HMRC - VATSC51700 - Grants: Subsidies

There are two possible types of subsidy:

a global subsidy to cover general operating costs, in which case no parties other than the funder and the supplier are affected in any way

a subsidy directly linked to the price of a supply, given by the funder to the supplier to enable a third party to obtain a specific service (or to obtain it more cheaply).

In the Keeping Newcastle Warm decision

A common area for subsidies is in the agricultural sector and further information about these is in

Type 1 – the global subsidy

Usually, subsidies from public funds are made in the furtherance of the public interest, not to procure goods or services for the state. This means that in the majority of these cases there is no supply made to the government department providing the subsidy.

Global subsidies have factors in common with grants, such as being time-limited, and are usually paid to enable an organisation or individual to cover their general overheads. Although not directly linked to reducing the price of a supply a global subsidy may still be restricted to a particular activity, such as undertaking research, but the key is still that the funder or a third party is not receiving a specific supply in return for the payment.

Type 2 – directly linked to the price of a supply

A subsidy forms part of the taxable consideration received by the supplier if it is directly linked to reducing the price to the customer. This is the case when a payment

is paid to the producer, supplier or provider of goods or services;

is paid by a third party to the supplier, and;

constitutes consideration or part of the consideration for a supply of goods or services

Indicators that the payment is this type of subsidy are:

the payment must be paid in return for specific goods and/or services

the payment has a direct effect on price or quantity in that the goods or services could not be provided at that price unless there was a subsidy

the funder is specifically seeking to promote the supply of the particular goods or services

there is an arithmetical relationship between a progression of the amount of the payment, the quantity produced and progression of the actual price of the goods or services provided

the price of the goods or services is ascertainable and determined not later than the time of the payment to demonstrate the consumer benefitted from a particular amount being paid

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