

VALUE ADDED TAX AND THE CHURCHES: A NOTE

INTRODUCTION

1. **This short guide is intended as a helpful summary of the VAT system as it affects the Churches – and no more than that. It is neither approved nor endorsed by HMRC.**
2. **Although these notes are intended to be helpful guidance, they have no binding force and decisions in individual cases depend on all the facts and circumstances.** HMRC itself publishes on-line [VAT guidance for charities and not-for-profit organisations](#).
3. **The rules relating to VAT can be extremely complex; and any church about to embark on a new venture which might engage VAT (such as building work) should seek professional advice at the outset.**

OUTLINE OF THE VAT SYSTEM

General

4. Value Added Tax is in principle a comprehensive tax, charged at a standard rate (normally 20 per cent) on all goods and services supplied by a taxable person in the course of a business unless those goods and services are specifically exempt, subject to the reduced rate of 5 per cent or zero rated. The normal activities of churches such as weddings, funerals, Sunday services, etc are outside the scope of VAT.
5. VAT is collected at each stage of the process of production or distribution of goods or services. At each stage, the taxable person is charged by suppliers with VAT on goods and services supplied for its business. Those goods and services are called 'inputs' and the tax on them is 'input tax'. When the taxable person in turn supplies goods and services (not necessarily the same ones) to customers, it charges VAT to the customers; the goods and services supplied are called 'outputs' and the tax charged is 'output tax'.
6. At intervals, when a return is made to HMRC, the taxable person adds up all the input tax and all the output tax and deducts the input tax from the output tax; the difference is the amount which it has to pay to HMRC (positive balance) or the amount that will be repaid to it (negative balance). At the end of the chain of suppliers is the consumer who is not in business; and so the VAT charged by the trader from whom the consumer buys goods and services falls on the consumer and is irrecoverable.

Administration

7. Records must be kept by taxable persons and tax invoices issued.
8. Where a taxable person supplies goods or services to another taxable person, a tax invoice must be issued showing the number of the invoice and the date, the date of supply, the supplier's name, address and VAT registration number, and the

customer's name and address. The taxable person must also show the type of supply (eg sale or hire), a description sufficient to identify the goods or services supplied, the quantity and amount payable (excluding VAT), the rate of any cash discount offered, and the rate and amount of VAT charged.

9. Records must be kept for up to six years.

Registration

10. Every person or organisation supplying, in the course of a business, taxable goods or services (ie other than exempt ones: see paragraph 19) with an annual taxable turnover exceeding a prescribed figure must register for VAT. There is a wide definition of 'business' for VAT purposes but, in relation to churches, it can be taken to mean engaging in an activity of a commercial nature. The fact that profit is not made, or that any surpluses are used for charitable purposes, is irrelevant in relation to VAT.
11. 'Taxable turnover' is the value of taxable outputs of goods or services, including zero-rated (but not exempt) outputs. This is normally the total amount that the supplier charges customers for those outputs; but goods applied to personal use and taxable self-supplies must also be included.
12. Church bodies (including parochial church councils and local church trusts, as well as diocesan and regional bodies) thus come in principle within the scope of registration for VAT. Whether they do so in practice depends on the extent to which they supply items that are not exempt from VAT. In many cases, the taxable turnover will not be great enough to call for registration. But if a church body considers that registration may be necessary, it should first seek advice on the matter from consultants within the church organisation and from HMRC's [Charities Helpline](#) on **0845 302 0203**.
13. The VAT registration threshold is normally updated annually at the time of the Budget. **The current VAT registration threshold is £77,000.** HMRC's general advice on VAT registration is available [here](#).
14. There is also a **deregistration threshold, currently £75,000.** If a taxable person's VAT-taxable turnover for the year is less than or equal to £75,000, or if it expects it to fall to £75,000 or below in the next 12 months, it can either:
 - stay registered for VAT; or
 - ask for its VAT registration to be cancelled.

Zero-rating

15. A business supplying zero-rated goods or services may not charge tax on them to its customers; but if it is a taxable person with a taxable turnover which exceeds the registration threshold it must normally register and it may then reclaim any allowable input tax. The following are among the zero-rated goods and services:
 - **foods for human consumption** provided that they are not supplied in the course of catering (such things as catering, confectionery and beverages are taxable).
 - **water** (but not bottled water).
 - **books**, booklets, brochures, pamphlets, leaflets, newspapers.

