

VAT zero rating guidance for charity funded research, training, diagnosis and testing for medical and veterinary use

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Introduction

GAMBICA, an organisation representing the Laboratory technology trade sector, recognising the need for more specific guidance is issuing this document, to help assist with the classifications of qualifying goods and services claimed by eligible bodies for zero rate VAT.

GAMBICA's specialist VAT group has prepared this guide to:

- provide consistency, clarity and uniformity for its members in the laboratory technology industry; and
- to assist members in understanding when they can zero-rate a supply, recognising that the expertise and available resources within the laboratory supplier sector varies significantly from one supplier to another.

GAMBICA believes that the pooled expertise within its membership is best able to provide the advice to help guide this specialised market to consistently apply zero rating on eligible goods.

To assist members in determining if a supply can be zero-rated, the flowchart on Page 7 of this document has been prepared.

What do members need to consider?

When deciding whether a supply is eligible for zero-rating, GAMBICA members should keep the following points in mind:

- What is the status of your customer?
- How is the customer funding the purchase?
- What is the customer intending to use the items for?
- What are you supplying to the customer and are they eligible items for zero-rating?
- What evidence do you hold to support the zero-rating of your supply?

What is the status of your customer?

Eligible bodies include hospitals (excluding private hospitals), health authorities, research institutions or charitable bodies or person or bodies donating to one of the eligible bodies who are eligible for VAT relief. This includes activities of a hospital or research institution that are carried out on a not for profit basis and can purchase goods at a zero rate of VAT. (See [Section 3 of Notice 701/6.](#))

How is the customer funding the purchase?

Charitable organisations are a non-profit organisation whose primary objectives are philanthropy and social well-being activities serving the public interest or common good. Donations or income are freely given with no strings attached and are treated by the charity as a gift.

Before agreeing that zero-rating is appropriate for a supply of relevant goods, funds must have been provided by a charity or from voluntary contributions. GAMBICA recommends that it is best practice for suppliers to obtain an eligibility declaration as supporting evidence. More details can be found in the (See [Section 5 of Notice 701/6.](#)) and Certificates are available in [VAT Notice 701/6 supplement.](#)

All universities are charities and usually qualify as an eligible body. This also covers a research institution whose activities are not for profit. Once a university qualifies because of its research activities, the entire university can be treated as an eligible body - the eligible body status is not restricted to the research department. [VCHAR14950](#) (See [Section 5 of Notice 701/6.](#))

What is the customer intending to use the items for?

Medical, scientific, computer, video, sterilising, laboratory, or refrigeration equipment can only be zero-rated when purchased by an eligible body mainly for use in medical or veterinary research, training, diagnosis or treatment. More information can be found in [Section 4.3 of Notice 701/6](#) (and in [VCHAR14850](#)).

HMRC state that 'research' is viewed in its technical sense and excludes routine testing and analysis of materials, components and processes e.g. for the maintenance of national standards. This is distinct from the development of new analytical techniques and the purchaser must qualify this not the supplier.

What is a non-qualifying purpose?

Without an eligibility declaration, which states that all the goods are to be used for a qualifying purpose, the relief is not allowable. Clearly goods purchased for a non-qualifying use, such as laboratory equipment that will not be used for medical or veterinary research/training etc. will not meet the criteria for zero-rating.

The circumstances in which this can arise include the following:

- common stores or stocks
- where a qualifying use is not planned at the time of purchase
- minimal* qualifying use.

*Minimal use of equipment in a non-qualifying capacity should not debar an element of zero-rating. The equipment does not have to be used solely in medical research, diagnosis or treatment however substantial real and continuing use would be the main initiating factor behind the purchase. Further information can be found in [VCHAR14950](#). Only computer software must be solely for use in medical research, diagnosis or treatment as stated in [Section 4.2.5. of Notice 701/6.](#)

Installation, repair and maintenance of relevant goods

Repair and maintenance of relevant goods, owned by an eligible body including essential installation, is allowed to be zero-rated. Other provided service elements, separate from that of the qualifying goods, even if it is essential, will not apply to the service element zero-rating. Additional information can be found in [VCHAR14900](#).

