



University  
of Glasgow

# VAT and Research at UoG



# VAT and Research at UoG

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## Recap of intro to VAT

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- Although in a 'normal business' most goods and services are subject to VAT at the standard rate 20%...
- Things are a little different here at the University – possibly 90% of our income is 'VAT free'
- Tuition and teaching income is exempt from VAT
- Research is often outside the scope of VAT, but is more complex

## Recap of intro to VAT

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- Broadly speaking, VAT on purchases **WILL** appear in your budget if:
  - you are making an exempt sales or
  - receiving income which is outside the scope of VAT
- This is because the VAT is **NOT** recoverable from HMRC

## Recap of intro to VAT

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- Broadly speaking, VAT on purchases **WILL NOT** appear in your budget if:
  - you are making a taxable sales...
- This is because the VAT IS recoverable from HMRC
- It doesn't matter about the rate (0%, 5%, or 20%) or whether your customer is overseas

## Summary of VAT rates for sales

VAT rate	UoG code		
Standard (20%)	BS	NOT VAT FREE	RIGHT TO RECOVER INPUT VAT
Lower (5%)	BL		
Zero (0%)	BZ	VAT FREE	RIGHT TO RECOVER INPUT VAT
Overseas (0%)	BR		
Exempt (0%)	BE		NO RIGHT TO RECOVER INPUT VAT
Outside the Scope (0%)	BO		

## Selling to Overseas Customers

VAT code UK	Overseas
BS	BR
BE	BE
BO	BO
BZ	BR

# What is Research?

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- Research means creative work undertaken on a systematic basis to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock of knowledge to devise new applications



## What is not research?

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- Consultancy or business support
- Routine testing and analysis of materials
- Operating scientific equipment
- Feasibility studies (where it is not an integral part of an overall research project)
- General purpose data collection and surveys
- Conferences

The tax treatment of these activities is normally standard rated except for conferences which are exempt

## Quick question 1

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- Why is most of the University's income 'VAT free'?
  1. The University isn't VAT registered
  2. Teaching and research are exempt from VAT
  3. Teaching is exempt and most research is outside the scope of VAT

## Basic principles

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- Are you making a supply in return for payment?
- In plain English...
- Are you providing a benefit **to the funder** in return for the money they are giving you?
- The benefit being provided in research projects is usually the right to use the **intellectual property** which is created by the research

## Basic principles - supplies

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- Where you are making a supply to the funder in return for payment...
  - The funding is a contract for services
  - You charge VAT if the funder is based in the UK
  - No UK VAT if they are overseas

## Basic principles – no supply

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- Where you are **NOT** making a supply to the funder...
  - The funding is either a grant or donation
  - **NO VAT** is due
  - The income is ‘outside the scope of VAT’

# Publicly funded research

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- Most research projects in universities are publicly funded research
- In most cases we are not making a supply for payment (the income is outside the scope of VAT)
- Funders do not normally require the university to provide any benefit to them in return for the money which is provided

# Publicly funded research

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- What can be provided to the funder without creating a supply?
  - progress reports
  - reports of expenditure and the right to audit costs
  - a commitment to publish the results of the research
  - an commitment to identify who the funding body is on reports and other publications
  
- HMRC also allow public funders to receive some rights to the intellectual property created by the research without this being seen as a benefit

# Publicly funded research

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- Sometimes publicly funded research can involve making supplies (which are subject to VAT at 20%)
- This often arises when the funder is commissioning research
  - for the benefit of their own organisation rather than for the general public good or
  - to improve their own operational effectiveness



# Publicly funded research

- Examples of **supplies** to public funders which would normally be subject to VAT at 20%
  - The Ministry of Defence commissions research to develop technology for the armed forces
  - A charity commissions research to understand if its activities are effective
  - The Department for Education commissions research to understand if its education policies are effective
  - A Research Council pays you to develop an innovative piece of equipment which they will own once you have built it

## Quick question 2

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- Q: All income for publicly funded research should be treated as grants which are outside the scope of VAT.
  1. True
  2. False
  3. Mainly True

## Non-publicly funded research

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- Where a business funds research, you will normally be making a supply of services to the funder which would normally be subject to VAT at 20%
- Funders normally require the university to provide a benefit to them in return for the money which is provided

## Non-publicly funded research

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- The services supplied might be:
  - Ownership of all the intellectual property arising from the project
  - A licence to use the intellectual property arising on the project
  - A non-exclusive licence to use the intellectual property without making any further payment
  - A right to see the results of the research before anyone else and/or a right to delay publication of findings
  - A right of first refusal on buying the intellectual property rights

# Non-publicly funded research

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- Sometimes non-public funders will make grants or donations