- **advertisements** where these are for making known the objects of a charity, the reasons for its objects, or for raising money for the charity.
- **construction and/or sale by the builder of dwellings** or buildings intended for a relevant charitable purpose.

VAT on building repairs, alterations and maintenance

16. **Repairs to listed buildings used as places of worship are not zero-rated**; however, they benefit from the Listed Places of Worship Grant Scheme. Under the Scheme, the full VAT (normally paid at the standard rate on eligible work) can be reclaimed on certain works of repair and maintenance to listed buildings
17. Alterations to the fabric of certain listed buildings, including churches and cathedrals, were previously zero rated for VAT but as a result of a change of policy announced in Budget 2012 became liable to VAT at the standard rate from 1 October 2012. As a degree of compensation for the withdrawal of the zero rate, the Government agreed a compensatory increase in the funding of the Listed Places of Worship Grant Scheme and that approved alterations should be included in the Scheme.
18. Current details of the Scheme are available [here](#). It should be emphasised that in order to qualify for a VAT refund under the Scheme, the building needs to be both *listed* and a *place of worship*. In order to qualify, the building's sole or main use must be as a public place of worship. Therefore, in most cases a church hall will not meet the criterion of sole or main use for public religious worship; and an applicant in such circumstances will need to provide evidence that use for public religious worship outweighs the total of all other uses. And in order to be eligible, the hall must also be a listed building in its own right.

Exemption

19. Where supplies of goods and services are **exempt** from VAT, no output tax is chargeable on them. **A supplier cannot reclaim any VAT on input tax relating wholly or partly to exempt activities.** Examples of exemptions are:
 - **the grant or assignment of any interest in or right over land** or of any licence to occupy land – however, the owner of an interest in land has the right under certain circumstances to waive this exemption: this is commonly called the 'option to tax'.
 - **insurance** (which is subject to a separate tax).
 - **[postal services under the Universal Service Provision](#)** (ie the standard letter-post) but not supplies of services that a universal service provider is not required to make under a licence duty (such as those made by Parcelforce), and services provided on terms and conditions that have been freely negotiated (such as bulk mailing contracts).
 - **betting, gaming and lotteries** (which are subject to separate duties).
 - **dealings in securities and dealing in money.**
 - **provision of education by a school or university** [see paragraph 26(i)].
 - **funeral arrangements** [see paragraph 26(iv)].

Partial exemption

20. Where some of the goods or services supplied are taxable (including those that are zero rated) and some are exempt, input tax must be apportioned between taxable (including zero rated) outputs and exempt outputs; and only that part of the input tax which relates wholly or partly to taxable outputs may be deducted or recovered.

Relating input to output tax

21. Where a church body registers for VAT it will have to consider the extent to which it can recover VAT on its inputs. Generally, VAT is recoverable on inputs which are directly related to taxable supplies, eg admission charges, sales of Christmas cards and slides, sales of goods at bazaars (see paragraph 24(i) below). Where tax relates both to business and to non-business activities, only a proportion of the VAT can be recovered. One way of working out how much of this VAT is recoverable is by using that proportion which the proceeds from business activities bear to the total proceeds from business and non-business activities. But whatever the method used, it must give a “fair and reasonable” result.

- HM Revenue & Customs has agreed [a banding system for cathedrals and churches](#) under which a percentage of the residual tax (ie tax which relates to both business and non-business activities) may be recovered, the percentage in each case depending on the extent to which the cathedral or church meets certain criteria. The system is administratively simple but may not be advantageous to all cathedrals and churches: again, if there is any doubt, professional advice should be sought.
- Where supplies made in the course of business activities are partly taxable and partly exempt, input tax which relates wholly or partly to taxable supplies (including those that are zero rated) can be recovered. In principle, any input tax relating to exempt supplies may not be recovered; but, if the total input tax related wholly or partly to exempt supplies is less than £7,500 a year and is no more than 50% of the total input tax, VAT may be recovered without restriction. The *de minimis* limit is expressed as £625 a year on average.

