HMRC - VATSC09000 - Sponsorship

What is sponsorship?

Sponsorship generally involves financial or other support given by businesses and the public to artistic, sporting, educational and charitable activities, although it is not restricted to these areas alone.

When does sponsorship involve the making of taxable supplies?

Sponsorship can constitute consideration for taxable supplies when the recipient provides, in return for the sponsorship, benefits to the sponsor such as publicity, advertising or the right to the use of the recipient’s name or logo. However, if the recipient does no more than acknowledge support by naming a building or university chair after the sponsor or by including the sponsor in a list of supporters in a programme or on a notice, there is no supply. Further information about this is contained in Notice 701/41 Sponsorship.

Is it possible to see the sponsorship as a donation or partly a donation?

It is a well established principle of the tax that no VAT applies to donations that obtain no apparent benefits for the donors.

With this in mind, sponsors or the sponsored may argue that the financial support given, or part of it, is a donation, and that either no VAT is due or that VAT is only due on a lower value ascribed to the benefit given. However, where a sponsor must pay a specified amount of money to receive the benefits, tax is due on the full amount paid. This view is supported by the Court of Sessions decision in the case of Tron Theatre Ltd [1994] STC 177.

Tron, a charity set up to promote drama, offered the public the chance to sponsor theatre seats. In return for payment of £150 per seat, sponsors were given such benefits as priority booking for two gala performances and a limited edition print of the theatre. Tron argued that the payments were outside the scope of VAT as donations.

The tribunal found the benefits given to sponsors were not insignificant enough for the payments to be classed entirely as donations. However, it believed the payments contained a large donational element and that tax was due only on the market value of the benefits, this being considerably less than the full £150 paid.

The Court of Session overturned the tribunal’s findings on the donation element. Sponsors could not obtain the benefits for less than the £150 they paid. The supplies of the benefits were made in return for wholly monetary consideration and, under section 19(2) of the VAT Act 1994, the value of the supplies was therefore equal to the amount of payment. Only where there is non-monetary consideration can supplies be given a market value. Additionally, section 19(4), which refers to situations where supplies of goods or services are not the only matter to which consideration applies, is not intended to suggest some payments include outside the scope donations. This section envisages situations where payments cover supplies with different liabilities. Tax was properly due on the full £150 sponsorship paid.

Only where it is clear a donation element is optional and that all the benefits of the support can be obtained by paying the lower amount is it accepted that part of the sponsorship is a non-taxable donation. There is further information on this and other aspects of sponsorship in VAT Notice 701/41.

Previous page

Next page