**Accounting for VAT for Research**

These guidance notes are to be used to determine the VAT treatment for awards and contracts which meet the HM Revenue & Customs (HRMC) definition of research. HMRC defines research as **‘original investigation undertaken in order to gain, advance or expand knowledge and understanding’.**  If the award or contract does not meet this definition and is therefore for other services rendered please seek advice from the Research Accountant or the Finance Division Tax Team. There is some general guidance at the end of these notes for consultancy, secondment of staff and bench fees.

The VAT liability of research undertaken by the LSE will, in every case, depend on the precise details of the contract for services/agreement for funding that the School holds and also on the VAT status and location of the sponsor/funder. See also notes on joint/collaborative projects.

The ‘decision tree’ below will help you to determine the correct VAT treatment of the research project and whether VAT incurred directly on your research project will be recoverable from HMRC on LSE's quarterly VAT Return. **Always begin by answering Question 1**

**Q1 Is there a supply? ❶**

 ↙ Yes No ↘

Go to Q2 **Non-Business**

 VAT is not charged to the funder and we are unable to recover the input tax on our purchases (the full cost of the purchase invoice will be charged to the project)

**Aptos code E/N Pfact code 4**

**Q2**. **Is the recipient an ‘eligible body’ for VAT research purposes?** ❷ This question will no longer apply from the 1st August 2013 for new contracts and contracts that are amended after 31 July 2013 in which case go to Q3**.** See notes on removal of exemption, transition arrangements and extension to contracts post 31 July 2013.

 ↙ No Yes ↘

Go to Q3 **Exempt**

VAT is not charged to the funder and we are unable to recover the input tax on our purchases (the full cost of the purchase invoice will be charged to the project)

 **Aptos code E/S Pfact code 1**

**Q3**. **Is the recipient of the research service within the UK?**

 ↙ No Yes ↘

Go to Q4 **Standard Rated**

 VAT is charged to the funder and we are able to recover the input tax on our purchases (the amount net of VAT is charged to the project)

**Aptos code E/R Pfact code 2**

**Q4**.  **Is the recipient of the research service outside the EU?**

 ↙ No Yes ↘

Go to Q5 **Outside the scope but I/Tax recoverable**

VAT is NOT charged to the funder but we are able to recover the input tax on our purchases (the amount net of VAT is charged to the project)

 **Aptos code E/R Pfact code 3**

**Q5**. **Is funding received directly from the European Commission under Framework Programmes 4, 5 or 6?**

↙ No Yes ↘

Go to Q6 **Zero Rated I/Tax recoverable**

 VAT is NOT charged to the funder but we are able to recover the input tax on our purchases (the amount net of VAT is charged to the project)

 **Aptos code E/R Pfact code 3**

**Q6.** **Is the funding received from the European Commission under Framework Programme 7 or Horizon 2020?**

↙ No Yes ↘

Go to Q7 **Non Business I/Tax irrecoverable**

 VAT is not charged to the funder and we are unable to recover the input tax on our purchases (the full cost of the purchase invoice will be charged to the project)

**Aptos code E/N Pfact code**

**Q7. Is the recipient International Organisation recognised under Article 15(10) ❸?**

↙ No Yes ↘

Go to Q8 **Zero rated I/Tax recoverable**

VAT is NOT charged to the funder but we are able to recover the input tax on our purchases (the amount net of VAT is charged to the project)

 **Aptos code E/R Pfact code 3**

**Q8**. **Is the recipient, who is in another EU Member State, receiving our services for a business purpose and is VAT registered ❹?**

↙ No Yes ↘

**Standard Rated I/Tax recoverable** **Outside the Scope, but I/Tax recoverable**

**Aptos code E/R Aptos code E/R**

**Pfact code 2 Pfact code 3**

**❶Is there a Supply?**

In return for funding, is the School providing research to someone who will benefit directly from that service? For example, will they have access to results before a commercial competitor, is the funder being granted first option to use any IP that may be developed from the project (will be granted a licence to use Foreground IP for evaluation purposes etc.), does the funder have publication rights and constraints e.g. to request that a student thesis be placed on restricted access.

