

Accounting for VAT on Research Grant income November 2013

There are several different income streams managed by the research grant teams:

- Research
- Clinical trials
- Services including testing
- Consultancy and
- Research studentships

Deciding on the nature of the supply

The first step in deciding the VAT liability of the income is to decide the nature of the supply.

1. Research

HMRC define research as 'original investigation undertaken in order to gain knowledge and understanding'

Merely confirming existing knowledge and understanding is not research and the following are examples of work which HMRC **do not** regard as being research:

- Consultancy and business efficiency advice
- Collecting and recording statistics without also collating, analysing or interpreting them
- Routine testing and analysis of materials, components and processes (unless QMUL is named as a partner in the Research Collaboration agreement).

Status of Funder – is a personal benefit being received?

It is then necessary to consider the status of the funder and whether they are receiving a personal benefit:

Research Councils:

Grants provided by central government research councils to fulfil their statutory duties to fund research are outside the scope of VAT. The research 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. See HMRC guidance included in **Appendix 1, example 1**.

Where there is a collaborative agreement between different research institutions and all parties to the grant are named on the application or where the funding flows through one named party who act purely as a conduit passing on the funds to others involved in the research project, the funding remains outside the scope of VAT and there is no change in the status of the project following the withdrawal of the VAT exemption for the supplies of research between eligible bodies.

There is an exception if they fund PhD studentships – this is an exempt supply of education.

Charities:

Grants provided by charities both UK and those established overseas where the funder receives no unique benefit are outside the scope of VAT.

For the status of collaborative research or where the funding flows through one named party see the comments under Research Councils above. See HMRC guidance

included in **Appendix 1, examples 8 and 9.**

Other UK government departments, Executive Agencies, Health Agencies and Local Authorities

The VAT status of research commissioned by other government departments depends on whether the results of the research go only to the funder or whether the results are made available to the public. If the results are available to the public then the funder receives no unique benefit and income is outside the scope of VAT as the public good criteria has been met. It is also possible that defence and potentially sensitive Health Research projects qualify as a non business supply as the public benefit test is still satisfied even if they contain confidentiality clauses which could suggest a private benefit. See the HMRC guidance included in **Appendix 1, examples 3 and 4.**

Where the results are private to the commissioning body or where the purpose of research is to inform policy and any IP arising from the research is the property of the commissioning body there is a taxable supply of research. See the HMRC guidance included below **Appendix 1, example 2.**

Withdrawal of VAT exemption for research services supplied by one eligible body to another

From 1 August 2013 the supply of research services between eligible bodies (UK universities, charities, Health Authorities) is taxable at the standard rate.

For more details of the transitional arrangements and HMRC guidance on those supplies which will remain outside the scope of VAT refer to the withdrawal of the VAT exemption for the supplies of research between eligible bodies at <http://qm-web.finance.qmul.ac.uk/financialaccounting/documents/111191.pdf>

Commercial Companies

The supply of research services to a commercial entity will usually involve a personal benefit passing and the supply will be taxable at the standard rate for UK companies and at zero rate for companies outside the EU. Supplies to customers within the EU but outside the UK can be zero rated if they are in business. A VAT registration number (which should be quoted on the invoice) is sufficient proof that the customer is in business. If the customer is not carrying on a business the supply will be taxable at the standard rate.

See the HMRC guidance **Appendix 1, example 5** for when a pharmaceutical company contracts with a NHS Trust who in turn contracts with the university and **Appendix 1, example 7** for collaborative research between a university and a commercial company funded by a government organisation.

The VAT classification above will also apply where the sole purpose of the project is to develop IP with a view to exploitation.

2. Clinical Trials

The supply is only exempt if it involves patient care where a health practitioner is required to monitor a patient involved in the trial for adverse reactions which may be detrimental to his health.

If involvement with the patient is restricted to monitoring side effects for analytical purposes or if analytical testing services are provided with no patient contact the supply is standard rated.

3. Services and routine testing (if not part of a collaborative project)

The provision of services and routine testing will normally be standard rated unless it falls within the exemption for medical care in the exercise of the medical or paramedical

profession. This exemption is limited to services intended to protect, maintain or restore the health of an individual. See the HMRC guidance included in **Appendix 1, example 10**.

4. Consultancy

Consultancy services which includes reviews and audits will be standard rated when supplied in the UK and zero rated when supplied to companies outside the EU. Supplies to customers within the EU but outside the UK can be zero rated if they are in business. A VAT registration number (which should be quoted on the invoice) is sufficient proof that the customer is in business. If the customer is not carrying on a business the supply will be taxable at the standard rate.

