

## 1. Background

- 1.1 These guidance notes clarify how we treat College research income in cases where part of the income is paid to a third party.
- 1.2 Where a project is being undertaken by a number of institutions (Research Partner) and one institution acts as a lead institution, only that income which relates to the work actually being undertaken by the institution itself should be included by them.
- 1.3 However, if an institution acts as a contractor which subcontracts work to a third party (Professional Fees), then all the income should be reported as belonging to the contracting institution, not the subcontractor.
- 1.4 [Higher Education Statistics Agency \(HESA\) guidance](#) states that we can only return expenditure relating to research carried out by the College in our annual financial return.

## 2. Why is it important to allocate third party income to the correct category, i.e. Professional Fees Other (analysis code 162137), Non-VATable Professional Fees (162132) versus Research Partner (analysis codes 191104, 191106 or 191110)?

- 2.1 The College reports all Professional Fees income in its own annual accounts, but disregards income allocated against the Research Partner analysis codes. Assigning income to the wrong category will therefore affect the accuracy of the College's funding and statutory returns to HESA which are subject to periodic audits by Research England.
- 2.2 Professional Fees income must comply with VAT requirements (see section 3) as well as the College's [Purchasing Policy](#). Assigning income to the wrong category will therefore impact on compliance with these.
- 2.3 There are three Research Partner analysis codes available to categorise transactions related to such payments.
  - **191104 Research Partners – UK Universities**
    - This should be used for all UK Universities acting as Research Partners on non-CEC awards.
  - **191106 Research Partners – CEC**
    - This should be used for all Research Partners on CEC awards regardless of the organisation type.
  - **191110 Research Partners – Other**
    - This should be used for all Research Partners that do not fall into either of the other categories.
- 2.4 At pre-award, Research Partner costs should be broken down between Estates, Indirects, Directly Allocated and Directly Incurred. At award stage, the correct analysis code for Research Partner should be selected and set up on Oracle Grants.
- 2.5 There are two Professional Fees analysis codes available to categorise transactions related to such payments.
  - **162137 Professional Fees Other**
    - This should be used for all Subcontractors where a VAT charge is expected.
  - **162132 Non-VATable Professional Fees**
    - This should only be used where one of the VAT scenarios outlined in Section 3 applies.

### 3. VAT Considerations

- 3.1 Research Partner costs never incur a VAT charge.
- 3.2 It should always be assumed that Subcontracts for Professional Fees would incur a VAT charge unless there is a clear reason for a VAT charge not to apply. This should be budgeted for at pre-award and all Purchase Orders (POs) should be raised using analysis code 162137.
- 3.3 For overseas suppliers, it is still necessary to budget for VAT. Even though overseas suppliers will not charge the College VAT, College is required to charge itself VAT under the reverse charge mechanism.
- 3.4 There is no need to budget for VAT on Professional Fees contracts when the original source of funding is categorised as a Contract as VAT on purchases should be fully recoverable. Research Services/Joint Research Office can advise on whether an award is likely to be a Grant or Contract.
- 3.5 VAT is not charged by any of the organisations within the Imperial College VAT group. A full list of these can be found on the [Finance Knowledge Bank](#). POs to these organisations should be raised using analysis code 162132.
- 3.6 If a UK supplier has confirmed in writing that no VAT will be charged, POs can be raised using analysis code 162132.
- 3.7 Medical services provided by a registered health professional are exempt from VAT. If a subcontractor is providing services that include the provision of patient care by a registered health professional the supply will be exempt from VAT. This means that clinical trials conducted by NHS organisations will be exempt from VAT.
- 3.8 If you think VAT should not be charged, it is strongly recommended that this is reviewed by the [Tax Helpdesk](#) as early as possible and preferably at pre-award stage. This will avoid problems later on.
- 3.9 Guidance on selecting the correct Category Code for Purchase Orders is shown in [Appendix 2](#).

### 4. How do we determine the correct category for third party income?

- 4.1 To determine whether income is categorised as either Professional Fees or Research Partner, the following guidance should be read in conjunction with the decision Flowchart shown in [Appendix 1](#).
- 4.2 Categorisation is dependent on the nature of the work being undertaken by the third party organisation (not the type of organisation), so it is essential to obtain a description of the activities to be carried out before following this process.