## Donations income – key points

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- ...just because something is called a donation...
- A gift must be freely given
- The donor cannot receive anything in return for the donation
- The donor cannot mandate that they receive publicity or the University uses their logo
- It is ok for the University to acknowledge donations
- You can read HMRC's guidance in [VAT Notice 701/41](#)

## Foundation funded research?

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- Sometimes businesses entities will have a charity or foundation which is associated with them or their owners in some way.
- Examples include:
  - Sainsbury family charity trusts
  - Waitrose Foundation
  - Lego Foundation
  - Bill and Melinda Gates Foundation

## Foundation funded research?

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- Where you receive funding or a donation for research from a charitable foundation of a corporate entity, you should normally expect to treat it as **publicly funded research**
- However, as with donations, you should still check the agreement carefully...



# Clinical Trials and Pathology Services

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- The position for clinical trials is more complicated
- You will normally be making a supply of services to the funder if they are a commercial entity (it is a testing or analytical service)
- In some cases, the clinical trial will include care for patients. In such situations, the services of the medical practitioner(s) will be exempt from VAT (see [VATHLT2060 - Doctors: Clinical trials](#))
- Note that some pathology services (eg the Lighthouse Lab) are also considered to be exempt from VAT by HMRC [VATHLT2575](#)

## Quick question 3

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- We do not need to consider the VAT status of the funder when determining the VAT treatment of income
  1. True
  2. False
  3. Mainly True

## Quick question 4

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- Whenever we do a research project for a business, we are making supplies and charge VAT
  1. True
  2. False
  3. Mainly True

## Quick question 5

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- We are only making supplies to a business, if we give them the right to own all of the intellectual property from the project
  1. True
  2. False

## Quick question 6

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- We are making supplies to a charity if we give them any rights to the intellectual property from the project
  1. True
  2. False

## Funders who are based overseas

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- When the funding body is not based in the UK, you need to apply the same rules to decide if you are making supplies.
- Imagine that the funding body is based in the UK. Would the funding they provide be regarded as ‘public funding’?
- If the answer is ‘yes’ you should apply the tests that you normally apply to publicly funded research.
- Examples of overseas public funders include:
  - The European Commission
  - Bill and Melinda Gates Foundation
  - National Institutes of Health (NiH)

## Funders who are based overseas

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- If the overseas funding body is a business, then you will need to look to see if the funding agreement provides any benefits to the funder. You should apply the same tests as if the funder was based in the UK
- In most cases, you will find that the agreement does provide benefit to the funder and you will be making supplies
- You do not need to charge VAT when you are making supplies of intellectual property or advertising to a funder who is based overseas

## Quick question 7

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- VAT is not charged on income for a research project where the sponsor is based overseas
  1. True
  2. False





## Quick question 8

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- I do not need to understand if I am making supplies to an overseas funder as no VAT is chargeable either way
  1. True
  2. False



# Collaborations

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- A lot of research is collaborative
- This includes work with other universities, research organisations, and sometimes commercial partners

# Collaborations

- Applications for grant funding are often made by a group of collaborating universities or research bodies (partners)
- The funding is normally awarded to the lead applicant
- And the lead applicant then passes the funding out to the partners
- Where the main funding award is a grant, the funding passed onto the partners who were part of the original funding application, these partner payments can usually also be treated as a grant and outside the scope of VAT
- Collaboration agreements should specify that any grant funding passed onto the partners is inclusive of any VAT

# Collaborations

- But, you still need to go back to the question: Is there a supply?
- For example:
  - Is there a transfer of IP rights to or from the partners?
  - Or are you buying in or selling a service like testing or equipment hire?
- Where there is a supply, even if it is called a collaboration, or is provided to or by a collaborative partner, then VAT will be due

# Collaborations

- Inappropriate use of collaboration agreements is probably the area which leads to the most material errors when costing research grants and contracts.
- Ensuring that partner payments are VAT inclusive manages this risk to some extent, but not entirely
- To avoid errors in application of the reverse charge, please provide copies of any collaboration agreements with overseas partners to the tax team before any funds are distributed

# Collaborations

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- Note: If the main funding award is a contract, there is a rebuttable presumption that the funding passed onto the partners will also be treated as a contract for a supply

## Quick question 9

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- The VAT treatment of payments to collaborative partners will always follow the VAT treatment of the main funding agreement or contract
1. True
  2. False
  3. Mainly True

# VAT on expenditure for research projects

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- All bids for grant funding are based on costs
- Costs will include VAT charged on the items that you buy for the project
- Whilst permanent staff costs and overhead charges are VAT free, and we can claim VAT relief for some purchases for medical and veterinary research, most other costs will carry UK VAT
- This includes goods or services purchased from overseas, although the price will normally be quoted without VAT