5. Research studentships

If a Government grant is awarded specifically as a Research studentship or fellowship then the VAT liability will almost always be exempt as a supply of education.

In contrast, if a research student works on a research project funded by a government body or charity the VAT liability is almost always Non-Business and outside the scope of VAT.

6. CASE studentships

If these studentships involve Post Graduate (Taught) students (PGT's) then income is VAT exempt as students receive supplies of education from College. Therefore, any funding received will be consideration for a supply of student education.

If the Post Graduates (Research) (PGR's) are working as Research Assistants and effectively employees of the College, income received from Research Councils, such as EPSRC, is outside the scope of VAT.

7. Knowledge Transfer Partnerships

Funding from the research councils or Knowledge Transfer Partnerships is a non business supply.

The supply of the KTP associate by College to the business partner is a supply of staff so taxable at the standard rate. See HMRC guidance **Appendix 1, example 6**.

Importance of Fundsource

The decision on the VAT liability of a supply not only governs whether the project is outside the scope of VAT or whether VAT is chargeable to the customer for services supplied and at what rate (standard or zero) but whether VAT on expenditure can be recovered. VAT can be recovered through the College's VAT return on projects where VAT is chargeable at the standard, or zero rates. If the grant is a non business supply or is exempt from VAT, VAT is not recoverable and becomes a cost to the project.

The recoverability of the VAT is determined by the fundsource chosen when the grant is set up. Incorrect allocation of the fundsource could lead to VAT not being recovered when it should and vice versa.

There should be a link between the funder, type of supply, the VAT code used to record income and the fundsource allocated when the project is set up. Please see **Appendix 2** for the correct VAT codes and fundsource to be used for the different income streams for each type of funder.

Appendix 1 - HMRC guidance on the VAT liability of Research Grants

Example 1: Research Council Grant

<p>Facts:</p> <ul style="list-style-type: none"> • Principal Investigator (PI) applies to Research Council for funding. • No benefits flow back to Research Council • University has a responsibility to communicate research to public • Intellectual Property (IP) normally remains with the university but RC may reserve the right to take ownership and exploit for the national benefit. • IP whether protected or not to be used for the benefit of society and the economy. • Various reporting and monitoring conditions 	<p>Reasoning:</p> <p>HMRC has clarified the following situations where the funding will be outside the scope of VAT:</p> <ul style="list-style-type: none"> • research which is funded for the 'general public good' and there is no direct benefit for the funding body • research which is funded for the general public good and is either not expected to generate any IP, or if it does then any reports or findings will be freely available to others <p>Decision:</p> <p>This supply will be outside the scope of VAT and contracts entered into on or after 1 August 2013 will be unaffected by the change.</p>
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Example 2: Food Standards Agency

<p>Facts:</p> <ul style="list-style-type: none"> • FSA commission research under a tendering process under which contracts are awarded to both public sector and commercial bodies • The purpose of the research is to inform FSA policy. • Any IP arising from the research arising is the property of the FSA 	<p>Reasoning:</p> <p>Unlike example 1 this does not fit into any of the situations where the funding will be outside the scope of VAT. In this case there a direct link between the service supplied (in this case research) and the consideration received such that the relationship can be established between the level of benefits the customer gets and the amount they pay.</p> <p>Decision:</p> <p>There is a supply of research to the FSA, and this will now be a standard rated supply for contracts entered into on or after 1 August 2013.</p>
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Example 3: Grant from NIHR

<p>Facts:</p> <ul style="list-style-type: none">• Contract refers to "commissioning research" and to the research body as a contractor.• Funding however is in response to an application from a PI.• Results must be published in the public domain.• IP remains with university, with a requirement for it to be managed and protected where appropriate.• The research does however focus on health outcomes where the main object is to identify useful IP.	<p>Reasoning:</p> <p>As with example 1 HMRC has clarified the following situations where the funding will be outside the scope of VAT:</p> <ul style="list-style-type: none">• research which is funded for the 'general public good' and there is no direct benefit for the funding body• research which is funded for the general public good and is either not expected to generate any IP, or if it does then any reports or findings will be freely available to others. <p>This conclusion is further supported by the fact that University-led research initiated by the university and generally funded in whole or in part by grant funding, typically from the Research Councils, government and charities is normally undertaken to advance human knowledge rather than for any business reason. It should be treated as a non-business activity unless the university can demonstrate otherwise.</p> <p>Decision:</p> <p>This supply will be outside the scope of VAT, and contracts entered into on or after 1 August 2013 will be unaffected by the change.</p>
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Example 4 Subcontract from an NHS Trust in receipt of a NIHR Grant