Where research funding is for **‘the public good’** this **does not constitute a supply for VAT purposes**. This includes most (but not all) grants received from **Research Councils and UK Charities**. It also includes grants provided by **UK Central Government** which are generally paid in order to fulfil the funding body's statutory and public duties to fund research and not to secure a benefit for it or any third party. Any requirement to transfer intellectual property rights (IPR) to the funder enables the Government to recoup its grant should the research produce income generating IP and is deemed a protection measure rather than a means of securing a consumable benefit. Whist not absolute, HMRC considers that the majority of publicly funded research is generally for the public good (non-business research) and therefore outside the scope of VAT. But each case should be assessed on its own merits to determine whether a supply is actually taking place.

**Privately funded research** will often involve the funder obtaining a material benefit and hence will involve a supply. One way of identifying whether there is a supply is to look at what happens to IP:

* If the IP resulting from a research contract is retained by the University or goes into the public domain then there is no supply and the funding is a grant outside the scope of VAT
* If the funding body obtains exclusivity over or shares IP rights then that is a supply

When dealing with private funders it is also worth considering that they quite possibly wouldn't be funding the research unless they were getting 'something' (a supply) out of it. Potential examples of a supply includes:

* A royalty free licence - as the funder gains early use of the IP (before it is published), then there is a time advantage and thereby potentially a supply
* Production of a report to the funder results in a time advantage and thereby potentially a supply

But in some cases the funded research may constitute a **‘philanthropic donation’**and be outside the scope of VAT. Research which is funded for the general public good and is either not expected to generate any intellectual property (IP), or if it does then any reports or findings will be freely available to others would be outside the scope/non-business.

Where funding is provided to a named party for research that will either generate IP to be exploited by the funder and/or is not for the public good and they subsequently decide to sub-contract some of the research to an eligible body (for example a university), the initial funding to the named party (assuming an eligible body) will be a taxable consideration for a supply.

**Research** is often undertaken **jointly or in collaboration** with a number of independent bodies with the funding being paid to a single 'lead' organisation. The lead organisation passes on the relevant elements of the research to the third parties named in the funding agreement and reallocates an appropriate element of the income to each party. In most cases, research undertaken by the third parties on behalf of the lead organisation as part of the joint funding arrangement will be outside the scope of VAT: no supply occurs between the parties.

Where funding is provided to a named party for research that will either generate IP to be exploited by the funder and/or is not for the public good and they subsequently decide to sub-contract some of the research to an eligible body (for example a university), the initial funding to the named party (assuming an eligible body) will be taxable consideration for a supply.

Whether a supply for VAT purposes actually takes place will depend on the precise details of the contract and each case should be considered on its own merits. If in doubt please seek the advice of the Research Accountant or Finance Division Tax Team.

In the case of non-framework/Horizon 2020 contracts with the EU Commission, the following would indicate that the LSE is making an Article 15(10) supply to the commission:

* The study/report prepared by the LSE will be used by the Commission in preparing a proposal to be put to the Council of Ministers;
* The study/report by the LSE assists the Commission in ensuring Compliance with European Law; and
* The Commission has control of intellectual property rights.

**❷ Eligible Bodies**

* UK Universities and any college, institution, school, sixth form college, tertiary college or further education college or other centrally funded higher or further education institution.
* UK Public Body – local authority, government department, executive agency, health authority, or other non-profit making body that carries out duties of an essentially public nature.
* Non-profit making organisations that meet certain conditions i.e. a body which is precluded from distributing and does not distribute its profits and applies any profit made from supplies of education and research to continuance or improvement of those supplies.

**Removal of VAT exemption for supplies of research to eligible bodies**

Effective from the 1 August 2013 the VAT exemption for supplies of research to eligible bodies has been removed. This applies to all new contracts entered into after 1 August 2013 and existing contracts which are amended after 1 August 2013. The eligible body exemption will remain for contracts entered into before 1 August 2013. However, where an existing contract, which was exempt before the 1 August 2013, is subsequently amended the exemption no longer applies and all invoices from the date of the extension should be treated as standard rated. Recovery of input tax on purchases will be possible from the date of the extension. The Aptos VAT code should be amended accordingly.

❸ International Organisations recognised under Article 15(10)

International Organisations (recognised under Article 15(10) include European Commission, European Parliament, European Courts of Justice, Eurostat, European Bank, United Nations bodies such as UNICEF, World Health Organisation and NATO.

The LSE should obtain the international organisation's valid Article 15(10) certificate.

