



**Subsidiary Companies of
Glasgow Caledonian University**

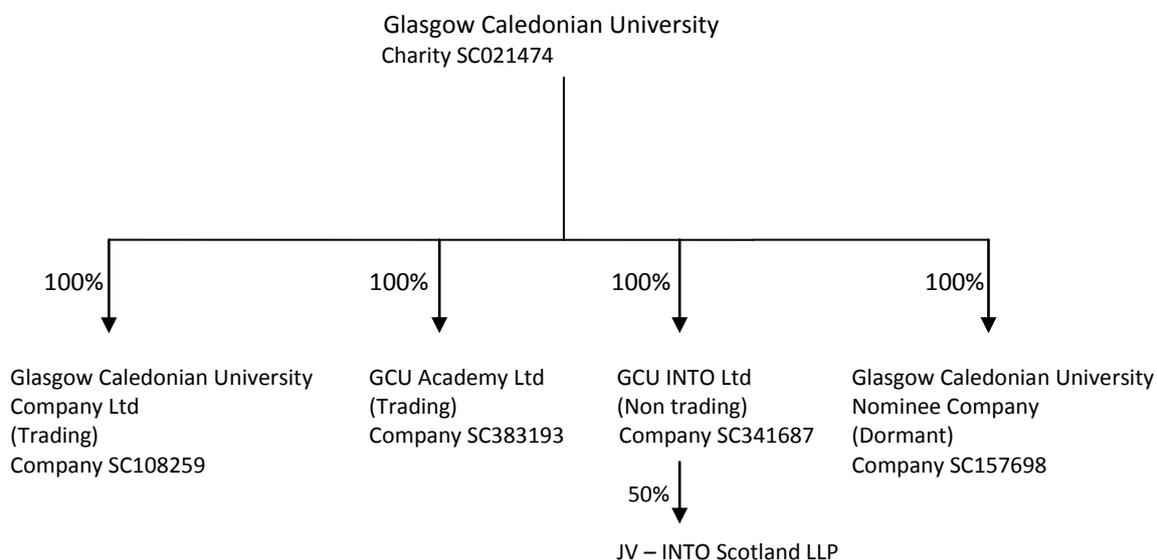
Manual

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1. Introduction

The University has four wholly owned subsidiary companies, Glasgow Caledonian University Company Ltd, GCU Academy Ltd, GCU INTO Ltd and Glasgow Caledonian University Nominee Company:



Glasgow Caledonian University Company Ltd (GCUC) - The principal activity is the provision of training, consultancy and research.

GCU Academy Ltd – The principal activity is the provision of ‘closed’ courses that lead to a university qualification.

GCU INTO Ltd - The principal activity is that of a holding company.

Glasgow Caledonian University Nominee Company – The Company does not trade and it holds the assets collectively known as Heatherbank Museum on behalf of Glasgow Caledonian University.

2. Why do we have subsidiary companies?

The University is a charity and it is subject to charity law in determining what activities, as a charity, it is permitted to undertake. In Scotland the charitable status of the University is monitored by the Office of Scottish Charity Regulator under the Charities and Trustee Investment (Scotland) Act 2005. The extent to which the University can undertake non-charitable activities is constrained by charity law and by tax considerations, clarified through 'The Corporation Tax Treatment of UK Universities' agreed by HMRC and BUFDG.

Activities that the University may carry on will either have the status, charitable or non charitable, and depending on the status the activity will be 'primary purpose' or 'non primary purpose' respectively:

Primary purpose pot

The pot is exempt from tax. The tax exemption for 'charitable' or 'primary' purpose trading applies since this pot contains only the trading activities of the university that are charitable in purpose **and** for the public benefit. The 'advancement of education' is defined in the Charities Act 2006 (the Act) as having charitable purpose and is therefore exempt from tax (Corporation Tax and VAT). Activities which would be incidental or ancillary to the above are included in the primary purpose pot and exempted as part of that deemed trade e.g. provision of accommodation and catering to students being taught at the University.

