

## **Withdrawal of the VAT Exemption for Supplies of Research - Supplementary Guidance**

### Summary

- Written contracts entered into prior to 1<sup>st</sup> August 2013 will be unaffected by the change
- Restrictions will apply to contracts that are extended or varied on or after 1<sup>st</sup> August 2013

### Introduction

HMRC issued further guidance on 30<sup>th</sup> July 2013 to explain the transitional arrangements that will apply following the withdrawal of the VAT exemption for supplies of research between eligible bodies with effect from 1<sup>st</sup> August 2013. This was contained in Revenue & Customs Brief 21/13 'VAT: withdrawal of the VAT exemption for supplies of research between eligible bodies – announcement on transitional arrangements' and in VAT Information Sheet 11/13 'VAT: supplies of research between eligible bodies'. Click [here](#) to read the Brief in full. Click [here](#) to read the Information sheet in full.

### Transitional Arrangements – 'Grandfathering'

HMRC has confirmed that any **written contracts entered into prior to 1<sup>st</sup> August 2013**, whether or not work under these contracts has commenced by that date, will be unaffected by the change and **exemption will continue to apply to those services within the scope of the contracts.**

This news is obviously very welcome and HMRC believes that the transitional arrangements will reduce the administrative burden on those bodies affected by the change, including funding councils, charities and universities.

### Restrictions

However, there are restrictions on the scope of the transitional arrangements. Whilst supplies of business research that are within the scope of the contract as it stood at 31<sup>st</sup> July 2013 will continue to be exempt for the life of the contract, where a contract is extended or varied on or after 1<sup>st</sup> August 2013, payments for the new or changed supplies will be taxable. This is unless the changes are deemed to be minor, having only a very minor impact on the delivery of the contract as agreed at 31<sup>st</sup> July 2013.

The impact of any variation must be determined on a case-by-case basis, but HMRC considers minor variations to include changing the supplier of a sub-contracted service, changing the order the contract is performed in and minor changes to the delivery time of the contract and milestones (less than 3 months), providing that there is no additional consideration (payment).

A substantial variation would include increases to the length of the contract which are greater than 3 months, additional consideration/payments, a requirement for new or additional tests to be carried out and changes to the product or topic on which research is being carried out.

Where a substantial variation is made to a written contract as it stood at 31<sup>st</sup> July 2013, supplies that relate to the changes will be subject to VAT. Changes that remain within the scope of the contract as it stood at 31<sup>st</sup> July 2013, will remain exempt.

Supplies can only be exempt if they fall wholly within the scope of the contract as at 31<sup>st</sup> July 2013, otherwise they are taxable.

#### Actions

- Ensure that all supplies that are within the scope of a contract as at 31<sup>st</sup> July'13 are invoiced or paid on their own and not with any work relating to any extended supplies
- Ensure that new projects (written contracts entered into on or after 1st August 2013) are classified correctly for VAT liability e.g. whether income is in respect of an outside the scope of VAT grant funded collaborative project, or is for a supply of research services between eligible bodies and should be classified as vatable
- Ensure that, other than when deemed minor, any extension or variation to a contract made after 31<sup>st</sup> July'13 in respect of a supply of research services provided by the University, or supplied to the University, is separately identified in the projects ledger – preferably on a new project code or at least on a new task - and that these services are always invoiced for separately as they will be vatable
- Wherever possible ensure that all research collaborators are named on the funding application; evidence of collaborative research must be retained in case of enquiry by HMRC
- Contact the VAT Team – James Gillen tel. 0161 275 2165 or e-mail [james.gillen@manchester.ac.uk](mailto:james.gillen@manchester.ac.uk) if you have any queries concerning the VAT liability of research projects or require advice on whether the University will be involved in a grant funded collaborative project or will be supplying or receiving research services in the future.

N.B. The Research VAT Liability Decision Tree will be updated in due course to reflect the changes effective from 1<sup>st</sup> August 2013.

JMH 31.07.13