to change legislation most effectively. Ultimately we would like to see all charities providing public services being free of the burden of irrecoverable VAT in all areas of their work; not only exempt supplies.

¹ HMRC: Definition of 'welfare services'



The government's vision for the Big Society has charitable public service delivery at its heart. Our services, most notably those delivered from our network of hospices, are heavily subsidised by charitable funds. Sue Ryder receives an average of 46% statutory funding for its hospice services; the rest is made up of funds raised by the charity.

As we expand and deliver more public services, we believe the government should ensure there is a level playing field between charities, the NHS and local authorities in terms of recoverable VAT.

As a step-change, we may explore bringing charities providing services commissioned by or transferred from the NHS onto the same VAT footing as those provided by the NHS. We believe this is of primary importance because of the level of charitable funds we inject into these services.

5. What would we like MPs and Peers to do?

We would like MPs to pledge their support to our cause and to raise awareness of the issue in Parliament. We would like them to work with us to develop proposals that are palatable to government as well as assisting us to exploit possible opportunities for reform (such as the passage of the 2011 Finance Bill).

If you have further questions about any element of this briefing, please contact Blanche Jones, Public Affairs and Policy Manager on blanche.jones@sue Rydercare.org or call 020 7400 0445