

## GENERAL TAX GUIDE RELATING TO RESEARCH PROJECTS

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### 1 Research and Value Added Tax (VAT)

The following paragraphs contain a brief summary of how VAT applies to research projects. Please see the page at the following link: [Research \(reading.ac.uk\)](https://www.reading.ac.uk/research) for additional information.

#### 1.1 What is research?

HMRC has provided guidance that relates specifically to how VAT applies to research activity. For this reason, it is helpful to know how HMRC defines research. HMRC defines RESEARCH as follows:-

*“original investigation in order to gain, advance or expand knowledge or understanding or using existing knowledge in experiments to produce new or improved materials, products, processes etc.”*

Research from a VAT perspective is not:

- consultancy and business efficiency advice;
- collection and recording of statistics, without accompanying collation, analysis, and interpretation;
- market research and opinion polling;
- writing computer programs; and
- routine testing and analysis of materials, components, and processes.

#### 1.2 VAT treatment

If Research is grant funded; we can publish results; we retain the IP and there is no benefit to the funder, typically, this funding is outside the scope of VAT. This means that:

- We do not charge the funder VAT when collecting the grant funding
- VAT charged by suppliers (or where we have to account for reverse charge VAT on supplies from overseas) will be an ABSOLUTE COST to the research project and MUST be factored into budgets

Otherwise, we would normally expect to:

- Charge VAT on the invoice when collecting the funding from the Funder (but please check if Funder is overseas) and
- VAT charged by Suppliers or reverse charge VAT should be recoverable from HMRC and so should not be a cost to the project

RES use a software tool to determine the VAT status of research projects, and they will set up the project appropriately.

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### 1.3 Research and collaborations

A significant amount of research is collaborative - indeed, this seems common in the case of Research Council funding.

Collaborative research is where several bodies (typically universities or other eligible bodies) jointly apply for grant funding to undertake a research project together.

It is not uncommon for one of the applicants to be shown as the head or lead body which deals primarily with the funding body, including receiving funding, which is passed to other applicant bodies for their contribution to the project.

For ease, contracts are often concluded only in the name of the funding body and the lead research body, even though this is a collaborative project.

In such cases of collaborative research, all research services provided by each of the bodies involved in the project are outside the scope of VAT (assuming the main grant is outside the scope of VAT), even if the funding is passed on by the lead research body to others, and only the lead research body is a party to the contract with the funding body.

So, if the University of Reading is acting as a lead partner in a collaborative research project, an invoice that it receives from a partner in that research should not include VAT. If the University is participating in a collaborative research project other than as a lead partner, its invoices to the lead partner for a share of the grant funding should not include VAT.

In contrast, a subcontractor is not a partner in collaborative research, and instead is a supplier to that project. So, if the subcontractor is registered for VAT in the UK, it will charge VAT on those services that are subject to VAT that it provides to the University for the project.

It is necessary to obtain evidence that research bodies are participating in collaborative research; the best evidence of that will be the original application for funding which would, in many cases, show who all the collaborative partners are.

However, alternative evidence that clearly demonstrates that the bodies concerned were participating in collaborative research is acceptable.

Further information may also be found at the following link: [Research \(reading.ac.uk\)](#)

### 1.4 Changes in collaborative parties

Research bodies that are added to or are substituted in a collaborative research project once it has commenced (and so are not mentioned in the funding contract) would still be seen as parties to the collaborative project so that their supplies remain outside the scope of VAT.

Further guidance can be found in the following HMRC publications:

[Revenue and Customs Brief 10 \(2013\)](#)

[Revenue and Customs Brief 21 \(2013\)](#)

[VAT information sheet 11/13: supplies of research between eligible bodies.](#)

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### 1.5 In kind support

In some cases, interested industry partners (but we have seen the situation with other parties such as Health Trusts) might offer some 'in-kind support'. This might include attendance at steering groups or provision of samples for testing for free. Some considerations are outlined below:

- i) Where the interested party receives something in return (e.g. licence to use results of a survey)

This is likely to be considered a "barter transaction". In this situation there are 2 separate supplies:

- the supply from Interested party to the University of testing
- the supply from the University to the interested party of a licence

and the VAT position should be assessed for each transaction separately based on its own merits, which could lead to unexpected VAT costs in certain circumstances

Here, the interested party should issue the University with a VAT only invoice based on the market value of its testing services, while the University is likely to have to raise a VAT only invoice based on the market value of the supply of the licence.

- ii) Where they do not receive something in return

HMRC are unlikely to agree that a commercial organisation would provide a contribution without receiving a benefit in return, but some questions to help assess whether this is actually might be the case could be:

- Does the donor receive anything in return for the contribution?
- Are there any conditions attached to the contribution that go beyond merely having to mention it in, for example, project account statements?
- What will the contribution be used for?
- If the donor does not benefit directly, does any third party receive a benefit?
- Is there a contract and what are the terms and conditions?

With reference to project funding, HMRC state that benefits such as technical reports and rights relating to or restricting the use of the results are incidental and so are not sufficient to indicate a supply.

