

Cost Sharing Group

This document should be read in conjunction with Paragraph 3(1) of Schedule 1 to the VAT Consolidated Act 2010.

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Introduction

This guidance sets out the VAT treatment of certain independent groups of persons, commonly referred to as a Cost Sharing Group.

In certain circumstances an exemption from VAT applies to the supplies by a Cost Sharing Group (CSG) that would otherwise be taxable. The exemption applies when two or more persons with exempt and/or non-business activities who operate in the public interest join on a co-operative basis to form a separate, independent group of persons to supply themselves with certain services at cost and exempt from VAT.

The exemption is designed to help businesses to collaborate and to share resources without being deterred by the cost of VAT on any recharges.

The exemption does not apply to the supply of goods or to the supply of VAT exempt activities not in the public interest, such as insurance or financial services.

1. Cost Sharing Group exemption

An exemption from VAT applies to the supply of services by a CSG,

- being a group that is an independent entity established for administrative convenience,
- by persons each of whom carries on an activity, in the public interest, which is exempt from, or is not subject to, tax,
- for the purpose of rendering to its members the services directly necessary to enable them to carry on that activity,
- but only if the group recovers from its members the exact amount of each member's share of the joint expenses.

The exemption relates only to groups whose members carry on activities in the public interest.

The exemption can also extend to members who carry out taxable activities (in addition to VAT exempt activities in the public interest) in so far as those services are directly necessary for those members' VAT exempt activities or activities in relation to which they are not taxable persons.

2. The conditions for exemption

2.1 Entity acting as a Cost Sharing Group

A CSG must be a taxable person in its own right and be independent of its members. The group must be an entity consisting of persons intending to share the cost of services rendered by that group.

Where services are supplied directly by a member of a CSG to another member of that CSG, the exemption will not apply in respect of those services. The CSG must be the entity supplying the services to its members.

The CSG is not entitled to deduct VAT inputs in respect of transactions used for the purposes of supplying exempt services to its members.

Examples of CSGs would include companies limited by guarantee and partnerships.

2.2 Members of a Cost Sharing Group

Members of a CSG should carry out an activity, in the public interest, which is exempt from or not subject to VAT. This includes, for example, medical services, dental services, and educational services.

The exemption can apply where members also carry out taxable activities in so far as those services are directly necessary for those members' exempt activities or activities in relation to which they are not taxable persons. Where services are provided that are used for both the taxable and exempt/non-taxable activities, only the proportion that relates to the exempt/non-taxable activities can qualify for the exemption.

Members of a CSG may be natural or legal persons in any legal form.

2.3 Services supplied by a Cost Sharing Group

The CSG should supply services to its members that are directly necessary for them to carry out their VAT exempt or non-taxable activities. Only services that are directly attributable to the members' VAT exempt and/or non-taxable activities are considered to be directly necessary.

The exemption applies regardless of whether the services supplied by the group are rendered to all of its members, or to only some of them and regardless of whether the services are identical in nature, or their nature is different.

Where a CSG also provides services to third parties which are not members of that group such services will be taxable, but this will not prevent the exemption from applying to services supplied to members.

The exemption also applies when a CSG supplies services obtained from third parties on to its members in its name. The group is not entitled to deduct VAT due in respect of such services.

2.4 Recovery of expenses

The CSG can only recover the exact amount of each member's share of the joint expenses from its members. This can include general overheads incurred by the group in providing its services to members. There must be no profit element in the charges made by the group to its members, that is, no margin or mark-up must be factored into the cost of providing the services. If a profit element is included the exemption will not apply and those supplies will be subject to the normal VAT rules.

3. Examples

3.1 Example A

Three doctors set up a partnership which acts as the CSG. The doctors have entered into a cost sharing agreement with the partnership. The partnership provides a supply of secretarial duties to the three doctors. The partnership charges each doctor for their portion of the secretarial costs. These charges are exempt from VAT.