Non primary purpose pot

This pot is not exempt from tax. This pot contains all trading activities of the university which are not charitable in purpose i.e. non primary purpose trading activities for tax purposes. Examples for the University include:

- Research – UK industry (it is possible that this category may be exempt from tax if certain criteria are met. Primarily the research findings must be published within 6 months of completion).
- Vacation lets
- Sports hall
- Car park
- Closed courses

Research cannot be regarded as a charitable activity if its results are not disseminated either through publication or further application, or if the dissemination is so limited that there is no public benefit. The use of a charity's resources in these circumstances can only be justified on the grounds that it is an activity to raise funds.

Corporation tax is potentially chargeable on the amalgamated results of all the activities in the non primary purpose pot and not on the results for each separate non primary purpose activity.

Charities often set up wholly owned subsidiary companies to carry out trading activities that fall outside the scope of charitable status and the tax exemptions available. Generally where the single deemed non primary purpose trade is likely to be profitable and potentially give rise to a taxable profit it is considered prudent that the profitable activities are performed in a subsidiary company.

3. Determining activity to be channelled through subsidiary companies

It has been assumed at this stage that a proposed activity will have been properly costed and the Business Case approved in line with the University's procedures.

It then needs to be considered whether the activity is charitable. The definition of what is charitable and the tests that must be satisfied are laid out in the Charities Act 2006 (the Act). Each of the following three tests must be satisfied:

1. Is the activity within the University's objectives as set out in its Statutory Instrument – 'Objects of the University', which states 'The objects of the University shall be to advance learning and knowledge by teaching and research and to enable students to obtain the advantages of higher education'.
2. Is the activity within one of the 13 areas of charitable activity as defined in the Act? In practice the main area that is likely to be relevant to the University is "the advancement of education".
3. Is the activity for the public benefit? Public benefit requires application of the following sub-tests and, again, each must be satisfied:
 - a) Is there an identifiable benefit to the public or a section of the public? This means that the ability to benefit from the activity should not be unreasonably restricted.
 - b) Are people on low incomes able to benefit? It is suggested that it may be sufficient that people on low incomes should be able to benefit from some of the activities of a charity (rather than from each specific activity).
 - c) Is any private benefit incidental? This means that the benefit to the public must be the main reason for undertaking the activity. Private benefits would include both benefits to individuals and benefits to the University or to other organisations.

If an activity fails to meet any one of these tests (and cannot reasonably be re-designed so that it does meet them), then it should be channelled through a subsidiary company.

Application of the above test to specific activities that are carried out by the University and subsidiary companies include:

Educational courses – most courses are charitable.

- Degree courses will nearly always be charitable given the financial support (SAAS and SLC funding) available to enable people on low incomes to benefit.
- Short/ part-time courses open to the public will also in most cases be charitable.
- Closed courses (those which are run for a particular employer and are not open to the public) are likely to be non-charitable because they only provide private benefits and will be channelled through a subsidiary company. Consideration needs to be made as to whether the closed course provides education that results in the subsidiary company acting as if it were a University – see section 5 'Vat and subsidiary companies' - before determining which subsidiary company the course should be channelled through.

Research – most research is charitable.

- Publicly funded research for use in the public domain i.e. through publication, is charitable.
- Research that is not disseminated to the public either through publication or further application is not charitable or contract research that is undertaken for a client who wishes

to retain results solely for its own use is likely to be non-charitable and should be channelled through a subsidiary company.

