UNIVERSITY OF WALES, BANGOR
FINANCIAL PROCEDURES FOR COST CENTRES

Title:	VAT Zero-Rating: Equipment Purchased for Medical/Veterinary Research
Ref:	FP002
Applies to:	All UWB Resource/Cost Centres
Operative date:	1 August 2001
Status:	Confirmed
Replaces:	(none)
Summary:	This procedure sets out the University's policy and procedures with respect to the VAT relief for zero-rating equipment purchased for medical or veterinary research.

1. Introduction

This relief needs to be used with caution as the legislation contains definitions which are open to interpretation. In the event that Customs and Excise (C&E) successfully mounted a challenge against the use of this relief it would result in the University having to pay the original amount of the VAT, together with penalties and interest on late payment. The University would also incur costs of defending such a challenge.

2. Definitions

2.1 Under current VAT legislation the University qualifies for relief to zero-rate the purchase of any relevant goods used mainly for a qualifying purpose, where a qualifying purpose covers medical and veterinary research. Payment for the goods must come from funds within the University, rather than goods requested by the University and paid for through other sources.

2.2 'Relevant goods' means medical, scientific, computer, video, sterilising, laboratory or refrigeration equipment. C&E take a strict view of these terms, particularly 'medical' and 'scientific'.

- 'Medical' is equipment used for the practice of medicine.
- 'Scientific' is equipment used for observation, experimentation and measurement.
- 'Computer' means hardware, disks, VDU and keyboards.
- 'Video' includes recorders, tapes and cameras.
- 'Sterilising' is equipment for sterilising medical and laboratory instruments, for example, autoclaves.
- 'Laboratory' is equipment such as benches and fume cupboards.
- 'Refrigeration' includes ice making machines.

2.3 'Research' means original systematic investigation undertaken to gain knowledge and understanding of the treatment or palliation of a physical or mental abnormality in humans or

animals. It excludes routine testing.

2.4 'Mainly' is defined as real, substantial and continuing and bought for that purpose. Our professional VAT advisers have previously sought to quantify in terms of usage what this actually means, but C&E have declined to provide any further definitive guidance. As the words "mainly and substantial" have no specific meaning at law, the advice is that the proportion of usage applied for a qualifying purpose must be in excess of 50%. Also, it must be possible to identify a specific qualifying use at the time of purchase. If it is claimed that the equipment is being purchased for medical research, then the University must be able to identify in which particular medical research project(s) it will be utilised.

3. Procedures prior to order/purchase

3.1 For items of equipment costing over £20,000 (exclusive of VAT) the use of this relief must be sanctioned by the Finance Office. Application must be made in writing by the Head of Resource Centre including:

- Confirmation that he/she is satisfied that the purchase falls within the definitions of this guidance note.
- A description (in laymen's terms) of the equipment to be purchased and its functionality.
- The precise identification of the research project(s) for which the equipment is being purchased. Details for each project should include: sponsor, title, project duration (including start and end date), funding contribution and internal cost centre code (i.e. research ledger code).
- A brief description (in laymen's terms) of the medical research being undertaken in each project.
- The other uses to which the equipment will be put if the equipment is not being purchased for the exclusive use in medical research. The expected proportion of usage applied to medical research must be stated.

3.2 The Finance Office will review such applications for zero-rating, and all high value purchases will be referred to our professional VAT advisers for opinion. High value items will be taken to mean those costing over £100,000 exclusive of VAT.

3.3 Once sanctioned by the Finance Office the Head of Resource Centre is authorised to sign a Certificate of application for zero-rating (specimen attached to this procedure), a copy of which should be forwarded to this Office, together with a copy of the supplier's invoice.

3.4 For items of equipment costing less than £20,000 (exclusive of VAT) a Head of Resource Centre is authorised to sign a Certificate of application for zero-rating without prior sanction by the Finance Office, provided that he/she is satisfied that the purchase complies with this guidance note. Such authorisation may only be given by a Head of Resource Centre and copy Certificates, together with a copy of the supplier's invoice, must be forwarded to this Office. A Head of Resource Centre is still free to seek advice from the Finance Office.

4 Procedures after purchase

4.1 Unless the equipment has been purchased exclusively for the purposes of medical research, a Resource Centre must keep a written log of the actual usage to demonstrate that the proportion of actual usage applied for a qualifying purpose is in excess of 50%. The log should record for each use: the date, hours of usage, the specific project (including the project/research cost centre code) and indicating whether the project is medical research or other use . Each entry should be signed by the operator. The log should be reviewed and signed by a senior member of staff responsible for the research on a monthly basis to ensure that the log is being properly maintained. A copy of the log should be filed with the Finance Office at the end of each financial year (i.e. 31 July).

4.2 If at any time the equipment ceases to be used mainly for a qualifying purpose, this Office should be advised as a liability to VAT may then arise.

5 Financial responsibility of Resource Centres

5.1 Resource Centres will be financially responsible for any subsequent VAT liability, penalties and interest imposed by C&E which arise due to a failure to:

- follow the procedures in this guidance note;
- demonstrate that the actual proportion of usage applied for a qualifying purpose is in excess of 50%; or
- substantiate that either the equipment or research fall within the definitions of this guidance note.

Attachment - Specimen Certificate for Zero-Rating

Ends