<b>Buying from Overseas Customers</b>	
<b>VAT code UK</b>	<b>Overseas</b>
AS	EU
AE	AE
AO	AO
AZ	AZ
EF	EF

## VAT on expenditure for research projects

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- Once you understand how much UK VAT you will pay, you then need to consider whether that VAT can be reclaimed from HMRC, or whether it will be a cost to the project which should be included in your budget
- Agresso should do most of the work for you - the funder scheme drives whether VAT is/isn't recoverable
- It is however useful to understand the core principles in order to ensure that Agresso is working for you

# VAT on expenditure for research projects

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- For most publicly funded research, you are not making supplies to the research funder
- So in most cases you will not be able to reclaim the VAT items which are used only for the project

# VAT on expenditure for research projects

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- Conversely, where you are making supplies to a research funder
- You will usually be able to reclaim the VAT on items which are used only for the project
- This applies for UK and overseas funders
- Remember, the situation is more complex for clinical trials - where providing healthcare or pathology services and the income is exempt from VAT, you will not be able to reclaim the VAT on items which are used only for the project

## Quick question 10

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- Which of these items of expenditure for a research project will you expect to pay VAT on?
  - Salary for Principal Investigator
  - Cost of laboratory technician – supplied by a staff agency
  - PhD student bursary
  - Equipment
  - Laboratory consumables
  - Testing service
  - Consultancy support from a French company

## Quick question 11

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- You are applying to a charity to fund your research project. Should your budget include VAT?
  - Yes
  - No



## Quick question 12

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- Will all funders reimburse VAT costs?
  - Yes
  - No
  - It depends



# VAT and Agresso

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- We need to consider:
  - VAT on purchases
  - VAT on sales invoices
  - VAT on your project code
  - VAT in our VAT return



## VAT and Agresso – on purchases

- VAT is recorded on every transaction using a purchase VAT code

Purchase VAT codes		
AE	Wholly Exempt	Education, conferences
AO	Outside the scope	Partner payments, non-VAT registered businesses
AS	Standard rated	Default VAT code
AL	Lower rated	Little used
AZ	Zero rated	Books, public transport fares
EU	EU/Overseas supplier for VAT reverse charge	Non-UK purchases
EF	No VAT Medical/Vet (exemption form)	Medical/Vet exemption

# VAT and Agresso – on purchases

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- Agresso and ARCP do most of the work for you
- In Agresso, if raising a purchase order, coding within the product code will offer a default VAT code
- In ARCP, the default position is that you will pay VAT on purchases
- Coded exceptions are:
  - T&S Fares (zero rated)
  - Medical consumables (EF)
  - Partner payments
- You may need to change the VAT code for:
  - Equipment which qualifies for Medical/Veterinary (EF)
  - Animals

## VAT and Agresso – sales

- VAT is recorded on every transaction using a sales VAT code

Sales VAT codes		
BE	Wholly Exempt	Education, conferences
BO	Outside the scope	Grants, donations, insurance receipts
BS	Standard rated	Contracts
BL	Lower rated	Little used
BZ	Zero rated	Books
BR	Overseas customer	Non-UK sales

## VAT and Agresso – sales

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- Again, Agresso and ARCP do most of the work for you
- In Agresso, if raising a sales order, coding within the sales code will drive the VAT code
- In ARCP, the Funder scheme will drive the VAT code
- This is where most VAT errors arise – and so caution is needed here
- The next slide shows which VAT code is driven by each funding scheme
- The following slides reminds you of the implications of each VAT code

# VAT and ARCP

<b>Funder Template</b>	<b>Funders</b>	<b>Funding Scheme</b>	<b>Assumption</b>	<b>Tax Code</b>
Research Council	all RCUK	Standard Research	no supply	BO
UK Charities	all UK Charities	Standard Research	no supply	BO
UK Industry	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply	BS
UK Govt Bodies	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply	BS
EU	European Commission	Horizon 2020 (Standard)	no supply	BO
EU Charities	all Charities	Standard Research	no supply	BO
EU Govt Bodies	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply, VAT No. known	BR
EU Industry	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply, VAT No. known	BR
RoW Charities	all Charities	Standard Research	no supply	BO
RoW Industries	all Funders	Standard Research	no supply	BO
		Standard Contract / Service	supply	BR
UK HEIs	all UK HEIs	Standard		BS

## Summary of VAT rates for sales

VAT rate	UoG code		
Standard (20%)	BS	NOT VAT FREE	RIGHT TO RECOVER INPUT VAT
Lower (5%)	BL		
Zero (0%)	BZ	VAT FREE	NO RIGHT TO RECOVER INPUT VAT
Overseas (0%)	BR		
Exempt (0%)	BE		
Outside the Scope (0%)	BO		

