

Section 33 Bodies: VAT Update

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What is a Section 33 Body?

A Section 33 body is an organisation that can recover VAT on activities which would normally not allow VAT recovery.



Local Authority, Fire Rescue, Police



Academy or Group of Academies



Air Ambulance Charities



Search and Rescue Charities



Certain Museums and Galleries

Nonregistered S33 claims



Issues for S33 bodies that are not registered



Monitor turnover and payment made overseas for purposes of compulsory VAT registration



Completion of form



HMRC delays in processing and checks



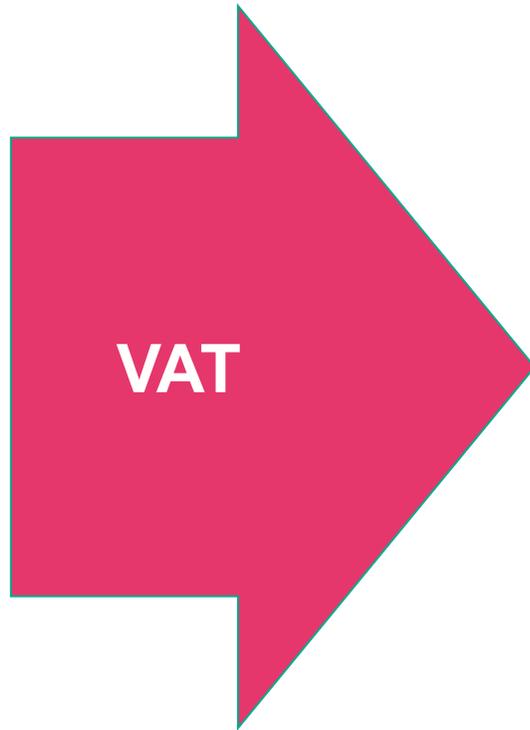
Only recovery of S33 input VAT allowed

VAT Recovery

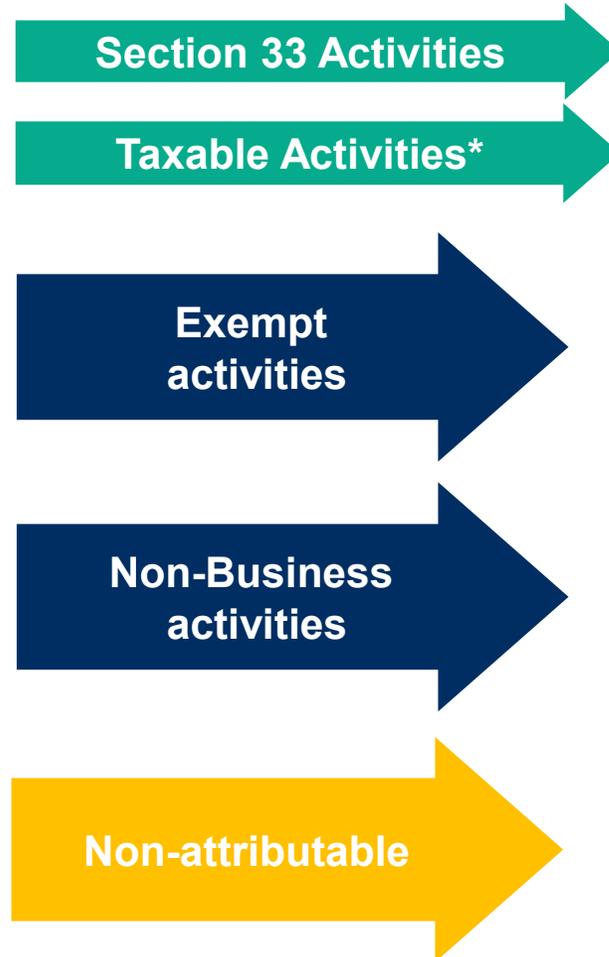


Recap: VAT Recovery Position

VAT on costs



Used towards



Is



** VAT is recoverable only if VAT registered.*



How is VAT recovered on non-attributable costs?

- **Attribution**

- Required by law.
- Cost Centre approach is usually acceptable.

- **Apportionment**

- Section 33 Activities apportioned by any fair method – HMRC approval not required.
- Is income fair?
- Business supplies: either the Income Based standard method or the ‘Special Method’ with the approval of HMRC.



Considerations...

Many charities calculate recoverable VAT on overheads based on the **previous year recovery rate**.

Recovering overhead VAT at 90% when it should be 80% would result in a payment due to HMRC in the annual adjustment.

Charities should not just accept that a decrease (or increase) in VAT recovery is fair.

HMRC may accept an alternative method (Special Method) which provides a fairer result, but application is required.

If your organisation has an agreed partial exemption method (Special Method), is it providing a fair result?

Suggested action:
undertake an annual adjustment ASAP to see if the result is abnormal.



Museums and galleries



Issues for Museums

- Free entry
- Paid for areas
- Free education
- Non-business activities
- Membership (Tiers and benefits – Serpentine case)



Trading activities



Retail Gift Aid Scheme

Sales of Donated Goods are Zero-rated — Input VAT recovery permitted.

Receipt of solicited donations. Outside the Scope of VAT — No input VAT recovery permitted.

RGS results in donations being received so can reduce VAT recovery.

Important to apply a commission to seller — Standard rated but input VAT recoverable.

Commission and general position must be clear to 'donors'.



Lottery

Lotteries are exempt from VAT

VAT not recoverable on costs associated with lottery income

Lottery sales from charity shops – beware!

Different arrangements = different treatments. Is the lottery outsourced?

Does the apportionment method allow a fair recovery of input VAT?

Does lottery income consume significant VAT-bearing costs?



Fundraising



Fundraising & Events

- Donations, e.g. regular giving. Significant benefit?
- Fundraising events (promoted as such) – Exempt under VAT A 1994, Group 12
- Market as a fundraiser
- Purpose = raising funds for charity
- Challenge events – beware of the Tour Operators' Margin Scheme.
- Act as agent – take commission?



VAT & building projects



Construction of buildings

- Zero rating applies to the construction of a building intended for use solely for a “relevant charitable purpose”.
- Relevant charitable purpose means **non-business use** by a charity.
- Solely = 95% or more for non-business / school purposes.
- Certification required for the contractor.
- Use of the building must be monitored for 10 years.



The Capital Goods Scheme

- Property related
- Includes refurbishment, extension, and new build
- Valued over £250,000 net of VAT
- Must be charged with positive VAT, e.g. not including zero-rated new build
- Review the use of the tax over 10 intervals (normally years)



Questions





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