HMRC - VATSC53000 - Consideration:- Payments That Are Not Consideration: Grants: European Grants

You may come across a situation where the European Commission has given money in order to support a region or a particular activity. These payments are subject to the same rules as other payments in determining whether it is a grant although, as the Commission is unlikely to be receiving any supply in return for the money, the probability is that the payment is outside the scope of VAT.

A common example is the European Regional Development Fund (ERDF) which is awarded to public, private and voluntary sector organisations in order to support local area economic growth with regeneration and employment programmes, particularly if private sector investment in the area is scarce.

Another such grant was Framework 7, running from 2007 to 2013. The EU Framework Programme was the regime used by the European Commission to fund research and development within member states. The replacement research funding project from 2014 to 2020 is called Horizon 2020.

Under Horizon 2020, researchers bid for funds for their projects and, once a proposal passes the evaluation stage, the Commission draws up a grant agreement with each participant. The grant agreement confirms what research and innovation activities will be undertaken, the project duration, budget, rates and costs, the European Commission’s contribution etc.

HMRC gave some advice on Frameworks 5, 6 and 7 to the effect that the payments were consideration for a supply with associated input tax recovery. Following clarification from the EU Commission, funds received by researchers under EU Framework Programme 7 were confirmed to be grants and this also applied to the Frameworks 5 & 6. Any VAT incurred in the course of such funded research is not deductible.

Any payment made under the Horizon 2020 programme is similarly treated as grant in aid paid to fund research. It does not constitute consideration for any supplies by the person receiving the funding to the person paying it. In these circumstances, research that is wholly grant funded is not a business activity for VAT purposes and is not within the scope of VAT.

UK research bodies cannot deduct as input tax VAT relating to purchases incurred in the course of research that is wholly funded in this way.

However, where HMRC gave a written ruling that the funding under Frameworks 5, 6 & 7 were taxable, we accept that input tax can be recovered where output tax has been accounted for and we will take no action to correct this. Any funding under Horizon 2020 should be treated correctly from the start as grants which are outside the scope of VAT with no right to recover VAT incurred on related expenditure.

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