

Could it be (Tax) Magic? VAT – Increasing Corporate Sponsorship Income

Tax can be a complex topic but when Azet's charity tax team told us they could help charities increase their corporate sponsorship income we had to listen to them!

They told us that the combination of VAT recovery and corporate tax allow most companies to reduce the cost of the sponsorship payments they make to charities. They said that it may be worth asking companies to increase the sponsorship payments they intend to make to charities.

In practice it works like this – let's say a company decides to sponsor a charity by paying it £10,000. In return the charity provides the company with specific benefits for example tickets to a show, advertising at the show and on programmes.

In this case the charity would have to account for VAT on the income it receives and it should ensure its negotiation of the £10,000 payment confirms it is exclusive of VAT. This will allow the charity to charge VAT in addition to the £10,000 payment. If the terms are not VAT exclusive a £10,000 payment could be reduced to £8,000 once VAT has been paid to HMRC.

Most commercial companies can recover the VAT they incur on sponsorship arrangements so charging VAT in addition should be entirely acceptable to most companies. An exception to this would be banks, insurance companies and other financial services providers and anyone that cannot recover the VAT they incur on expenditure.

By charging VAT on sponsorship income the charity will be able to recover the VAT it incurs on associated expenditure.

So, a company originally says that it will make a £10,000 sponsorship payment however after VAT this becomes £12,000. As long as the VAT

is recoverable the true cost to the company is still £10,000. Now the corporate tax point – the company can set off the £10,000 cost of sponsorship against any profits it has and will reduce its corporation tax bill. The £10,000 sponsorship payment could reduce the company's tax bill by up to £2,000 and consequently the cost of the sponsorship down to £8,000. The actual value of any corporation tax reduction will need to be confirmed by each sponsor.

So in summary, a £12,000 sponsorship (including VAT) may only cost a commercial company £8,000. If it has budgeted to spend £10,000 why not ask it to increase its budget to £12,000 plus VAT, as the net cost of this could still be around £10,000.

We thought that this was a point that fundraisers should be aware of. They may be able to use this example during their sponsorship negotiations.

It is worth remembering that sponsorship income is normally classified as trading income for a charity and this will count towards the tax exemption threshold. Sponsorship income is often recorded through trading subsidiary companies.

If you have any tax questions please contact Kirsty Murray or Scott Craig at Azets.

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