



# ***Understanding your charity's income streams***

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# Understanding your charity's income streams

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# Agenda

1. Types of funding agreement
2. VAT implications
3. Other tax implications



# 1. Types of funding agreement

- Sometimes it is unclear whether a funding agreement is a grant or contract
- Funding agreements from public bodies often a particular problem
- E.g. service level agreements can sometimes contain grant like and contract like clauses



# 1. Types of funding agreement

## Contracts

- Must have offer and acceptance
- Must have consideration (unless structured as a deed)
- Subject to contract law
- Remedy for failure – damages for breach of contract

## Grants

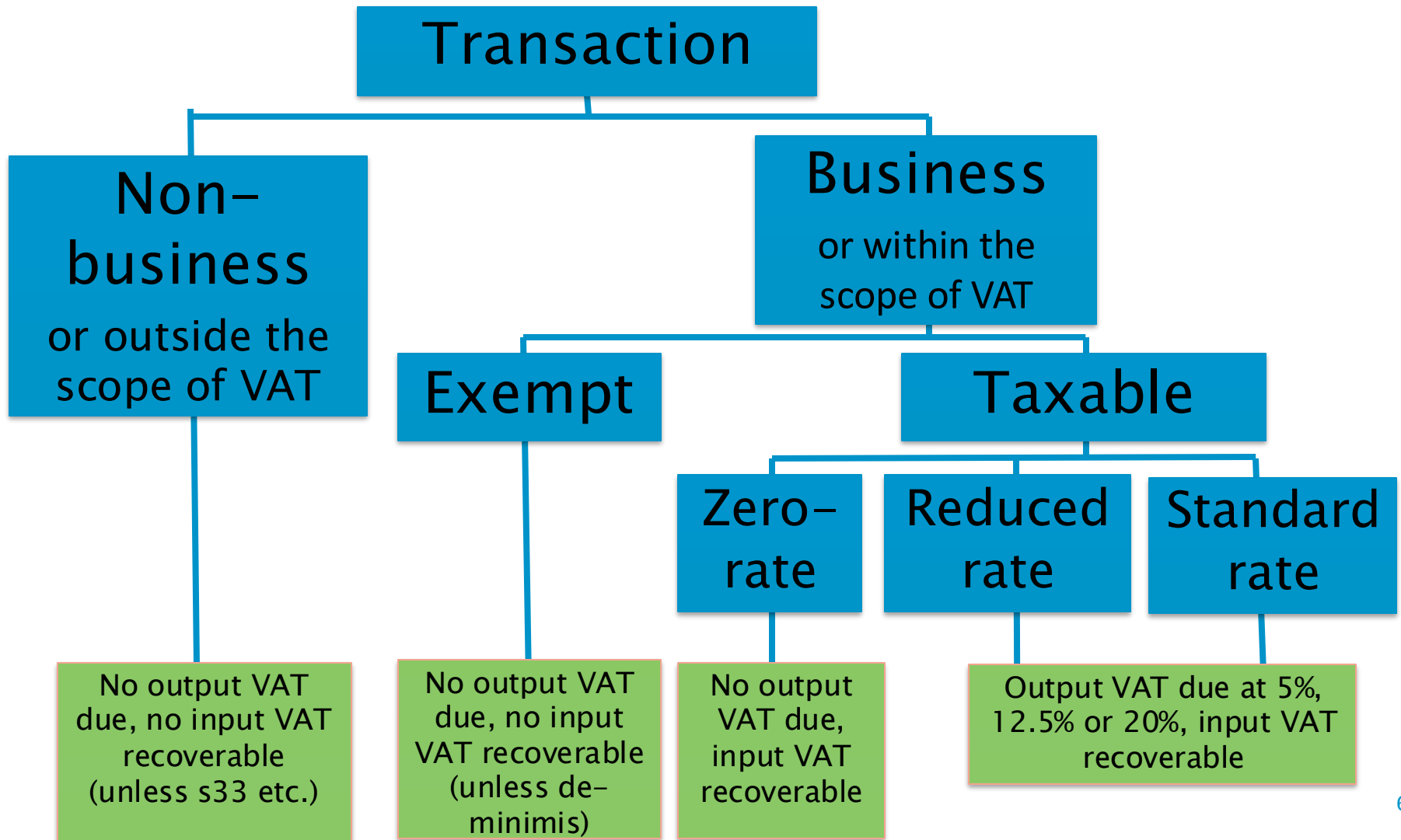
- Gift, freely given at the funder's discretion
- Often to be used for a specific purpose ('restricted')
- Subject to trust law
- Remedy for failure – repayment / claw back



## 2. VAT principles – tests

- Two requirements for a transaction between two independent parties to be within the scope of VAT:
  1. **Supply test:** There must be a supply of goods or services in return for consideration and
  2. **Business test:** The supply must be in the course or furtherance of a business activity of the supplier's
- The grant v contract issue mainly relates to the first test

## 2. VAT principles – treatments





## 2. VAT principles – supply test

**Is the funding under the agreement in return for a supply of goods or services?**

**This can be split into 3 parts:**

- 1) Will there be consideration?
- 2) Will goods and services be supplied?
- 3) Will the consideration be in return for the supply of goods or services?