The repair or maintenance of any eligible goods detailed in [section 4.1 of Notice 701/6](#), and any goods supplied in connection with this repair and maintenance, are zero-rated. Further details can be found in [section 4.10 of Notice 701/6](#).

What are you supplying to the customer and are they eligible items for zero-rating?

GAMBICA's interpretation of the VAT Notice 701-1 & 701-6 for laboratory supplies is that;

“Goods or services supplied to charities for zero rating of VAT should be approached in a pragmatic way, backed up by any manufacturers documentation, that can be understood by the Industry to meet the qualifying requirements and be applied in the spirit it was meant.”

Examples of qualifying goods and services have been provided by HMRC in [Section 4.11 of Notice 701/6](#), GAMBICA note this is not an exhaustive list, leading to 'grey areas' and potential inadvertent misapplication or refusal to apply the zero rate of VAT requested by these charities.

These 'grey areas' are subject to further debate and consultation with HMRC for clarification purposes but have been included in this document. GAMBICA have collated a number of grey item areas in a separate list for members to consult to aid their decision making. It is important to note that it is still the suppliers' decision as to whether to charge standard or zero rate VAT. Further information can be found on GAMBICA Zero rate VAT decision flowchart on page 7 of this document.

Where members identify their own grey areas exist, it is recommended that they collate documentation and evidence of design or other technical qualification or standards, to support the argument that the item is eligible for zero-rating and inform GAMBICA to add this to the official grey items list.

Equipment Classification Process

HMRC classifies supplies as follows:

- medical equipment
- scientific equipment
- computer equipment
- certain software*
- video equipment
- sterilising equipment
- laboratory equipment
- refrigeration equipment
- *parts and accessories for use in or with any of this equipment; and
- *repair, maintenance or installation of qualifying goods, and any goods supplied in connection with this repair, maintenance or installation.

To assist in this classification process, GAMBICA regards those categories marked with an * as secondary to a primary equipment supply.

Details on all of these categories can be found in paragraphs [4.2 to 4.10 of Notice 701/6](#).

In addition, HMRC provides more narrative in [VCHAR14800](#)

HMRC accepts that “specialist equipment is laboratory equipment when, as a whole, it requires a high level of specification, functionality and performance to meet the purpose for which it is necessary.” More information can be found in [VCHAR14800](#).

Other Goods used by disabled people, motor vehicles, rescue & resuscitation equipment can also be zero-rated

Further details on each of these categories can be found in section 4.7,4.8 and 4.9 in Notice 701/6 more information can be found Reliefs from VAT for disabled and older people (VAT Notice 701/7).

Substances classified as drugs and chemicals by HMRC

HMRC states within [6.1.4 of Notice 701/1](#) that: *“A charity engaged in medical or veterinary research can buy substances directly used for testing, or for mixing with other substances in the course of that research, at the zero rate.*

A ‘substance’ can be natural or artificial and can be in solid or liquid form or in the form of a gas or vapour. If the substance is bought in the form of gas the zero rating will also apply to the cylinder rental.”

Medicinal products

HMRC states that within [6.1.8 of Notice 701/1](#) that *“A charity engaged in the treatment or care of people or animals, or in medical or veterinary research, can buy medicinal products at the zero rate.*

A ‘medicinal product’ is a substance presented as a medicine, or an ingredient for a medicine, capable of being administered to people or animals for a medicinal purpose.”

More information can be found in [VCHAR15000](#).

Other associated non-equipment substances for laboratory research

GAMBICA regards this as including chemicals, reagents, medicines, diagnostic or research kits and calibration or other standards.