TAXABILITY OF GOODS AND SERVICES LIKELY TO AFFECT CHURCHES

PURCHASES BY A CHURCH

22. **Construction services zero-rated by the supplier** are zero rated, provided that the building is used solely for a “relevant charitable purpose”. The proviso about “relevant charitable purpose” is not normally an issue in relation to a church building *itself*, because places of worship come into the category of ‘buildings typically seen as not being used for business purposes’ (see [VAT Notice 708](#) – specifically section 14.7.3). But it may possibly come into play in relation to a church hall.

23. The following are zero-rated:

(i) **construction of a new church**, subject to the issue to the builder of the appropriate certificate (see [VAT Notice 708](#)). A church building is regarded as new if it is a new and physically separate building. It will also rank as new if:

- the new construction makes use of a part or all of the foundations of an existing building, where the whole of the former building has been demolished to ground level, which may include the 'slab' of the ground floor of the former building; or
- the new construction makes use of what remains of a pre-existing building where, before construction starts, this is no more than the foundations and a single facade, or double facade on a corner site – but only where a facade has been retained to comply with statutory planning consent.

(ii) **construction of a new church hall**, subject to the issue of a certificate (see [VAT Notice 708](#)) provided that the hall is to be used for the provision of social or recreational facilities for the good of the local community.

(iii) **a connected annex**: an annex connected by a door or corridor to an existing church is treated in the same way as a fully-independent structure separate from the existing building. The construction work is zero rated, provided that the annex is intended to be used for a non-business purpose (eg as a church hall or similar), is capable of functioning independently from the existing building, has its own main entrance, does not provide the main entrance to the existing building and is covered by the appropriate certification (see above). Precisely what constitutes an annex that is "capable of functioning independently from the existing building" is sometimes a matter of dispute (see, for example, *Abercych Village Association v HM Revenue & Customs* [2008] [UKVAT V20746](#)); and the precise relationship of the new building to the old should be considered at the planning stage. For more information see HMRC's guidance: [VCONST02350](#).

(iv) **construction of a new parsonage house, presbytery, manse etc**: unlike new churches and church halls, a new parsonage house qualifies for zero rating not by virtue of being a 'charitable building' but by virtue of being a 'dwelling' (see paragraph 15 above).

(vi) **demolition** where the work is in the course of construction or reconstruction that will itself be zero-rated and the demolition is down to ground level (but leaving foundations or leaving a single facade wall).

Construction services standard-rated by supplier

24. (i) **repairs and maintenance of church buildings.**

(ii) **alterations and extensions to church buildings.**

Construction services: miscellaneous provisions

25. (i) **leasing property and self-supply charge on developers:** the rules are complex, and professional advice should be sought. Details are contained in [VAT Notice 742: Land and Property](#), and advice may also be obtained from HMRC's Charities Helpline.

(ii) **self-build projects:** under the DIY Builders Scheme, the VAT incurred in the construction of church buildings can subject to certain conditions be recovered. The Scheme is explained in [Revenue & Customs Brief 45/09](#).

(iii) **bells:** church bells are a complex area. HMRC accepts that the fabric of a church includes a bell frame but does *not* include fittings such as the bells themselves or ringing fittings. Professional advice should be sought; however, see also [VCONST09100 - Alterations and repair or maintenance - case law and agreements: church bells and bell frames](#).

(iv) **organs:** the rules relating to installation of new organs in listed churches and the repair and maintenance of existing instruments are also complex. Again, **prior consultation with the manufacturer and/or installer is absolutely vital**; and see the following:

- [Alterations and repair or maintenance - case law and agreements: organs: work on existing organs in listed churches](#);
- [Alterations and repair or maintenance - case law and agreements: organs: replacements of organs in listed churches](#);
- [Alterations and repair or maintenance - case law and agreements: organs: first time installations](#)
- [Alterations and repair or maintenance - case law and agreements: organs: relocations](#)

For the position in relation to the supply of organs from outside the United Kingdom consult HMRC.

(v) **aids for handicapped persons on church premises:** the supply of goods or services for the following works are zero rated when carried out on existing church premises, as follows:

(a) constructing ramps, or widening doorways, passages or pathways from a gate to a porch, including any preparatory and necessary restoration work or making good, provided that the work is carried out for the purpose of facilitating a disabled person's entry to or movement within the building.

