



not for profit | VAT: pay-per click advertising - Zero Rate Relief

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Back in April 2009 haysmacintyre wrote about Pay Per Click (PPC) advertising and zero rate relief, highlighting what was, in our opinion, an incorrect policy of HM Revenue and Customs. We also raised the matter with the Charity Tax Group who have lobbied HMRC on the point. We are pleased to now advise you that HMRC have changed their mind.

Charities are entitled to zero rate relief on VAT for advertising on third party websites but not for advertising on their own website.

PPC, or sponsored links as they are also known, appear above or beside the 'natural' search hits on search engines when someone searches for your charity. The sponsored links may appear when someone searches for your charity's name or simply when your search includes key words. The advertiser is charged a fee every time someone clicks on the link.

HM Revenue & Customs argued that PPC did not qualify for zero rate relief because the sponsored link was no more than a portal to the charity's own website.

HMRC now accept that their initial ruling was incorrect and in fact PPC advertising does qualify for zero rate relief and HMRC will now allow charities to reclaim VAT paid in the last four years on the PPC costs and the associated production costs.

To ensure that possible claims do not go out of date you should find out as soon as possible whether you have incurred any expenditure on PPC advertising. If you have, the next step is to identify any associated production costs. These may include copywriting (HMRC briefing on the change actually says Copyright which is a mistake, they mean copywriting), design, photography and so on. Also consider whether any fees you may have incurred on Search Engine Optimisation (SEO) costs may be directly attributed to the production of the PPC advertising. Often the SEO advisors will also write the copy for the PPC adverts. HMRC has specifically excluded SEO costs from this change of heart on zero rate relief, but, if your SEO provided services relating to PPC such as copywriting that will similarly be zero rated. It is only the SEO work which is excluded.

Reverse Charge VAT

There is a twist to this. One of the most popular search engines for PPC is Google. Google invoice their customers from Dublin. The result is that Google do not include VAT on invoices to their customers. If your charity is VAT Registered, you must, instead, account for VAT under the reverse charge mechanism and pay the VAT to HMRC through your own VAT return. Many charities have been unaware of this and may not have accounted for VAT on this service.

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reclaiming VAT on PPC advertising

There are two possible mechanisms for reclaiming the VAT.

1. Supplier Included VAT on the invoice to your charity – You must write to your supplier and seek credit notes on all invoices you have been issued within the last four years.
2. Your charity accounted for VAT under the reverse charge mechanism – You must write to HMRC and seek a refund of the VAT you accounted for in the last four years.

In either case you should request payment of official interest on a compounded basis.

If you would like any assistance in preparing claims please contact the VAT team.

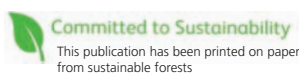
about haysmacintyre

haysmacintyre, Chartered Accountants and business advisers, works with over 550 charities and not for profit organisations in the UK and overseas. Our services include the full range of audit, tax, VAT and comprehensive advisory services. Our multi-disciplinary specialist team has extensive sector experience working for a diverse range of charities. We are based in one location which ensures an integrated and comprehensive approach to our clients' requirements.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.



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