

# VAT and not-for-profit organisations

As the usual not-for-profit (NFP) tax exempt status does not apply to VAT, it is important to consider how best to manage your VAT costs and possible exposures.

## Is a NFP organisation “in business” for VAT purposes?

Deciding whether or not your NFP organisation is “in business” is critical to determining the VAT status of any income generated, and by consequence the entitlement to deduct VAT on costs associated with this income. Such income could arise in the context of trading, fund raising or investment activities of your organisation.

As there are no special rules for NFPs, the income that your organisation generates may be taxable (i.e. liable to VAT), exempt from VAT or outside the scope of VAT (i.e. non-business activities) subject to the general VAT registration thresholds of €75,000 (sale of goods) or €37,500 (services). For example, a freely given donation to a charity is outside the scope of VAT (where nothing is given in return), but a donation given in return, for example, advertising may be considered a taxable activity and may lead to VAT obligations.

You should have controls in place to monitor all supplies and determine if any VAT can be recovered in relation to these supplies. It is understood that Revenue currently considers the “in business” test on a case-by-case basis.

Given that VAT is a European tax, any developments at EU level must be taken into account when considering the VAT status of any transaction including potential competition with private companies. NFP organisations should be aware of the various VAT rates and exemptions applicable, for example, the VAT-exempt status that applies to much of the healthcare sector.

You need to ensure that your suppliers are not charging VAT at a higher rate than required (e.g. maintenance, training, printing of publications) and where applicable, that you are applying the correct VAT rates on goods and services supplied by you. You must also ensure that you properly account for VAT on VATable goods or services bought in from abroad.

## VAT recovery

Under Irish legislation, a supplier can only recover VAT on their costs if they make VAT taxable sales, i.e. charge VAT (including the zero rate) on their sales. If your organisation receives both VATable and VAT-exempt income, it is considered a partially VAT exempt organisation. In practice, this broadly means it can reclaim VAT incurred on the direct costs of making its VAT taxable sales, cannot recover any VAT on the direct costs of making VAT-exempt sales and can recover a proportion of the VAT incurred on its general costs using an apportionment method.

It is important to review your VAT apportionment calculations annually to determine which method is best suited to your particular circumstances. There are a number of acceptable methods available e.g. based on turnover, staff numbers, people and space occupied. Have you carried out a review of your VAT recovery calculation in recent years?

There is also scope for some VAT relief under various VAT refund orders that apply to NFPs e.g. VAT on donated medical equipment etc. See Revenue information leaflet (CHY 10) for further details.

### Importance of VAT to your organisation

As VAT can be a major cost for most NFP organisations, it is important that a systematic approach to VAT be adopted. VAT should be considered in all areas of your organisation from the day-to-day issues to formulating future business plans. The implication of forming VAT groups or cost sharing groups or the restructuring of business processes need to be considered. Property transactions should be given particular attention to avoid unnecessary costs, as it can represent a major cost for many organisations.

Implementing VAT planning and structuring techniques can potentially make savings where it matters to your organisation i.e. increase the vital funds needed in your organisation for core activities. You should calculate the amount and the breakdown of trapped VAT incurred each year and we can assist in planning how this might be reduced.

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