(b) the installation of a chair- or stair-lift for use in connection with invalid wheelchairs and the repair or maintenance of any such lift, including work done on it to improve safety.

(c) the installation of a lift in the course of the construction of a new annex to a church building with independent main access where there is also internal access from the church: subsequent repairs and maintenance to such a lift are standard-rated.

(d) the installation of an induction loop system for the use of hearing-impaired persons, and its subsequent repair and maintenance are zero-rated – but the provision of a general public address system is standard rated, unless it is a first-time installation in the course of construction of a new church building.

(e) the provision, extension or adaptation of a washroom or lavatory (but not a bathroom) for use by a disabled person in a church building, provided that the building is used principally for church or other charitable purposes and the provision, extension, etc is necessary to facilitate the use of the lavatory by a disabled person.

For further information see section 6 of HMRC's guidance: [VAT reliefs for disabled people](#).

Other Purchases

26. (i) **water, fuel and power:** charges for the supply of water for churches and church halls, are zero rated. Supplies of fuel and power are subject to a reduced rate of 5 per cent, provided that any business activities of the church, eg admission to premises for a charge or the letting of church buildings, represent no more than 40 per cent of the total usage of the building. Where business use is 40% or more, supplies are apportioned, so that where, eg, business use is 55%, 45% of the fuel can be supplied at the 5% rate and the remainder at the standard rate. Also, the 5% rate is applicable on a de minimis basis where the supplies do not exceed 2,300 litres of fuel oil, gas oil, or kerosene, or 10,000 kwh of electricity per month. HMRC guidance is available [here](#).

(ii) **professional fees** (eg charges made by solicitors and surveyors) are standard-rated.

(iii) **pre-printed envelopes etc used for fund raising:** the following items are zero-rated:

- collecting-boxes, regardless of the material from which they are constructed.
- printed collecting envelopes appealing for money (of the type used by the welfare charities and which are usually hand-delivered to domestic premises: envelopes used in the operation of planned giving schemes are not included).
- pre-printed letters appealing solely for money for the charity (not necessarily including the addressees' particulars).
- pre-printed planned giving envelopes.
- envelopes used in conjunction with appeal letters and for forwarding donations, provided they are over-printed with an appeal request related to that contained in the letter.
- lapel badges of a nominal value given as a token in return for a donation, whatever the material of the badge.

SALES BY A CHURCH (These rules apply only to a church that is registered for VAT)

24. ***Liable to VAT at the full rate***

(i) **sales of goods bought specifically for re-sale** at bazaars, etc are standard-rated, and, as with other standard-rated supplies, if registered for VAT the church must as a taxable person charge VAT.

(ii) **catering** is generally standard-rated – but where food and drink is sold by a church, eg at a bazaar or as part of a coffee morning or after Sunday services *and the principal purpose is to raise funds for charitable purposes*, it may be treated as part of a one-off fund-raising event and therefore exempt.

(iii) **supply of goods of a kind commonly provided by a commercial firm** constitutes a business activity and is therefore standard-rated, eg the supply of flowers and the printing of orders of service

(iv) **admission charges** for entry to a church building or part of a church building are standard-rated – where **donations** are made instead, they are outside the scope of VAT *provided they are entirely voluntary* (see paragraph 27(ii)).

(v) **sales of slides etc**: where a church organisation sells slides or other objects whose supply is neither zero-rated nor exempt, the sales are standard-rated.

(vi) **burial and cremation**: all the following are standard-rated:

- the cost of maintaining graves;
- supply of coffin and cover;
- supply of shroud, robe etc;
- flower arrangements;
- cards etc;
- tombstones; and
- plaques etc.

Guidance on the VAT liability for goods and services supplied in connexion with burial and cremation is contained in [VAT Notice 701/32](#).

25. ***Liable to VAT at zero-rate***

(i) **fully-printed books**: books, booklets, brochures, pamphlets, leaflets and newspapers are zero-rated – items such as diaries, address-books, etc, are standard-rated.

(ii) **the sale of donated goods** for bazaars etc is zero-rated.