Any substance used in research would be considered by GAMBICA to be a laboratory chemical or reagent. The HMRC guidance here is vague; a research chemical could be viewed as a substance which can be used in the laboratory for science or research purposes or patient use.

A laboratory reagent could be a single substance or mixed compound substance which is tested to an international or other purity specification or standard; importantly GAMBICA’s view is that a reagent is used in a reaction. Enzymes and Antibodies in Life Science research and diagnostic testing kits would also be used in reactions and would therefore qualify as reagents.

This would however eliminate general cleaning and detergent substances or janitorial products, which are not designed to be used for mixing, testing or other reactions or scientific research unless used during service and repair or calibration.

Bulk materials

[In 4.2.1 of Notice 701/6](#), HMRC states that: *“bulk materials such as liquids, powders, sheets pellets, granules”* are not eligible for zero-rating as equipment. However, there is no definition of what ‘bulk’ means by volume weight or measure. GAMBICA would interpret this as a large quantity of material

which could be broken down into small amounts of substances that are not designed for laboratory science and research purposes.

What evidence do you hold to support the zero-rating of your supply? ([See Section 8 of Notice 701/6](#)) - agreed

To give VAT relief on purchases it is recommended that a supplier asks for evidence and is satisfied that the purchaser is an eligible body and the stated intention of the purchaser meets the criteria for zero rating including:

- a written declaration or 'certificate' confirming that eligibility for the relief. There is no legal requirement for the purchaser to provide a certificate or declaration, however it is recommended by HMRC to obtain one. An example such as [Certificate A](#) can be found in Charity funded equipment certificates ([VAT Notice 701/6 supplement](#)) and further information [VAT for charities](#).
- Evidence of charitable status or as another 'eligible body' which include domiciliary care agencies, and other providers for the chronically sick or disabled. This can be either:
 - Charity Commission registration number or
 - letter of recognition from HM Revenue and Customs (HMRC)

Scottish and Northern Irish charities must provide their letter of recognition from HMRC.

Further information regarding 'eligibility declarations' can be found in [VCHAR14700](#).

Who is responsible for applying the correct rate of VAT?

HMRC clearly state that the supplier is responsible for ensuring that all the conditions for zero rating are met ([see Section 8.3 of Notice 701/6](#)) and retains evidence of eligibility from the purchaser ([see Section 8.2.1 of Notice 701/6](#)) but it also states that *"...the purchaser has a responsibility to make a truthful statement of its eligibility for zero rating, and, where required, to provide appropriate documentation to support this statement."*