If the partner receives no consideration for the provision of in-kind support, they may need to account for output VAT under the business gift rules. The University can reclaim the VAT subject to the normal rules (i.e. where the project is commercial, and the tax system is set as fully recoverable) and would need to obtain evidence from the donor to support its claim for input VAT. This would be a normal invoice document that included the following statement:

'Tax Certificate - No payment is necessary for these goods. Output tax of £XX.XX (insert amount) has been accounted for on the supply.'

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If the University sells, lets or exports the goods or supplies services to overseas organisations, the supply of goods by the partner may be zero rated.

If there are business assets applied to non-business use for no consideration this would be a supply of services and VAT should be calculated accordingly.

Barter transactions can be complex and if you are in doubt, please contact [vat@reading.ac.uk](mailto:vat@reading.ac.uk) with the full details of the transactions being undertaken, and the VAT team can look further for you.

- iii) Each party bearing their own costs of research

Occasionally the University may work collaboratively with a party (e.g. a Health Trust) where it is agreed that each party will bear their own costs.

This should be OK from a VAT perspective, providing no hidden benefit is passing from one party to the other (so each party must keep their own generated IP). For example, if it is decided that each party will bear their own costs, but one party will actually be the IP owner, then a VATable transaction is likely to be present.

Again, this can be a complex situation, so please seek advice from the VAT team if you are uncertain.

## 2 Understanding the use of sales tax codes and purchase tax codes

To ensure that VAT is accounted for correctly on research project income and expenditure, the University accounts systems uses tax codes (sales tax codes and purchase tax codes) together with tax systems which determine how much VAT a particular project may be able to recover. If you need to understand the accounting for VAT in more detail, there are e-learning courses on the British Universities Finance Director's Group (BUFDG) website which explain how income and expenditure for a University is typically treated for VAT purposes. At the present time, the VAT courses available are:

1. Introducing VAT in HE
2. VAT Reliefs
3. VAT on Income in HE
4. VAT on Purchases in HE
5. VAT Reliefs on Medical and Veterinary Purchases.

Details of the courses available can be found at the following link to the BUFDG website: [BUFDG : British Universities Finance Directors Group](#).

Details of how to access the related BUFDG courses are provided via a UoR learn course at the following link: [UoRLearn \(sabacloud.com\)](#), and in the introduction to each of the University's e-learning courses referred to below.

In addition, the University of Reading has established e-learning modules which support the BUFDG training and show which tax codes should be used for the different types of income and expenditure transactions that are likely to be seen at the University of Reading. These modules can be found in UoR Learn by clicking on browse in the home page and navigating to the [Finance and Procurement section](#).

[VAT at UoR - Sales Tax Codes](#)

## 3 Relief for equipment purchased for non-commercially funded medical or veterinary research

The following paragraphs contain a brief summary of when suppliers may charge a zero rate of VAT on their supplies to the University for medical research. Please see the page at the following link: [Medical supplies - Zero rated \(reading.ac.uk\)](#) for additional guidance.

The University qualifies for claiming zero-rating of certain goods that that would normally be standard rated for VAT, relating to equipment used in non-commercially funded medical or veterinary research, or substances for such research where those substances will be used up entirely in that research.

Certification is required, and the certificate is usually provided by selecting tax code PM when raising a purchase order, but a manual certificate can be provided by the Tax Team where necessary.

The relief applies because the University is a not-for-profit research institution and is available for

- Supply of medical, scientific, computer, video, sterilising, laboratory, or refrigeration equipment used mainly (>50%) for medical or veterinary research, training, diagnosis, or treatment
- Parts and accessories of such equipment
- Repairs, maintenance, installation of such equipment
- Substances used directly and solely for synthesis or testing in the course of medical or veterinary RESEARCH

## 4 Customs Duty and Import VAT

If you import goods into the UK, Customs Duty and Import VAT may be charged on those goods.

Please see the information on the following link: [Imports of Goods \(reading.ac.uk\)](#) for guidance about Customs Duty and Import VAT.

The document also covers situations where you wish to move goods temporarily out of the UK and then bring them back at a later date (e.g. for field trips) and where you might be thinking of taking University equipment or supplies overseas or bringing them back in your luggage. Please read the guidance carefully to avoid unnecessary duty and VAT payments.

### 5 When to complete an Employment Status Questionnaire and where to find it

If you purchase services from certain categories of supplier, including individuals who are self-employed or work through companies they own (even if this is through an Agency), it may be necessary to establish whether they should be paid in accordance with certain HMRC rules. In order to determine the applicability of these rules an Employment Status Questionnaire (ESQ) should be completed.

Please see the page at the following link: [ESQ - Home Page \(reading.ac.uk\)](https://www.reading.ac.uk/finance/employment-status-questionnaire) for guidance about when to complete an Employment Status Questionnaire and for further links to the Questionnaire itself.

### 6 Paying research volunteers

HMRC have noted that, in the course of undertaking social science or medical research, volunteers are required to take part in tests, submit measurements or be interviewed. They are usually paid a small sum to cover out of pocket expenses and as compensation for the time spent. Some of the volunteers may be members of staff of the university, but their participation in the research is not part of their duties of employment and they do it in their own time and are under no obligation to take part.