**❹ Supplies of research to funder in EU member states**

Evidence of the business status of the funder must be obtained. This will be their VAT registration number if they are VAT registered and this must be quoted on the sales invoice. The VAT Regsitration number must be validated on the EUROPA VIES Webpage before being accepted as valid and being quoted on the sales invoice. Alternatively a letter from them stating that they are in business but not VAT registered will need to be obtained from them. The sales invoice must also contain the following statement which indicates the VAT treatment applied to the transaction by the University: **‘Article 28 of the EU 6th Directive – reverse charge mechanism applies’.** We do not charge the customer VAT and they will apply reverse charge VAT in their own country. Please see 'Reverse Charge Invoicing Manual' held on the p drive P:Research/VAT/Reverse Charge Invoicing Manual

**Reverse charge on purchases of goods and services from outside the UK**

When the LSE imports services from abroad, Reverse charge VAT has to be charged on relevant supplies by LSE's Tax team. The Reverse charge is only accounted for by the Tax team when the VAT chargeable is not recoverable (either in full or in part).

If the Reverse charge VAT applies to a Research Grant or Contract which enjoys full VAT recovery (Aptos purchase VAT code E/R), then no VAT accounting is done, as the net VAT due is nil.(This is because the VAT due and recoverable net off to nil)

Reverse charges are only due on those supplies on which VAT would have been due if they had been made in the UK. Because LSE is deemed when importing services to have made a supply to itself of such supplies, no consideration is to be given as to whether the supplier would have been VAT registrable (trading above UK VAT registration turnover limits) when the decision to charge LSE reverse charge VAT is made. However, the Tax team will seek assurance from Research and Innovation that LSE is actually the recipient of the imported supply before applying the Reverse charge VAT. This is because in many cases the LSE is not receiving a supply from the foreign supplier- either the Funder is receiving the supply directly or LSE is merely acting as the conduit for the passing on of the grant from the funder to the foreign collaborator, as explained in such cases at ❶ above, " In most cases, research undertaken by the third parties on behalf of the lead organisation as part of the joint funding arrangement will be outside the scope of VAT: no supply occurs between the parties"

**Other Services Rendered**

***Consultancy :***

Is the provision of specific professional advice. The following may be classified as consultancy:

* + Management consultancy and business efficiency advice; collection and statistical analysis of information; market research and opinion polling; writing computer programs; writing company histories; and testing and analysis of chemical and other goods.

However, some of these activities would qualify as research if they were supplies as part of a larger research project.

The distinction between research and consultancy can often be difficult. Consultancy is the provision of specific professional advice, which includes market research, business efficiency studies, the development of computer software/word processing packages or business consultancy activities in general.

**Consultancy is a Vatable supply**:

Supply of staff to UK entities should be treated as a **standard rated supply**

Supply of staff to any entity outside the European Union is **outside the scope of VAT with the right to recover Input Tax**

Supply of staff to a EU member state **business** who can supply their VAT registration number is **outside the scope of VAT** (RSV procedures apply) **with the right to recover Input Tax**

Supply of staff to any EU member state **non-business** entity is a standard rated supply

***Secondment of Staff:***

If the LSE is making a supply of staff, for a consideration and we provide another entity (person or organisation) with the use of an individual who is:

* Contractually employed or otherwise engaged by the LSE

There is a supply regardless of whether the terms of the individual’s employment or engagement with the LSE are set out:

1. In a formal contract or letter of engagement, or
2. Are on a less formal basis

What is important is that the staff are not contractually employed by the recipient of the supply, but come under the direction of the recipient.

A Supply of staff to UK entities should be treated as a standard rated supply

A Supply of staff to any entity outside the European Union is outside the scope of VAT

A Supply of staff to a EU member state **business** who can supply their VAT registration number is outside the scope of VAT (RSV procedures apply)

A Supply of staff to any EU member state **non-business** entity is a standard rated supply

Where the supply is taxable we should charge VAT on the full amount invoiced, including any additional charges such as overheads.

***Bench fees:***

The removal of the eligible exemption from 1 August 2013, changed the rules on VAT treatment for academic visitors from VAT exempt to standard rated in certain cases. If the academic visitor is working on research for any of the Research Councils, government bodies, NHS Trusts, UK charities or the EU Commission the VAT treatment for bench fees and accommodation costs remains VAT exempt.

The exception to this is if the academic visitor is a research fellow. In this case, standard rated VAT should be charged on bench fees and accommodation costs regardless of the purpose of the visit.

If the academic visitor's business falls outside research activities for the bodies listed above, then standard rated VAT should be added to bench fees and accommodation costs.

For further information and guidance on non – research supplies please contact the Finance Division Tax Team.

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