

## Value Added Tax & the Arts

Value added tax (VAT) was introduced into the UK on 01 April 1973 as a requirement of membership of the European Union (EU). VAT is a tax on consumer expenditure and is collected on business transactions and imports. The essence is to charge VAT at each stage in the supply of goods and services (output tax). If the customer is registered for VAT and uses the supplies for business purposes he will receive credit for this (input tax). The general effect is that it does not affect VAT registered entities and it is borne by the final consumer (non VAT registered).

A business transaction is within the scope of VAT where “a taxable supply is made by a taxable person, in the course or furtherance of any business carried on by him”. A taxable supply is one where goods or services are provided in the course of a business. In VAT terms, a business activity is one where goods or services are supplied for a value. The activity must have a degree of frequency and scale and be continued over a period of time; however a profit motive is not required.

A taxable person is one who intends to make taxable supplies and who is registered or required to be registered. This will include individuals, partnerships, limited companies, clubs, associations and charities, compulsory registration is required where the value of annual taxable supplies exceeds a statutory limit, for current rates check out our resources area; it is possible for organisations to seek voluntary registration. Organisations that are registered are the ones that operate, charge and collect VAT – they make up the army of thousands of unpaid tax collectors and administrators.

There are effectively three categories of supplies for VAT purposes, standard-rated and zero-rated (taxable) and exempt supplies (non-taxable). Zero-rated supplies include the supply of food, books (but not stationery), protected buildings; exempt supplies include works of art, fundraising events, education, health and welfare. Care must be exercised in classifying the items, for example food is zero rated except where supplied in the course of catering, or a 'non-essential' item such as chocolate and alcohol. There is no statutory listing of standard supplies and generally standard rated items are those items that are not zero rated or exempt.

VAT exemption applies to certain 'cultural services' provided by public and eligible bodies. The cultural services that are covered include admission charges to museums, galleries, art exhibitions and zoos and theatrical, musical or chorographical performances of a cultural nature. The meaning of 'museums, galleries, art exhibitions or zoo' is judged by its normal

everyday meaning, the meaning of 'theatrical, musical or choregraphical performances of a cultural nature' is judged on individual merits. Live performances of any form of stage play, dance or music will generally be accepted as cultural for this purpose (see relevant VAT notice [VAT notice](#)).

An eligible body is one that is a non-profit making, not allowed to distribute any profits or surpluses, uses the income for the continuation and improvement of services covered by the exemption, and lastly is managed and administered on a voluntary basis by people who have no direct or indirect financial interest in its activities.

The VAT exemption on admission charges reduces the cost of admission to visitors, but it has a knock on effect whereby organisations will be restricted on claiming back input VAT on purchases they have made.

Many arts organisations operate some form of membership scheme; the subscriptions will either be business or non-business income (or a mix). Business income is deemed to be a taxable supply and VAT is due on the subscriptions and a claim can be made for any input VAT incurred. Non business income is deemed to be exempt and therefore there will be a restriction on to the amount of VAT incurred on purchases and overheads

Subscriptions are considered business income where members obtain or gain entitlement to any 'substantive' benefits, for example magazines, periodicals, handbooks, priority booking rights, guaranteed seats, and discounts on admission charges. Where a member receives nothing in return for their subscription, except for (say) copies of financial statements, activity reports and the right to vote at general meetings then the subscriptions will be considered non business.

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