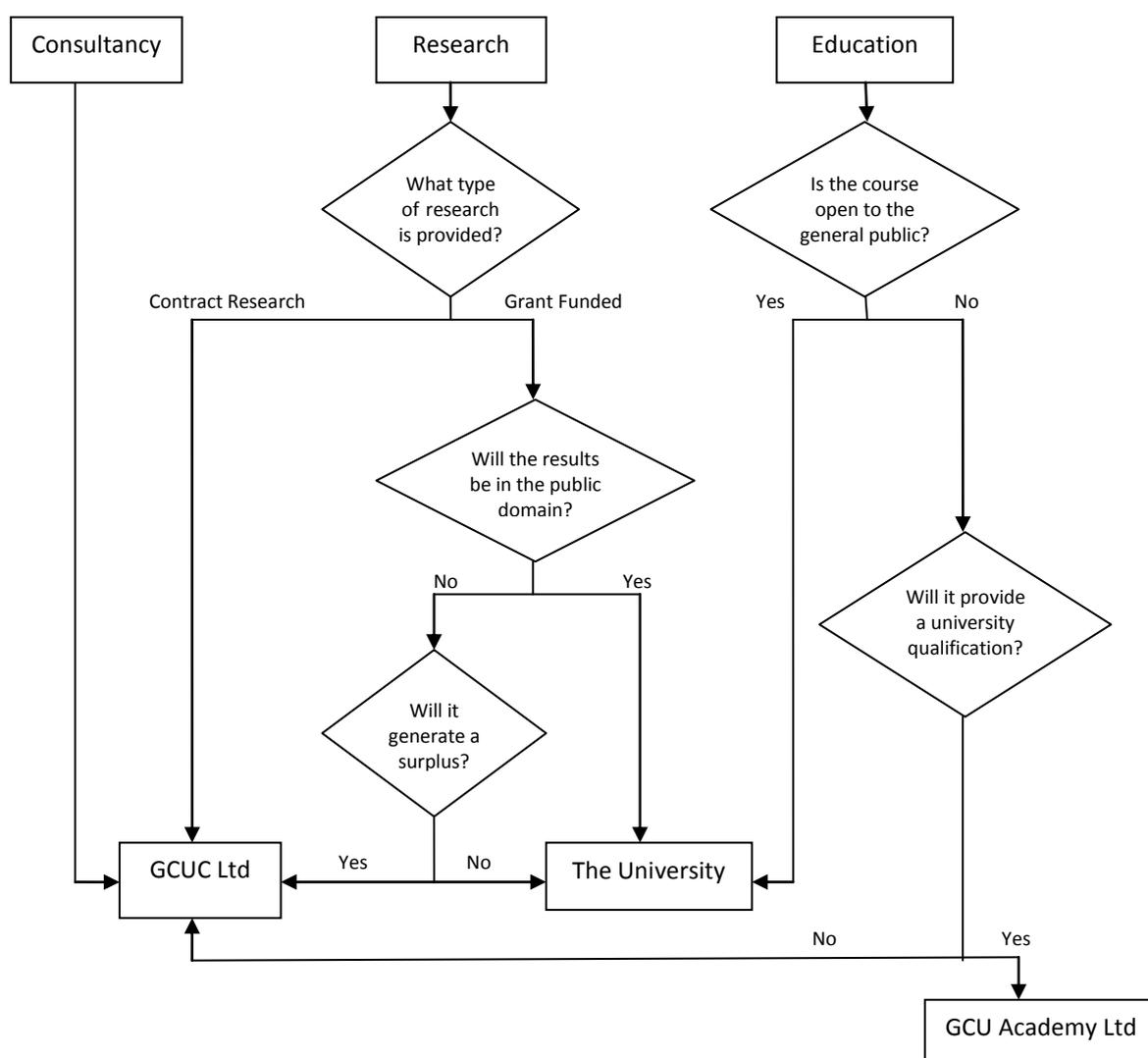
Consultancy and miscellaneous services – most such services are non-charitable as normally they yield only private benefits to the client and provider. Such services should be channelled through the subsidiary companies.

Conferences – most will be charitable where they involve the provision of education by the University.

Accommodation - will normally be charitable.

- Student accommodation is charitable because it is considered ancillary to the provision of education.
- The provision of accommodation to third parties will normally be non-charitable. This would include room hire, letting of accommodation to non-students, and hire of facilities to third parties running conferences.

A guide to determining the correct entity to channel an activity through is provided in the flowchart below.



4. Corporation Tax and subsidiary companies

A subsidiary company being wholly owned by the University, can enter into a Gift Aid Arrangement and use the gift aid relief to reduce or eliminate its profits and any tax liability, by making a gift of its taxable profits to the university by way of a donation.

