



## VAT and fund management

A Charity's FD once said to me that analyzing a VAT issue was like trying to get to Hell by bus. It's a long and difficult journey and the destination is scary and dangerous.

Well, here's a VAT matter that's had a long and difficult journey but ends in somewhere like Milton Keynes, ie some may actually like it.

As a general rule, the service of managing a fund is subject to VAT. So the value of a charity's investment in a fund may suffer both an annual fee and VAT on top. However, VAT exemption applies to managing a "Special Investment Fund." Exactly what is meant by a "Special Investment Fund" has recently been tested in the courts.

Until recently, HM Revenue and Customs ("HMRC") were adamant that exemption only applied to managing Open Ended Investment Companies (OEICs), Authorised Unit Trusts (AUTs) and Trust Based Schemes (TBSs). However, as of 1 October 2008, Fund Managers **must** also exempt the management of closed ended investment schemes, e.g. Investment Trust Companies (ITCs) and Venture Capital Trusts (VCTs), which:-

- invest in securities;
- whose shares are included in the UK Listing Authority main Official List; and
- said shares are admitted to trading on a regulated UK market.

According to HMRC, AIM is not a regulated market for this purpose, so not all VCTs or ITCs will qualify. But if a charity has an investment in a qualifying VCT or ITC, the gross amount taken from the fund by way of fees should reduce from 1 October 2008. Every little helps, as they say, in these troubled times. For completeness, exemption will also apply for managing 'recognised overseas schemes' but has been withdrawn for the management of TBSs with effect from 1 October 2008. (This seems likely to affect very few schemes.)

But there's more. Although UK law changes from 1 October 2008, HMRC accept that exemption applied back to 1 January 1990. So fund managers may also be able to claim back VAT overpaid in the last 3 years. And until March 2009 may be able to claim back VAT overpaid between 1 January 1990 and December 1996.

If you have significant investments in such funds, it is worth asking the fund manager what it is doing regarding back VAT.

This isn't necessarily the end of the matter. The National Association of Pension Funds is arguing that VAT exemption should also apply to investment management services supplied to all occupational pension funds. (At present, there is a separate VAT exemption for insurance products and the above ruling will help pooled investments.)

VAT impacts on Charity finances in many ways. This might be a rare example of some good news.

**If you think you may be affected by this, and for more advice on intelligent VAT planning, please contact Steve Chamberlain on 01865 261100 or email [schamberlain@critchleys.co.uk](mailto:schamberlain@critchleys.co.uk)**

**And if you are looking for advice on investments and investment planning please contact Jason McGuigan on the same number or email [jmcguigan@critchleys-fp.co.uk](mailto:jmcguigan@critchleys-fp.co.uk)**