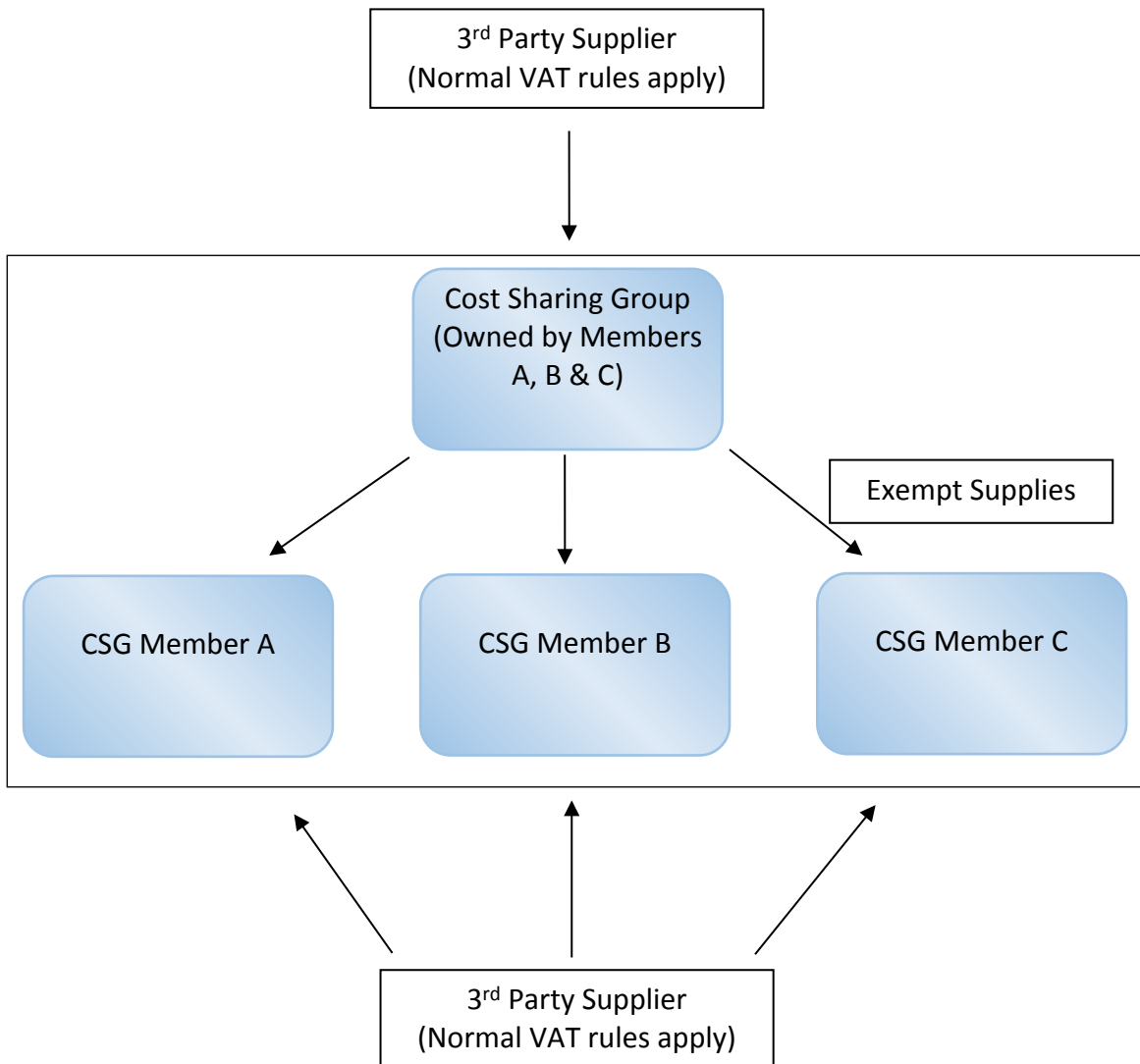
3.2 Example B

A group of 10 doctors come together and form a company, a separate entity which acts as the CSG. Each doctor may be a director of the company and hold one share in the company. The company provides a supply of out of hours cover for each of the doctors. The company charges each doctor for their portion of the locum costs. These charges are exempt from VAT.

3.3 Example C

A group of charities or colleges come together and form a separate entity to act as the CSG. The charities or colleges are members of the CSG and the CSG makes a supply of administrative services to each of the charities or colleges. The CSG charges each charity or college for their portion of the administrative costs and these charges are exempt from VAT.

Appendix 1



- Assuming all criteria for exemption are met, supplies by the CSG to its members are exempt from VAT.
- Normal VAT rules generally apply to:
 - Supplies by the CSG to non-members
 - Supplies to the CSG from 3rd party supplies
 - Supplies by members to the CSG
 - Supplies by members to other members
 - Supplies from 3rd parties to members