## VAT and Agresso – recovery of VAT paid

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- As we saw earlier, once we have paid VAT, we then consider whether we can recover it
- If we charge VAT (BS, BZ, BR) on income, we can recover any VAT paid through our VAT return, so VAT is NOT a cost
- If our income is VAT free because it is exempt or ‘outside the scope of VAT’, (BE or BO), then we have no right to recovery of the VAT paid, so VAT is a cost

## VAT and Agresso

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- Again, Agresso and ARCP do most of the work for you
- In Agresso, coding within the sub project code drives whether VAT is/isn't recoverable
- In ARCP, the funder scheme drives whether VAT is/isn't recoverable



# VAT and Agresso

- The way that Agresso drives VAT recovery is the Tax System
- The most important tax systems are:

Code	Description	VAT recovery status	How much VAT goes onto my code?
TS10	Exempt	No recovery	100%
TS11	Outside the scope	No recovery	100%
TS12	POT1	Some recovery at 'POT' rate	100%
TS13	POT 2	Some recovery at 'POT' rate	100%
TS14	Research and Other	Some recovery at 'POT' rate	100%
TS20	Wholly taxable BS sales	Fully recoverable	0%

# VAT and Agresso – Tax Systems

Code	Description	VAT recovery status	How much VAT goes onto my code?
TS10	Exempt	No recovery	100%
TS11	Outside the scope	No recovery	100%
TS12	POT1	Some recovery at 'POT' rate	100%
TS13	POT 2	Some recovery at 'POT' rate	100%
TS14	Research and Other	Some recovery at 'POT' rate	100%
TS20	Wholly taxable BS sales	Fully recoverable	0%
TS21	Wholly taxable BS sales	Fully recoverable	0%
TS22	Wholly taxable BS sales	Fully recoverable	0%
TS50	Small Animal Hospital	Mainly recoverable	10%
TS51	Residences	Some recovery at 'residence rate'	60%
TS52	Catering	Some recovery at 'catering rate'	70%
TS53	Section 33 (museums)	Fully recoverable	0%
TS54	Concho farm	Mainly recoverable	3%
TS55	ICE building	Mainly recoverable	13%
TS56	Kelvin Hall/Hunterian	Mainly recoverable	6%
TS57	Weipers Equine	Mainly recoverable	7%
TS80	Capital sector (builds >£10m)	Holding code treated as no recovery	100%

# VAT and ARCP

<u>Funder Template</u>	<u>Funders</u>	<u>Funding Scheme</u>	<u>Assumption</u>	<u>Tax Code</u>
Research Council	all RCUK	Standard Research	no supply	BO
UK Charities	all UK Charities	Standard Research	no supply	BO
UK Industry	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply	BS
UK Govt Bodies	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply	BS
EU	European Commission	Horizon 2020 (Standard)	no supply	BO
EU Charities	all Charities	Standard Research	no supply	BO
EU Govt Bodies	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply, VAT No. known	BR
EU Industry	all UK Coys	Standard Research	no supply	BO
	all UK Coys	Standard Contract / Service	supply, VAT No. known	BR
RoW Charities	all Charities	Standard Research	no supply	BO
RoW Industries	all Funders	Standard Research	no supply	BO
		Standard Contract / Service	supply	BR
UK HEIs	all UK HEIs	Standard		BS

- VAT rules are based on certain assumptions. If the project details vary from these assumptions this will result in an exception.
- An example of an exception is:
- Funder AHRC is selected, default VAT code for this funder is BO, which assumes no supply of goods or services.
- However if project type Contract Service is selected, this indicates that a supply of a service is being provided. This will cause an exception.
- This will result in the project details appearing on an exception report
- The Financial Accounts team may ask for further information on the project to determine the correct VAT treatment - it may be either the scheme or the project type that is incorrect.

## Quick question 13

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- Which of the following funder schemes mean that your budgeted costs will include VAT?
  - Research council – standard template
  - UK Industry – standard template
  - UK Industry standard contract/Service
  - UK Charity – standard template
  - UK HEI – standard template

## Key points...

1. Most publicly funded research is a grant – outside the scope of VAT
2. Most non-publicly funded research is a contract – standard rated
3. Donations must be genuine gifts
4. We don't charge VAT to overseas funders
5. Clinical trials and pathology services may be exempt
6. Calling something a collaboration doesn't make it VAT free
7. VAT will appear in your budget if your project is exempt or outside the scope of VAT
8. VAT will not appear in your budget if your project is a contract
9. Agresso does a lot of the heavy lifting for VAT – driven by the funder scheme



Any questions?

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