<p>Facts:</p> <ul style="list-style-type: none">• Source of funds is the Government although Trust pays university• IP remains the property of University, but licence granted to Hospital Trust and agreement to share any commercial benefits• Research led by university PI	<p>Reasoning:</p> <p>Looking at the University in isolation -the following situation applies to the funding received from the NHS trust:</p> <ul style="list-style-type: none">• 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 <p>Decision:</p> <p>This supply will be outside the scope of VAT and contracts entered into on or after 1 August 2013 will be unaffected by the change.</p>
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Example 5: Contracts between NHS Trust, University and Pharmaceutical Company

<p>Facts:</p> <ul style="list-style-type: none"> • The pharmaceutical company is sponsoring the NHS trust to undertake research. • The NHS trust subcontracts this research to the university • Publication of the results will be in the public domain, but the company can request a delay to allow for patent protection. IP will remain owned by the university and the Trust, but they grant a cost free licence to market products from the results. 	<p>Reasoning:</p> <p>The analysis of this situation is more complex. Although there is an indication that the funding could be outside the scope being:</p> <ul style="list-style-type: none"> • research which is funded for the general public good... any reports or findings will be freely available to others . <p>However there is a supply to the pharmaceutical company as there is a direct link between the service supplied (in this case research) and the consideration received such that the relationship can be established between the level of benefits the customer gets and the amount they pay.</p> <p>Decision:</p> <p>There is a supply of research by the NHS trust to the pharmaceutical company and that this will be a standard rated supply. Because the main contract is a supply of research, and the university has contracted with the NHS trust on similar terms, there will also be a supply by the university to the NHS trust.</p> <p>Under the new rules this will be a standard rated supply and so supplies made under a contract entered into on or after 1 August 2013 will be affected by the change.</p>
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Example 6: Knowledge Transfer Partnership (KTP)

<p>Facts:</p> <ul style="list-style-type: none"> • Funding is from the Technology Strategy Board (TSB) jointly to a university and a company; • University academic is placed to work in the company under supervision of university; • University receives funding both directly and from the Company; • Pre-agreed IP sharing between the university and the Company; • Aims include transferring knowledge to the Company, developing the skills of the Associate and stimulating innovation. 	<p>Decision:</p> <p>HMRC agree that the supply by the University to the industrial partner is a taxable supply, and that the TSB payment is outside the scope of VAT</p> <p>This analysis will be unchanged for new contracts entered into on or after 1 August 2013.</p>
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Example 7: Grant from the Technology Strategy Board (TSB) jointly awarded to a commercial company and the university. Funds are provided from the Biomedical Catalyst Fund

<p>Facts:</p> <ul style="list-style-type: none">• Both the university and the company receive funding• The research is collaborative.• The university and the company have a joint exploitation plan.• There is a separate contract for supplies from the university to the Company.• No benefit or IP passes to the TSB in return for the funding.	<p>Decision:</p> <p>As with example 6 above, the supply by the university to the commercial company partner is a taxable supply and the TSB payment is outside the scope of VAT.</p> <p>This analysis will be unchanged for new contracts entered into on or after 1 August 2013.</p>
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Example 8: Wellcome Trust grant to one [lead] university for a collaborative project

<p>Facts:</p> <ul style="list-style-type: none">• Funding is for a collaborative research program where the other research partner universities are yet to be identified.• IP remains the property of University, but licence granted to Wellcome and agreement to share any commercial benefits• Research led by lead university PI	<p>Reasoning:</p> <p>The funding from Wellcome meets the first condition to be considered outside the scope of VAT being:</p> <ul style="list-style-type: none">• 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 <p>but we need to consider the relationship between the research partner universities. The first condition:</p> <ul style="list-style-type: none">• where there is a 'collaborative' agreement between different research institutions where all parties to the grant are named on the application <p>will not be met.</p> <p>However the second condition:</p> <ul style="list-style-type: none">• where the funding flows through one named party and they act purely as a conduit passing on the funds to others involved in the research project- the funding remains outside the scope of VAT <p>will be met</p> <p>Decision:</p> <p>As with funding from Wellcome to the lead university, the funding from the lead university to the partner universities will be outside the scope.</p> <p>This analysis will be unaffected for contracts entered into on or after 1 August 2013</p>
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Example 9: Strategic charitable research grant to be shared with others as yet unidentified