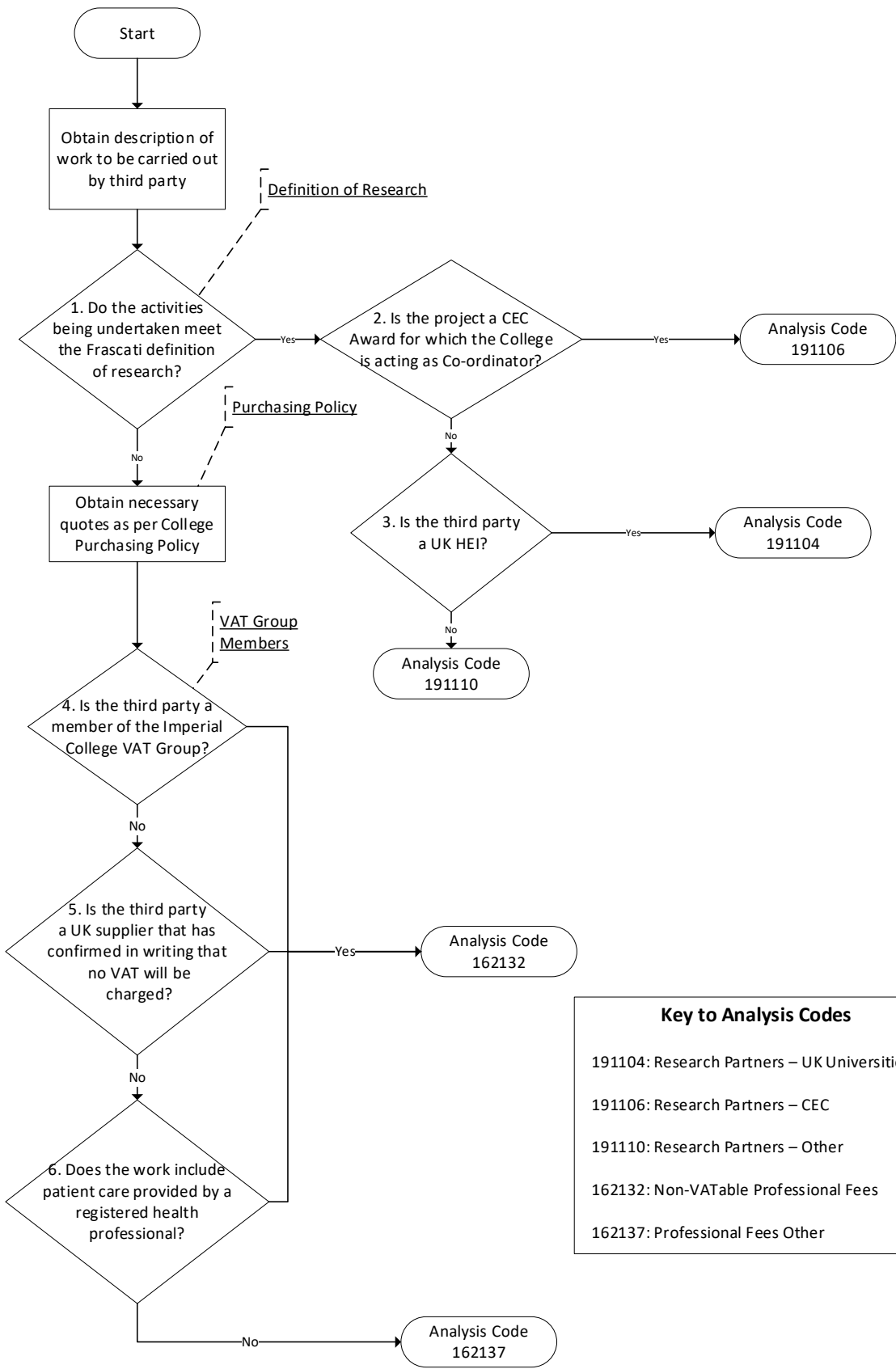
## Research Partners **versus** Professional Fees Guidance on the Treatment of Research Income

Question		Guidance
1	Do the activities being undertaken meet the Frascati definition of research?	<ul style="list-style-type: none"> <li>Research activity being carried out by organisations other than the College cannot be included in returns to HESA (regardless of their location).</li> <li>If the activities meet the Frascati definition, the third party must be classified as a Research Partner.</li> <li><a href="#">Definition of Research</a></li> </ul>
2	Is the project a CEC award for which the College is acting as Co-ordinator?	<ul style="list-style-type: none"> <li>All Research Partners on awards funded by the Commission of the European Communities (CEC) should be classified under analysis code 191106.</li> <li>Research Partners should be named as a co-applicant in the Grant Agreement. If a Partner is not named, the Grant Agreement should be amended accordingly.</li> </ul>
3	Is the third party a UK HEI?	<ul style="list-style-type: none"> <li>When a UK Higher Education Institution (HEI) is acting as a Research Partner, it should be classified under analysis code 191104.</li> </ul>
4	Is the third party a member of the Imperial College VAT Group?	<ul style="list-style-type: none"> <li>VAT is not charged on supplies between members of the Imperial College VAT Group.</li> <li><a href="#">VAT Group Members</a></li> </ul>
5	Is the third party a UK supplier that has confirmed in writing that no VAT will be charged?	<ul style="list-style-type: none"> <li>If a UK supplier has confirmed in writing that no VAT will be charged, there is no need to budget for VAT costs.</li> </ul>
6	Does the work include patient care provided by a registered health professional?	<ul style="list-style-type: none"> <li>Supplies involving the provision of patient care by a registered health professional are exempt from VAT.</li> <li>It is strongly recommended that VAT is included unless a reason for a VAT charge not to apply has been confirmed by the <a href="#">Tax Helpdesk</a>.</li> </ul>

### 5. What is the escalation procedure if the categorisation of income is unclear?

- 5.1 Queries about the categorisation of the work being undertaken by a third party should be directed to the [Research Office](#) in the first instance.
- 5.2 Queries about whether VAT is chargeable should be directed to the [Tax Helpdesk](#).

**Appendix 1**



## **Appendix 2 – Raising Purchase Orders**

- 1.1 Each Research Partner and Professional Fees analysis code corresponds to a specific Category Code in iProcurement.
- 1.2 After identifying the appropriate Analysis Code using Appendix 1, use the table below to identify the correct Category Code.

<b>Analysis Code</b>	<b>Analysis Code Description</b>	<b>Category Code</b>	<b>Category Code Description</b>
191104	Research Partners – UK Universities	R.Y	Research Partners – UK Universities
191106	Research Partners - CEC	R.X	Research Partners – CEC
191110	Research Partners - Other	R.W	Research Partners – Other
162137	Professional Fees - Other	R.Z	General professional and bought-in services including consultancy VAT applicable
162132	Non-VATable Professional Fees	R.ZE	Non VAT-able professional fees