HMRC - VATSC53530 - Grants: Treatment Of Dried Fodder

These types of grants are paid throughout the EC by governments to producers of dried animal fodder - such as pellets and bales - in order to keep their price competitive with non-EC producers.

Until 31 December 1999, the UK treated grants paid to processors of dried animal fodder as outside the scope of VAT. However, this did not follow EC policy and so from 1 January 2000 the UK accepted the grants were within the scope of VAT. However, since animal fodder is zero rated, the related grants followed the same liability. This decision also applied to processors who process the grass of a third party and return it to them after drying, although this is not something that happens frequently in the UK.

However, in 2001 the European Commission took several member states to court for failing to tax the payments, their argument being that the money was taxable being a subsidy directly linked to the price of the fodder. The Commission lost the case (C-381/01), principally because there was no direct link between the subsidy and the final selling price as the subsidy amount was not directly reflected in the market price.

Following this judgment, the European policy is to treat these grants as outside the scope of VAT and so the UK reverted to its original position from 1 April 2005. Therefore the grants are treated as outside the scope of VAT.

Previous page