

VAT – Cost-sharing exemption guidance finalised

The exemption applies when two or more organisations (whether commercial businesses or other types of organisation) with exempt and/or non-business activities join together on a co-operative basis to form a separate, independent entity, a cost-sharing group (CSG), to supply themselves with certain services at cost and exempt from VAT.

The CSG is a separate “taxable person” in VAT terms from its members. It can therefore make supplies for VAT purposes to its members.

The cost-sharing exemption applies only in specific circumstances and will not cover all shared service arrangements. CSGs are different to VAT groups which can be established between companies for example between a charitable company limited by guarantee and its trading subsidiary. Please seek advice if you are thinking about setting up a VAT group.

Conditions for the cost-sharing exemption are:

- There must be an “independent group of persons” (a CSG) supplying services to persons who are its “members”.
- All the members must carry on an activity that is exempt from VAT or one which is not a business activity for VAT purposes.
- The services supplied by the CSG must be “directly necessary” for a “member’s exempt and/or non-business activity”.
- The CSG only recovers, from its members, the members’ individual share of the expenses incurred by the CSG in making the exempt supplies to its members.
- The application of the exemption to the supplies made by the CSG to its members is not likely to cause a distortion of competition.

The exemption is potentially available to a wide range of organisations including charities and social housing organisations.

A CSG does not have to be a limited company. It must however be a separate “taxable person” from its members.

The exemption does not apply to goods, unless they are an ancillary element of a single supply of services under usual VAT principles.

For further information, please contact:

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