<p>Facts:</p> <ul style="list-style-type: none"> • A research charity makes a grant to a university to undertake and coordinate research into diabetes. The general nature of the research is specified in advance but particular projects have yet to be identified. • It is anticipated that the university will undertake some projects itself, some jointly with other universities and some projects will be entirely conducted by other universities, funded from the money held by the lead university. • Contracts with the other universities specify that they will be bound by the terms of the original grant to the lead university. • IP is passed to the lead university which has a responsibility to publish 	<p>Reasoning:</p> <p>As with example 1, the research itself is for the public good as the charity receives no benefit, the topic is of public interest and there is a requirement to publish the results. HMRC advice makes it clear that it is possible to add partners to a collaborative research grant at a later date and therefore even though the other universities were not specifically identified at the time of application, the transfer of payment to them can still qualify as an outside the scope transfer of grant.</p> <p>Decision:</p> <p>Provided HMRC is satisfied that the collaborative arrangement is genuinely non- business ie, it does not involve supplies for consideration, it will accept that all research services provided by each of the collaborating bodies involved in the project are outside the scope of VAT, even if the funding may be passed on by the lead research body to others and that only the lead research body is party to the contract with the funding body.</p> <p>This analysis will be unaffected for contracts entered into on or after 1 August 2013.</p>
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Example 10: Research Services provided by another eligible body

<p>Facts:</p> <ul style="list-style-type: none"> • A research charity makes a grant to a university to undertake and co-ordinate research into diabetes. • A key part of the research is to undertake DNA testing on subject samples 	<p>Decision:</p> <p>The second university is making a charge to the first university for a service, which is not research, for the benefit of the first university. This is a standard rated supply of services.</p> <p>This analysis will be unaffected for contracts entered into on or after 1 August 2013.</p>
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Appendix 2 - VAT liability of income managed by Research Services with associated fundsource

Funder	Type of supply	Tax code	Fundsource
Research Councils/EU grants	Research where no benefit received by the funder The above applies to collaborative research grants where all parties to the grant are named on the application or where the funding flows through one named party and they act purely as a conduit passing on funds to others involved in the research project.	SO	Non Business
	Research commissioned by another body outside of these rules even if the ultimate funder is a Research Council	S9	Taxable
	Studentship or fellowship	SE	Exempt
	CASE studentship PGT PGR	SE SO	Exempt Non Business
	Knowledge Transfer Partnership	SO	Non Business
	Services and routine testing only if QM named as a partner in the contract with the Research Council	SO	Non Business
UK and Overseas Charities	Research where no benefit is received by the funder The above applies to collaborative research grants where all parties to the grant are named on the application or where the funding flows through one named party and they act purely as a conduit passing on funds to others involved in the research project.	SO	Non Business
	Research commissioned by another body outside of these rules even if the ultimate funder is a Charity	S9	Taxable
	Studentship or fellowship	SE	Exempt
	Services and routine testing (UK charity)	S9	Taxable
	Services and routine testing (Charity outside the EU)	S3	Overseas
	Services and routine testing (Charity in another EU country if in the nature of business and VAT number obtained)	S3	Overseas

Funder	Type of supply	Tax code	Fundsource
	Services and routine testing (Charity in another EU country if not in the nature of business and no VAT number obtained)	S9	Taxable
	Testing designed to maintain the health of an individual under the direction of a medical practitioner	SE	Exempt
Other UK government departments, Executive Agencies, Health Agencies, Local Authorities	Research which is funded for the 'general public good' and there is no direct benefit for the funding body	SO	Non Business
	Research commissioned by the authority with the results being confidential	S9	Taxable
	Services and routine testing	S9	Taxable
UK universities	Funds received under collaborative research grants where all parties to the grant are named on the application or where the funding flows through one named party and they act purely as a conduit passing on funds to others involved in the research project.	SO	Non Business
	Research commissioned by another university	S9	Taxable
UK Commercial Bodies	Research where the funder receives a benefit	S9	Taxable
	Services and routine testing	S9	Taxable
	CASE studentship	S9	Taxable
	Knowledge Transfer Associate	S9	Taxable
	Grant providing it is only subject to conditions to ensure that the grant is correctly accounted for	SO	Non Business
	Clinical Trial if a medical practitioner is required to monitor the health of the patient in the trial for adverse reactions	SE	Exempt
	Clinical trial provided to UK company where patient is only monitored for side effects for analytical purposes or testing services provided with no patient contact	S9	Taxable
	Clinical trial provided to EU company (which provides VAT number) where patient is only monitored for side effects for analytical purposes or testing	S3	Overseas

Funder	Type of supply	Tax code	Fundsource
	services provided with no patient contact		
	Clinical trial provided to EU company (which does not provide VAT number) where patient is only monitored for side effects for analytical purposes or testing services provided with no patient contact	S9	Taxable
	Clinical trial provided to company outside Europe (which does not provide VAT number) where patient is only monitored for side effects for analytical purposes or testing services provided with no patient contact	S3	Overseas
	Grant providing it is only subject to conditions to ensure that the grant is correctly accounted for	SO	Non Business