A PRACTICAL GUIDE

The charity VAT primer

How UK charities and their advisors can untangle business, non-business, exempt, and taxable supplies — and recover what they're entitled to.

Published by OneSixth
By Option to VAT Ltd
Five pages. Ten minutes to read.

Charity VAT is harder than commercial VAT

Most UK accountants will tell you that charity VAT is the single most complicated area of indirect tax they encounter. It's not because the rules are obscure — they're documented in HMRC notices going back forty years. It's because charities operate on three different VAT planes simultaneously, and the rules for each plane interact.

The three planes of charity VAT

Non-business activities	Funded by donations, grants, legacies. Outside the scope of VAT. No VAT on income; VAT on related costs cannot be recovered.
Business activities — exempt	Welfare services, education, fundraising events. Within the scope of VAT but exempt. No VAT charged on income; VAT on related costs cannot be recovered (subject to de minimis).
Business activities — taxable	Shop sales, conferences, training contracts, commercial rentals. Standard, reduced, or zero-rated. VAT charged on income; VAT on related costs recoverable.

Most charities of any size operate on all three planes. The VAT calculation for the year-end has to apportion every cost between them — and the apportionment runs in two stages. First, business vs non-business. Then, of the business portion, taxable vs exempt (the partial exemption calculation).

Where this hits hardest

From a charity VAT specialist:

> "In simple terms, depending on the precise nature of the activities, this will likely involve firstly carrying out a business/non-business calculation to determine how VAT recovery on cost is to be disallowed on the basis it relates to non-business income such as donations. The remaining VAT is then carried forward to the partial exemption calculation where recoverable VAT is calculated based on the ratio of taxable to exempt revenues. This is a complex area."

Almost every cost a charity incurs has to flow through both calculations. Rent. Heat and light. Audit fees. IT. Staff salaries (where input VAT applies). The result is that two charities with identical income and identical activity profiles can end up reclaiming meaningfully different amounts of VAT — entirely depending on how cleanly their books separate the three planes.

The traps that catch new finance teams

The structure of charity VAT creates predictable failure modes. Each one of these has cost UK charities six- and seven-figure sums in the past decade.

Trap 1: Treating grants as outside-scope when they're not

The general rule is that grants and donations are outside the scope of VAT — free money in exchange for nothing. But increasingly, what charities call 'grants' are actually contracts for services. The 2023 Yorkshire Agricultural Society case turned on whether the Great Yorkshire Show was a fundraising event or a primary-purpose trading activity. The Hope in the Community case turned on whether public sector payments to a religious umbrella body were grants or contracts.

The test is whether the funder receives anything in return, or whether a third party benefits with a direct link to the funding. If yes, it's a contract for services and within scope of VAT — sometimes taxable, sometimes exempt. The wrong classification means either over-paying VAT or missing reclaim.

Trap 2: The 15-events fundraising rule

Income from charity fundraising events is exempt from VAT, subject to specific conditions in VATA 1994 Schedule 9 Group 12. One of those conditions: a charity can only host 15 fundraising events of the same type at the same location in a financial year. From a charity VAT consultancy:

> "If there are more than 15 events in the same location, all of the events become subject to VAT rather than just the 16th and further events."

Read that twice. The 16th event doesn't lose exemption — all 16 do, retrospectively. Charities running monthly fundraising events at the same venue need to count carefully.

Trap 3: Special methods that need HMRC approval

Since 2011, charities can no longer change their business/non-business apportionment method without HMRC approval. Any new special method must be submitted to HMRC and agreed in writing. From a charity VAT specialist: "Changes in the methodology of charities and new special methods have to be approved."

Many charity finance teams discover this after the fact — they've changed their method to something more favourable, filed returns on the new basis, and then learn that HMRC may not accept it. The clawback is whatever the charity has over-recovered since the change.

Trap 4: The de minimis on top of business/non-business

After business/non-business, the partial exemption de minimis rules can still rescue charities. A charity might be partly exempt in the quarter a fundraising event was held but de minimis when the annual adjustment runs against full-year figures — in which case the input VAT becomes recoverable. Without clean period-by-period workings, this kind of saving gets missed. The annual adjustment is where the money lives, and it's exactly the calculation that's hardest to do well in a spreadsheet.

How OneSixth supports charity VAT

Charity VAT genuinely is more complex than partial exemption alone. The business/non-business apportionment that runs before the standard PE calculation needs its own logic and its own working paper. OneSixth handles the full charity sequence alongside Xero, QuickBooks, Sage, and FreeAgent.

What that means in practice

Three-way classification	On the roadmap: three-way transaction classification (non-business / exempt business / taxable business) tagged once at source, with both the B/NB and PE calculations flowing from the same data. Today, the partial-exemption side (taxable vs exempt) is fully shipped.
Business/non-business apportionment	On the roadmap: configurable B/NB apportionment aligned with HMRC-approved methods (income, expenditure, floor area, headcount, transaction count), with method-change events recorded in the audit trail. Today, OneSixth handles the partial-exemption layer that runs after the B/NB split.
Partial exemption layered on top	Once the business portion is established, full PE calculation runs against the business inputs. Standard, simplified, or special method as approved.
De minimis at the right level	Quarterly de minimis tests run on the partial exemption outputs, not on the full input tax. Annual adjustment rerun with full-year figures — the moment de minimis savings are usually found.
Trading subsidiary support	Each trading subsidiary runs as its own connected organisation today, so books and VAT calcs stay cleanly separated. On the roadmap: structured cost-allocation methodology between charity and subsidiary.
Event tracking for fundraising rules	On the roadmap: fundraising-events log tracking the 15-events-per-location-per-year exemption threshold.
Charity-pricing aware	We discount our pricing 25% for registered charities with a Charity Commission number. The mission-aligned discount is built into the published pricing, not an exception.

The aim is to make it possible for charity finance teams to run the full VAT calculation without commissioning a £15,000 specialist review every year — and to make the resulting workings defensible if HMRC asks.

Where each item above stands today — shipped, in progress, or planned — lives at onesixth.app/roadmap.

If you want to take a closer look

OneSixth is built by Option to VAT Ltd, a UK company focused on VAT specialist tooling for professional services firms and finance teams. We're currently working with a small number of early-access partners across accountancy practice and in-house finance, and we're actively looking for more.

Three ways to engage

Book a 20-minute call. The fastest way to see whether OneSixth fits your workflow. We'll walk through the calculation engine on a real Xero or QBO sandbox and you'll be able to see exactly how the audit trail looks.

Try the early-access programme. Connect a single client organisation, run one period's calculation, see the journal entries push back to your ledger. No commitment to scale up.

Stay on the changelog. If now isn't the right time, the public changelog at onesixth.app shows what we're building and when. Sign up to get product updates by email.

> **The shorter version of this guide:** charity VAT runs on three planes — non-business, exempt business, taxable business — and the rules for each plane interact. Most cloud accounting platforms weren't built for this. OneSixth handles the full business/non-business and partial exemption sequence alongside Xero, QBO, Sage, and FreeAgent. Charities get a 25% discount on our pricing because the mission alignment matters.

Get in touch

Web: onesixth.app

Email: hello@onesixth.app

Company: Option to VAT Ltd, registered in England and Wales