



# DAVID EBBS & Co DAC

## CHARTERED ACCOUNTANTS & REGISTERED AUDITORS

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### VAT Refunds for Charities

The Vat Compensation Scheme for Charities was signed into law on 4 January 2019. It applies to VAT suffered in the calendar year 2018. There are rules restricting the quantum of qualifying expenditure and refunds are made with reference to qualifying income.

The total annual amount refundable country wide for charities is restricted to 5M annually and all claims may be prorated as a result. So if in year one, VAT of €10M is reclaimed, all claims will be paid out at 50%.

The scheme operates in such a way so as to discourage small refunds based on items like utilities and favours those who undertake repairs, building works or larger equipment purchases.

Once you have found the amount of vat paid, it is then reduced to the percentage of your income derived from private sources and public monies, grants and tax refunds are excluded.

See an example below of a typical small church.

#### Key Dates

- Claims must be submitted before 30 June 2019 and refunds will be paid in or about November 2019.
- The first refunds apply to vat incurred in the year 1 January to 31 December 2018.
- If you fail to meet these dates, you cannot claim the 2018 vat at a late date.

#### Qualifying Expenditure

- The VAT has to be on "charitable expenditure" and applies to Irish VAT only.
- Claims are based upon VAT paid (and not when billed!).
- VAT claimed must exceed €500.

#### Qualifying Charity

- The qualify the charity must be able to demonstrate that-
- It has a valid CHY number.
- Is registered with Charity regulator.
- Has a Tax Clearance Certificate.
- You may be asked to produce audited accounts even where you have no requirement to otherwise produce them.

## Qualifying Income

The following Income is to be excluded from the total income of the charity-

- Publically Funded income, including Grants, Funds from State Bodies, EU and similar.
- Income/Fees received for education (e.g. Schools).
- Income from Shops, Restaurants and Retail outlets.
- Income from Revenue refunds.
- Income from another qualifying Charity.
- International Organisations which receive funds from a State body or similar.

## VAT Refundable - The Formula

$$\text{Qualifying VAT} \quad \times \quad (\text{Qualifying Income/Total Income})$$

**Hence you will see that Charities that have privately funded sources will be favoured and those that receive grants etc. are disadvantaged.**

## Points of Interest

- You will need to be tax registered with the Revenue.
- The Revenue may request your "audited" accounts. This will be challenging for most Charities from a time and cost point of view.
- It seems as if 2018 VAT may only be claimed in 2019.
- You may be asked to produce VAT invoices in support of your claim.
- You must produce a current Tax Clearance Certificate.

## Hint

- Ask your Treasurer to conduct a review of how this scheme might apply to you.
- If you believe that you have a valid claim, then you should establish a plan to meet the tight timelines.
- You must factor in the potentially additional cost of an audit if you otherwise don't require an audit and remember that your claim may be scaled back if the scheme is over-subscribed.

### WARNING

*Please do not build your VAT reclaims from the short briefing above but seek professional advice. We attach the relevant sections of the Revenue's Tax and Duty Manual and the Statutory Instrument, which give further details. The Revenue will review the scheme after the first 2 years. Further information is also available on the Revenue website. This is new legislation and is subject to change based upon practice and use. There exist some apparent anomalies.*

# Sample Vat Refund

## Small Church

### Income

|                            | €             |
|----------------------------|---------------|
| Donations on plate         | 45,000        |
| Tax Refunds                | 15,000        |
| An Pobal Grant             | 8,000         |
| Rental income              | 6,000         |
| Income from Shop/Café      | 10,000        |
| Gifts form Other Charities | 5,000         |
|                            | <u>89,000</u> |

| Allow  | Disallow |
|--------|----------|
| 45,000 |          |
| -      | 15,000   |
| -      | 8,000    |
| 6,000  |          |
|        | 10,000   |
| -      | 5,000    |
| 51,000 | 38,000   |

### Expenses

|                          |               |
|--------------------------|---------------|
| Staff Costs              | 40,000        |
| Rent                     | 20,000        |
| Insurance                | 6,000         |
| Electricity              | 1,200         |
| Heating Oil              | 1,800         |
| Phones                   | 2,400         |
| Stationary & Printing    | 1,200         |
| Goods for Resale in Shop | 2,400         |
| Food for meetings        | 6,000         |
| Audit                    | 2,400         |
| Gifts made               | 5,000         |
|                          | <u>88,400</u> |

| VAT   | VAT unpaid |
|-------|------------|
|       |            |
| 143   |            |
| 337   |            |
| 449   | 74         |
| 224   |            |
| 449   | 53         |
|       |            |
| 449   |            |
| 2,050 | 127        |

### Surplus for Year

600

**VAT Recoverable**

**1,102**

**Max, but could be prorated!**

Formula

$$= (2050 - 127) * 51000 / 89000$$