Generally, the key part here is 3).





## 2. VAT principles – Contract vs grant

Generally:

- Contract – Consideration is usually in return for a supply of goods or services, so the supply test is normally met
- Grants are not usually in return for a supply of goods or services, so the supply test normally fails

However, this is not always the case and there can be exceptions both ways



## 2. VAT principles – exceptions

Grants can be within the scope of VAT

- e.g. payment by results
- £x paid per piece of advice provided
- £x paid per blood test conducted

Funding under a contract can fail the supply test

- e.g. no outputs specified, contract only has vague aims, general outcomes etc.
- HMRC accept this is the case for the standard English NHS contract for hospice care



## 2. HMRC's approach – VATSC06310

- ‘What matters when determining if there is a supply is the extent to which goods or services are provided in return for the payment’
- ‘Grants that are not consideration for supplies are freely given and there is no expectation of goods or services being supplied to the funder, or a specified third party, directly in return for the money paid’



## 2. HMRC's approach – guidance

- HMRC guidance on the issue starting at [VATSC06300](#)
- This is internal guidance for HMRC staff
- Note that the business test must also be met in order for a transaction to be within the scope of VAT
- But that is dealt with in a separate HMRC manual (the BNB manual)



## 2. HMRC's approach – VATSC06312

- The guidance lists 'grant like' and 'consideration like' factors
- All factors need to be considered
- The more there are from each section the greater the evidence for a decision
- However, it is not simply a matter of 'indicators for' exceeding 'indicators against'
- **A balanced view needs to be formed taking all applicable indicators into account**



## 2. HMRC's approach – VATSC06312

‘The following points help in deciding:

1. Does the grantor receive anything in return?
2. Are there any conditions attached to the payment that go beyond merely having to mention it in account statements?
3. What will the payments be used for?
4. If the funder does not benefit directly, does any third party receive a benefit?
5. Is there a contract and what are the terms and conditions?’



## 2. HMRC's approach – factors

HMRC list various factors that can be considered to help determine the correct treatment. Some examples are:

Factor	Grant like	Consideration like
Initiation process	Grant application process	Tender for services
Beneficiaries	No link between beneficiaries and funder	Funder is direct beneficiary of service
Payment mechanism	Funding drawn down as reimbursement for costs incurred	Based on activity carried out
Failure mechanism	Clawback of funds inappropriately/not spent	Breach of contract – could include provision to sue for damages



## 2. HMRC's approach– VATSC06312

‘For a transaction to fall within the scope of VAT there must always be:

- a supply,
- a consideration, and
- a direct link between the two

A payment is not consideration for a supply if one of these factors is missing’





# 3. Other tax implications – Corporation tax

- Charitable exemption– primary purpose trading
- Ancillary trading
- Small trading threshold:

Charity's gross annual income	Maximum permitted small trading turnover
Under £32,000	£8,000
£32,001 to £320,000	25% of your charity's total annual turnover
Over £320,000	£80,000

- Do we need a trading subsidiary?

# Further information and Q&A

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Publications

[www.sayervincent.co.uk](http://www.sayervincent.co.uk)





# ***Using a finance system to improve your charity's financial governance***

HEATHER DUNLOP & MARCO SARAGAT, FOUNDERS,  
CONTANDO LTD

# Using a finance system to improve your charity's financial governance



- Spreadsheet reporting – the issues
- What you need from accounting software
- Structure of the chart of accounts
- How it works in practice – demo
- Q&A



# Spreadsheet reporting, the issues



- Complexity of keeping on top of data
- Version control
- Lack of controls that in finance software would be automatic
- Lack of consistency
- Time consuming and risk of errors
- Reporting



# What you need from accounting software



- Off the shelf and mainstream
- Cloud based
- Suitable for non-finance
- Tracking Funds and Projects
- Easy recoding
- Reporting functionality
- Scalable / integrations

# Structure of the COA



- Tailored to the needs of the charity
- Balance between detail and summary
- Restricted Funds
- Use a recharges/reallocations code at month/ quarter end
- Don't leave unrestricted as unallocated



# How it works in practice



- Set up report templates – typical structure
  - Overall
  - Funders
  - Project / Activity / Department
  - Board version and management version
- Code bills directly
- Check unassigned
- Review reports and edit transactions or do reallocation journals




## Tracking categories

What's this? 


