

Annex 3 to the TRAC EC-FP7 Guidance
Example calculation of irrecoverable VAT

Irrecoverable VAT

The FP7 financial guidelines detail that identifiable indirect taxes including VAT are not eligible costs for FP7 projects.

TRAC EC FP7 guidelines recommend that institutions should base the calculation of irrecoverable VAT to be removed from the indirect costs on the partial exemption methodology used.

Currently institutions are negotiating a new partial exemption methodology with HM Revenue and Customs. The new methodology is based on TRAC principles.

Below is a detailed example of how institutions may go about eliminating VAT. The calculations below are based on the TRAC costs excluding salary costs as these do not attract VAT. HM Customs and Revenues therefore requested for salary costs to be removed to avoid possible distortion of the split of costs between the three main activities.

Also costs of subsidiary companies which are not part of the VAT group are excluded.

The steps are as follows:

1. Apportionment of non-attributable VAT to activities

Total non attributable VAT		16,500	
Activity	TRAC Costs £'000	% of Total Costs	Non- Attributable VAT £'000
Publicly funded teaching	34,540	14.14%	2,334
Non Publicly funded teaching	10,030	4.11%	678
Publicly funded research	85,773	35.12%	5,795
Non Publicly funded research	63,566	26.03%	4,295
Other	50,306	20.60%	3,399
Total	244,215	100.00%	16,500

2. Analysis of direct non-staff costs (as per FSR return) of research by VAT activity

Category	Publicly funded (£'000)	Non Publicly funded (£'000)	VAT Treatment
OST Research Councils	15,994		Non-business
UK Based Charities		27,565	Non-business
UK Cent Govt/Local Health Hp	5,543		Non-business
UK Ind/Comm/Pub corps		2,891	Taxable
EU Government bodies		3,378	Outside the scope with recovery
EU Other	551		Non-business
Other overseas		3,895	Outside the scope with recovery
Other overseas		94	Taxable
Total	22,088	37,823	

3. Calculation of recoverable VAT relating to research

Publicly funded research	£'000
Direct costs relating to taxable or outside the scope with recovery	0
divided by	
Total publicly funded research	22,088
times	
Non-attributable VAT publicly funded research	5,795
Recoverable VAT	0

Non Publicly funded research	£'000
Direct costs relating to taxable or outside the scope with recovery	10,258
divided by	
Total publicly funded research	37,823
times	
non-attributable VAT publicly funded research	4,295
Recoverable VAT	1,165

4. Computation of total irrecoverable VAT for research

Publicly funded research non-attributable VAT	5,795
Non Publicly funded research non-attributable VAT	4,295
less recoverable VAT	(1,165)
Total Irrecoverable VAT – Research	8,925