HMRC agrees that the amounts paid to those concerned are unlikely to fall within the definition of “earnings” for PAYE or NI purposes. No employment relationship exists and as such PAYE and NIC would be inappropriate.

How these amounts may be paid depends on the value which will be outlined in guidance at the following link: [Tax guide regarding Participant payments to research volunteers \(reading.ac.uk\)](https://www.reading.ac.uk/finance/tax-guide-regarding-participant-payments-to-research-volunteers).

The amounts that can be paid can only be for reasonable expenses and compensation for time – please use this phrasing in any documentation or correspondence with the Participants and do not say for example ‘we will pay you for your time’ as this could imply more of an employment intention.

If you are concerned that payments you wish to make to volunteers do not meet this requirement, please email ‘[vat@reading.ac.uk](mailto:vat@reading.ac.uk)’ with your query.

### 7 Using suppliers and sub-contractors based overseas

#### 7.1 UK Reverse charge VAT

If you purchase services from a supplier that belongs outside the UK, and VAT would have been charged on the cost of those services if they had been supplied by a UK supplier that is registered for VAT, the University is required to add ‘reverse charge VAT’ at 20% to the cost of those services and pay that reverse charge VAT to HMRC.

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In effect, the University acts as if it is both the supplier and the recipient of the services, and it is put in the same position as if it had received the supply from a UK supplier rather than from one outside the UK. If your project receives outside the scope income (grant income), this reverse charge VAT will be an absolute cost to your project in the same way as UK VAT charged by a UK based supplier would be.

The reverse charge applies to any amount no matter how small, so will even apply to payments to research volunteers where UK VAT would not normally be charged (because the volunteers are not registered for UK VAT).

Please see the page at the following link: [Overseas purchases and the reverse charges \(reading.ac.uk\)](#) for guidance about reverse charge VAT.

### 7.2 Overseas Suppliers/subcontractors – ESQ requirements

It is possible that the overseas country you wish to engage a Supplier in will have similar tax rules as the UK when engaging with individuals who are either self-employed or working through companies they own. You should complete an ESQ and follow the procedures identified in 5 above for such suppliers where either:

- The amounts they will be paid will exceed £1,000 per annum
- They have previously been an employee of the University

The Tax Team will then try to evaluate whether there are additional tax risks in these engagements.

You should never engage a person as a member of staff who lives overseas, to work overseas, without consulting the Tax Team or HR first – there are likely to be overseas tax issues such as payroll reporting and local taxes to be paid which will be expensive.

In addition, you should always check to ensure that staff you are sending overseas to work on the project have appropriate visas and that they are not working overseas for more than 3 months in any 12 month period without checking with the Tax Team or HR first.

No one we are working with overseas should be able negotiate or sign contracts on our behalf

## 8 Overseas withholding taxes and overseas VAT

Sometimes overseas suppliers or others we need to make payments to (or may receive income from) will need to withhold tax and/or local VAT under their legislation.

You should ensure that any contract you negotiate with the overseas party has appropriate wording so that payments to be made by us include any overseas taxes (so we pay what we are expecting not more) or amounts/income that we are to receive are exclusive of any overseas taxes (so the net amount you receive is what you are expecting).



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Further training will soon be available on UoRLearn (see following link: [UoRLearn: Home \(sabacloud.com\)](#)) that will highlight some of the key concepts raised in this guidance regarding the University and overseas considerations.

### 9 Overseas visitors

When overseas visitors are likely to be coming to the UK, there are some considerations to bear in mind, especially where their visit is being externally funded and the University of Reading is passing this amount to the individual.

In the case of Leverhulme Trust grants for research fellowships, the onpayment of the is currently being processed via payroll, which means the individual will be subject to tax on the amounts received.

It is important to confirm the purpose of the visit (the following does not apply to students here for their own education – please contact [immigration@reading.ac.uk](mailto:immigration@reading.ac.uk)).

Clear documentation must be available to support that the visitor is coming to the University for their own education (e.g. an appropriately worded visitor invite letter).

Further information can be found at the following link: [Immigration and Visas \(including Visitors\) \(reading.ac.uk\)](#). This page also has links to the Visitor policy, visitor request letter and visitor invite letter.

If the visit:

- Is for the individuals own education/research and the University will obtain no benefit (such as IP rights)
- The individual is paying a bench fee to the univeristy
- A mentor has been provided with a certain number of meetings and lectures that should be attended

Then on-payment of the grant from a third-party funder may be made by the University of Reading without the requirement for processing via payroll. However, receipted expenses will be required for accommodation/travel and any balance paid over the visiting period to cover subsistence costs. If the amount is above £15,000 per year, please consult the tax team.

### 10 Criminal Finances Act 2017

It is important that when dealing with any third parties that you do not assist them in tax evasion in either the UK or overseas. Please refer to the University policy on this if you are not already familiar with its provisions using the following link: [Forms and Guides, Policies and Procedures \(reading.ac.uk\)](#) and searching for the Criminal Finances Act under Finance Policies.