

KICKSTARTER: THE TAX IMPLICATIONS OF CROWD FUNDING



Whitepaper

As more and more start-ups are considering the use of crowd funding campaigns to raise the much-needed capital required to fund their projects, many often fail to consider the tax implications that this may have on their business.

It could be argued that currently Kickstarter are at the forefront of the crowd funding revolution; offering a public forum wherein anyone can pledge to support a particular project, in exchange for 'rewards'. Backers can pledge their support from literally anywhere in the world.

HOW DOES IT WORK?

Every project creator sets a funding goal and deadline. If the goal isn't reached by the deadline, then no funding is received whatsoever - Kickstarter operates an all-or-nothing approach.



If the funding goal is met, then at the time that the campaign expires all backer's credit cards are charged and Kickstarter applies a fee of 5% to the funds collected plus payment processing fees of between 3% and 5%.

Usually backers are offered incentives or 'rewards' unavailable to the general public such as limited editions, custom experiences or discounts.

Project creators keep **100%** ownership of their work. Kickstarter cannot be used to offer financial returns or equity, or to solicit loans.

HOW SHOULD YOUR BUSINESS ACCOUNT FOR PLEDGES RECEIVED THROUGH KICKSTARTER:

In short Kickstarter funds, once received, are treated as income for the purposes of UK tax. This means that an incorporated company that has run a successful campaign will be subject to corporation tax on the income received after the deduction of any qualifying project expenditure.

SEEMS STRAIGHT FORWARD ENOUGH BUT WHAT ABOUT VAT?

In the UK, if your UK VATable turnover from crowd funding plus any other sales income exceeds (or is expected to exceed) the VAT registration threshold in a 12-month period then you'll need to register for UK VAT and charge this on all eligible sales which may include 'rewards' offered through a Kickstarter campaign.

As pledges can come from all over the world, the VAT 'place of supply' rules must be carefully considered as these determine which country's VAT rates should be applied to each transaction and will differ depending on the type of 'reward' offered and whether the person receiving that reward is a business (B2B sales) or a consumer (B2C sales).



This is particularly important when considering the B2C provision of e-services (such as the supply of music, films and video games). Changes in the place of supply rules from 1st January 2015 mean that this sort of sale is now VATable in the country of the customer with the supplier being responsible for reporting

any VAT liability to the relevant tax authority of the European country wherein the customer resides, and at that country's VAT rate.



As you can imagine it would be a huge administrative headache having to register, report and pay VAT in every individual EU member state from which a Kickstarter pledge had been received and so as an alternative to this, HMRC have setup the UK VAT Mini One Stop Shop (VAT MOSS) to lessen the administrative burden on qualifying businesses.

UK VAT MOSS is valid for B2C e-sales to EU members up to 31 December 2020. After this point, UK suppliers will likely need to register for "non-union" VAT MOSS in an EU country (eg: Ireland), from 1 January 2021.

A single VAT MOSS return is submitted to the (one) tax authority every calendar quarter, and the details are forwarded to all other individual EC member states.

HOW CAN WE HELP?

Crowd funding offers a great opportunity for new or growing businesses to raise the funds required for a particular project; with sites like Kickstarter providing a



platform which enables millions of potential investors globally to connect with, and pledge to entrepreneurs and creatives.

However, before a campaign is embarked upon your business should consider the tax and reporting obligations it will have upon receipt of any funds.

If your business is looking to raise finance through crowd funding, we can work together with you to advise and assist in the following:

- The registration of the company for VAT and the VAT MOSS scheme if required
- The preparation of returns needed when pledges are received after a successful crowd funding campaign
- Quarterly reporting to HMRC
- Management reports detailing any potential Corporation tax liability owed as a result of funds received.



Contact ChadSan to arrange a call with our Crowd Funding specialist. You can call us on 01483 802 088 or email us at sean.hookins@chadsan.com.

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