26. ***Exempt supplies*** (VAT not applicable)

(i) **education and training** in voluntary aided, voluntary controlled and special agreement schools are outside the scope of VAT because no charge is made. Education and vocational training for which a charge is made is exempt when provided by eligible bodies, which include schools (as legally defined), universities

and further education colleges. Eligible bodies also include non-profit-making bodies that apply any profit that might arise from their supplies of education, research or vocational training to the furtherance of such supplies. This should cover courses supplied by theological colleges. For further details see [VAT Notice 701/30: Education and vocational training](#).

(ii) **religious retreats and religious communities:** board and lodging which is ancillary to the provision of spiritual welfare is exempt when provided by a religious community *provided it is not designed primarily to provide recreation or a holiday and is predominately concerned with the spiritual growth and awareness of the recipient*. Where board and lodging is also provided to persons organising their own retreat, the supply is standard-rated. Admission to a religious convention is exempt. Supplies of goods and services made as part of the provision of spiritual welfare by a religious community to its residents are also exempt. However, **the following are not exempt:**

- any supply made by a body other than a religious institution or community;
- any supply that is not made as part of an organised retreat or course of instruction provided by a religious institution;
- conferences or retreats when the predominant purpose is not spiritual welfare;
- educational courses in theology, or similar subjects, where the predominant purpose is to expand knowledge of spiritual matters rather than to provide spiritual welfare services; and
- meetings to discuss theology or aspects of church doctrine.

(iii) **one-off fundraising events** held by a church that comprise a fete, ball, bazaar, gala, show, performance or similar event, are exempt if the proceeds are either for the benefit of the body which organises the event or for another charity and they do not form part of a series of regularly run or similar events. During a single financial year, churches will be able to conduct not more than 15 fund-raising events of any one kind in any one location. Small-scale events of any one kind, such as coffee mornings, will not be subject to this restriction provided that the aggregate gross takings for such events do not exceed £1,000 *gross* (ie before deducting any costs, such as room hire) in one week. However

- *the exemption will **not** apply in cases where doing so is likely to create distortion of competition with VAT registered commercial providers;*
- *if the £1,000 limit is exceeded in any week, then **every event held that week counts towards the 15-event allowance**; and*
- *if you hold more than 15 events during the financial year **you will lose the entire exemption**.*

HMRC guidance on fundraising events and VAT is available [here](#).

(iv) **burial and cremation:** In general, the following services are exempt from VAT:

- the disposal of the remains of dead people;
- making arrangements for or in connexion with the disposal of the remains of dead people; and
- the services of one undertaker to another in relation to a specific funeral.

As noted above, [VAT Notice 701/32](#) gives guidance on the VAT liability for goods and services in relation to burial and cremation.

(v) **performance of routine domestic tasks** (such as housework; simple odd jobs; shopping and collecting a prescription or pension) that are performed by one of the bodies detailed in section 3 are exempt when all of the following conditions are met:

- the recipient of the service is an elderly, sick, distressed or disabled person;
- an assessment of the recipient's health condition, medical needs and ability to perform each task has been carried out by an appropriately trained person - such as a medical or health professional or any person with relevant training or experience in social work or social care;
- this assessment has shown that the recipient is unable to carry out the tasks safely or adequately (see paragraph 2.1.3) or without significant pain or discomfort (see paragraph 2.1.4), and that this inability presents a risk to their health or welfare;
- a record of each assessment is maintained by the supplier of the service; and
- the service provided is a routine domestic task that the majority of the population would expect to carry out for themselves and which is required to keep a household going. This excludes specialist services such as non-essential gardening, decorating and other house maintenance including re-roofing, plumbing and electrical services.

For further information on VAT in relation to welfare services see [HMRC Notice 701/2: Welfare](#).

27. ***Outside the scope of VAT***

(i) **voluntary donations** (including church collections and income from covenants) are outside the scope of VAT.

(ii) **quotas, voluntary contributions to church organisations and payments made by one church organisation to another** do not constitute 'supplies' (as they are not provided in return for a service) and so are outside the scope of VAT.

(iii) **statutory fees payable to incumbents of the Church of England** are outside the scope of VAT.

CLAS

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We should like to express our thanks to Peter Jenkins, former Global VAT Partner at Ernst & Young, for commenting on this note in draft.