[+ Add Tracking Category](#)


Fund


### Tracking category name


Fund  [Rename](#)

### Category options

City Bridge Foundation  [Rename](#)

Henry Smith  [Rename](#)

Lottery  [Rename](#)

Unrestricted  [Rename](#)

[+ Add another option](#)

## Profit and Loss

Demo Company (UK)

For the year ended 31 March 2025

	City Bridge Foundation	Henry Smith	Lottery	Unrestricted	Unassigned
<b>Turnover</b>					
Donations	-	-	-	14,297.91	-
Earned income	-	-	-	1,666.68	-
Grants	3,485.20	1,735.42	2,074.79	9,048.59	1,995.00
<b>Total Turnover</b>	<b>3,485.20</b>	<b>1,735.42</b>	<b>2,074.79</b>	<b>25,013.18</b>	<b>1,995.00</b>
<b>Cost of Sales</b>					
Project costs	-	-	3,750.00	1,950.00	-
<b>Total Cost of Sales</b>	<b>-</b>	<b>-</b>	<b>3,750.00</b>	<b>1,950.00</b>	<b>-</b>
<b>Gross Profit</b>	<b>3,485.20</b>	<b>1,735.42</b>	<b>(1,675.21)</b>	<b>23,063.18</b>	<b>1,995.00</b>
<b>Administrative Costs</b>					
Advertising & Marketing	-	-	-	4,961.46	-
Audit & Accountancy fees	-	-	-	140.88	-
Bank Fees	-	-	-	-	30.00
Cleaning	-	-	-	99.23	-
General Expenses	-	-	-	482.49	(64.16)
Light, Power, Heating	-	-	-	651.79	-
Motor Vehicle Expenses	-	-	123.75	342.79	182.75
Postage, Freight & Courier	-	104.19	-	-	(10.00)
Printing & Stationery	-	-	24.58	-	59.09
Rent	-	-	-	3,937.52	-
Repairs & Maintenance	886.30	-	-	-	-
Staff welfare	-	-	-	-	44.66
Subscriptions	-	-	-	1,219.90	14.90
Telephone & Internet	-	-	-	164.48	-
Travel - National	-	-	-	201.67	29.08
<b>Total Administrative Costs</b>	<b>886.30</b>	<b>104.19</b>	<b>148.33</b>	<b>12,202.21</b>	<b>286.32</b>
<b>Operating Profit</b>	<b>2,598.90</b>	<b>1,631.23</b>	<b>(1,823.54)</b>	<b>10,860.97</b>	<b>1,708.68</b>
<b>Profit on Ordinary Activities Before Taxation</b>	<b>2,598.90</b>	<b>1,631.23</b>	<b>(1,823.54)</b>	<b>10,860.97</b>	<b>1,708.68</b>
<b>Profit after Taxation</b>	<b>2,598.90</b>	<b>1,631.23</b>	<b>(1,823.54)</b>	<b>10,860.97</b>	<b>1,708.68</b>

# Find and recode

Find transaction lines that match All of the following conditions:

Fund Is **Unassigned**

Type Is Bill Bill Credit Note Bill Prepayment  
Expense Claim Spend Money

+ Add a condition

Search

## Recode Transactions

Recode these 25 line items affecting 20 transactions using the selected changes...

Contact

Account

Tax Rate

Fund   
**Unrestricted**

+ Add

Review Cancel

Recode 25 items selected  Select all 25 items

<input checked="" type="checkbox"/>	Date	Contact/Narration	Inv#/Ref	Inv Ref
<input checked="" type="checkbox"/>	AP 29 Jun 2023	DIISR - Small Business Services		
<input checked="" type="checkbox"/>	AP 29 Jun 2023	DIISR - Small Business Services		
<input checked="" type="checkbox"/>	AP 29 Jun 2023	DIISR - Small Business Services		
<input checked="" type="checkbox"/>	AP 27 Aug 2023	DIISR - Small Business Services		
<input checked="" type="checkbox"/>	AP 27 Aug 2023	DIISR - Small Business Services		

			Tax Rate	Fund	Line Total
	General Expenses		20% (VAT on Expenses)		4,800.00
	Consulting		20% (VAT on Expenses)		2,160.00
	Printing & Stationery		20% (VAT on Expenses)		307.20
	Stationery charges	461 - Printing & Stationery	20% (VAT on Expenses)		307.20
	Desktop/network support via email & phone. Per month fixed fee for minimum 20 hours/month.	429 - General Expenses	20% (VAT on Expenses)		4,800.00

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Audit & Accountancy fees	-	-	-	140.88
Bank Fees	-	-	-	30.00
Cleaning	-	-	-	99.23
General Expenses	-	-	-	418.33
Light, Power, Heating	-	-	-	651.79
Motor Vehicle Expenses	-	-	123.75	525.54
Postage, Freight & Courier	-	104.19	-	(10.00)
Printing & Stationery	-	-	24.58	59.09
Rent	-	-	-	3,937.52
Repairs & Maintenance	886.30	-	-	-
Staff welfare	-	-	-	44.66
Subscriptions	-	-	-	1,234.80
Telephone & Internet	-	-	-	164.48
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# Questions



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