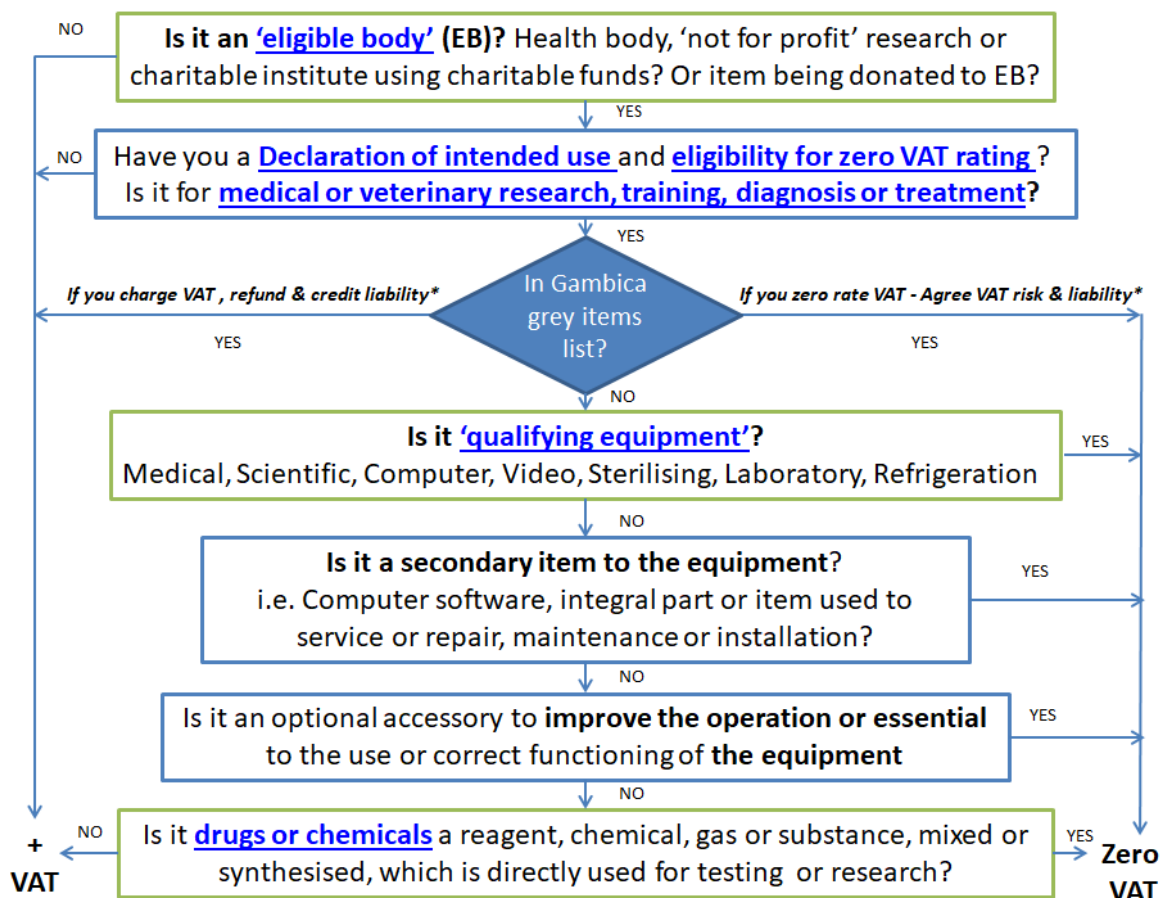
What if I get it wrong?

[Extra-statutory concession 3.11](#) provides that HMRC will not seek to recover tax due from a supplier who has taken reasonable steps to check the validity of a declaration, but has failed to identify an inaccuracy, and, in good faith, has zero-rated a supply. This concession will only be applied if the supplier can demonstrate that all reasonable steps were taken to check the details provided on the declaration.

GAMBICA is therefore of the opinion that in absence of any evidence to the contrary, a supplier should generally accept on trust that the purchaser has declared the intended use correctly and is therefore eligible to claim zero rate VAT as long as the goods are eligible.

GAMBICA recommend that in any 'grey item areas' any future joint liability to refund or repay VAT is agreed with the purchaser as part of the process on these orders. Refer to the decision making flowchart diagram below;

Zero Rate VAT Decision Flow Chart



Where can I find further information?

- [VAT Notice 701/1 - How VAT affects charities](#)
- [VAT Notice 701/6 - Charity Funded equipment for medical and veterinary uses](#)
- [VAT Notice 48 - Extra Statutory Concessions, 3.11](#)
- [HMRC internal manual VCHAR14650 to 14950](#)
- [HMRC internal manual VCHAR15000](#)
- VAT Act 1994:
 - [section 30](#), provides that a supply is zero-rated if it is specified in Schedule 8 to the Act
 - [Schedule 8, Group 15](#) provides that certain supplies of qualifying goods and services to an eligible body, or to a person for donation to an eligible body, are zero-rated
- [GAMBICA Grey Area Items and VAT Product category list](#)
- *This document is available separately*
- [Postage delivery and direct marketing \(VAT Notice700/24\)](#)

- [GAMBICA Zero rate VAT decision flowchart](#)
- *This hyperlinked document is available separately and is shown above*