

VAT: Withdrawal of the exemption for business supplies of research between eligible bodies

Who is likely to be affected?

Eligible bodies who supply business research services to other eligible bodies and those that commission business research services from eligible bodies.

General description of the measure

This measure removes the exemption from VAT for supplies of business research between eligible bodies, as defined in Group 6, Schedule 9 of the VAT Act 1994, from 1 August 2013 for all new contracts entered into on or after that date. It allows all contracts entered into before that date to remain exempt for the term of the contract. If the contract is extended or varied and the consideration payable is increased after that date then payments for these new or changed supplies will be standard rated although supplies relating to the contract as it stood at 31 July 2013 will remain exempt. 'Business research' in this context means research provided in return for consideration. Supplies of research that are outside the scope of VAT are not affected by this measure.

Policy objective

The exemption of supplies of business research between eligible bodies is inconsistent with European VAT law and therefore has to be withdrawn. The United Kingdom has informed the European Commission that it will withdraw the exemption from VAT with effect from 1 August 2013.

In order to limit the impact on those eligible bodies that may be affected by the withdrawal, transitional arrangements are being implemented to allow those research projects already underway on 1 August 2013 to keep the benefit of the exemption for the term of the contract subject to the restrictions detailed below.

Background to the measure

The measure was announced in December 2012 and a consultation to assist HMRC to better understand the impacts that the withdrawal would have was undertaken between December 2012 and March 2013.

Detailed proposal

Operative date

The withdrawal of the exemption will apply to all new contracts from 1 August 2013.

Current law

Group 6, Schedule 9 of the VAT Act 1994 exempts the supply of business research between eligible bodies as defined in Note (1) to the Group. This allows supplies of research between eligible bodies for a consideration to be exempt from VAT.

Proposed revisions

The law will be changed by secondary legislation which will remove Item (1)(b) from Group 6 to Schedule 9. It will also make provision for all contracts entered into prior to 1 August 2013 to remain exempt for their full term. If the contract is extended or varied and the consideration payable is increased after that date then payments for these new or changed supplies will be standard-rated although supplies relating to the contract as it stood at 31 July 2013 will remain exempt

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	This measure is expected to increase receipts by approximately £50 million per annum. The final costing will be subject to scrutiny by the Office for Budget Responsibility, and will be set out at Autumn Statement 2013.				
Economic impact	This measure is not expected to have any significant economic impacts.				
Impact on individuals and households	The withdrawal of the exemption is not expected to have any impact on individuals and households.				
Equalities impacts	The withdrawal of the exemption is not expected to have any equalities impact.				
Impact on business including civil society organisations	This measure is expected to have a negligible impact on businesses and civil society organisations. It will affect about 100 to 200 charities and universities that currently provide exempt supplies of research. These negligible additional costs will include one-off familiarisation costs and system changes so that invoices can be issued with VAT applied at the standard rate. It is expected that most of the institutions affected will already be registered for VAT purposes. This measure is not expected to have any on-going costs.				
Operational impact (£m) (HMRC or other)	There is unlikely to be any operational impact on HMRC. However, there is likely to be an initial impact on those businesses affected as they will need to exercise care in ascertaining whether their contracts are outside the scope of VAT or not.				
Other impacts	No other impacts have been identified.				

Monitoring and evaluation

The policy will be kept under review through regular communication with taxpayer groups affected by the measure.

Further advice

If you have any questions about this change, please contact Keith Parnell (email: keith.parnell@hmrc.gsi.gov.uk)

Declaration

David Gauke MP, Exchequer Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.