Where an election is in place the Company has nine months from the end of the accounting period in which to determine the amount to donate to the University as a qualifying donation. The payment must be made to the University within nine months of the end of the accounting period. This allows sufficient time for the Company to determine its precise corporation tax profits, to enable it to pay the University an amount equal to its entire profits and so reduce its corporation tax liability to nil.

The donation is not chargeable to tax in the University. This situation can be used to eliminate the potential tax charges that would have arisen on the profits from a non primary purpose trade had they arisen in the university. HMRC have confirmed that the use of subsidiary companies and the Gift Aid relief is an acceptable method of mitigating the potential tax liabilities arising on non primary purpose trading in Universities.

GCUC currently has a Gift Aid Arrangement in place with the University.

GCU Academy Ltd is expected to be surplus generating which it will gift aid to the University.

GCU INTO Ltd has a 50% interest in the INTO LLP, and this interest is treated as 'look through' for corporation tax purposes. In other words, as long as INTO LLP is carrying on a business and GCU INTO Ltd has a 50% interest in the LLP, 50% of any taxable income arising in the LLP would be treated as accruing directly to GCU INTO Ltd for tax purposes. However, GCU INTO Ltd should be in a position to manage the corporation tax position by making gift aid donations to the University within nine months of the end of the relevant accounting period.

Glasgow Caledonian University Nominee Company is non-trading and therefore has no profits to gift aid to the University.

5. Vat and subsidiary companies

Details specific to the University's VAT position and the trading subsidiary companies registered for VAT are contained in the 'VAT Manual'.

In summary the University has eligible body status for VAT purposes and as a result certain supplies such as education and sporting services are exempt from VAT. The University also has charitable status and can receive certain supplies exclusive of VAT (certain advertising supplies) or at a lower rate (reduced rated building work). As the University is making exempt supplies it can only reclaim a proportion of its input VAT using the Partial Exemption Special Method agreed with HMRC.

Generally trading subsidiary companies of the University are commercial organisations and 100% of their input VAT is recoverable. HMRC have issued new guidelines on the VAT status of university trading companies, VAT Info Sheet 03/10. The guidelines look to whether university trading companies providing education or training are 'eligible bodies' for the purposes of VAT. There are 15 factors that must be considered and one must weigh these factors, consider their cumulative effect and reach a conclusion. There are three key themes that should be present however before a company can be treated as an eligible body:

- There must be a close relationship between the university and the company. In the case of GCU trading companies that are 100% owned this will always be present.
- The company must provide university level education leading to a qualification awarded by the University. **This would include 'closed' university courses that will lead to a University qualification.**
- The students on the course are registered/ enrolled with the University, are subject to the University's rules and regulation and are awarded qualifications by it.

Once a subsidiary company carries out the supply of education or training that meets the eligible body status it is classed as acting as if it were a 'college institution, school or hall of a university' and **all of its supplies of education, including those not leading to a University qualification, are exempt.** As a result, a subsidiary company being classed as an eligible body and making exempt supplies, will only be able to reclaim a proportion of its input VAT using a Partial Exemption Special Method agreed with HMRC.

It is therefore essential that each activity identified as being relevant to a subsidiary company through the steps in section 3 'Determining activity to be channelled through subsidiary companies' is then assessed against the 15 factors in the 'VAT guidelines for subsidiary companies' to determine the relevant subsidiary company to channel the trade through.

The University incorporated GCU Academy Ltd for the purpose of delivering closed courses that lead to a university-level qualification.

6. Glasgow Caledonian University Company Ltd (GCUC)

GCUC is a trading company, and the principal activities carried out by GCUC are the provision of commercial activities including training (CPD), consultancy and research.

It is registered for VAT. Its VAT number is **481 6718 23** and its VAT reporting dates are 31 March, 30 June, 30 September and 31 December. GCUC does not carry out exempt supplies therefore it recovers 100% of its input VAT.

Detailed guidance relating to commercial projects is contained within the 'Commercial Project Account Procedures' guidelines contained within the Finance Office website <http://www.gcu.ac.uk/fno/atoz.html>. All projects in GCUC are prefixed with a 'K' code. Project accounts (where contract exists) are only allocated on receipt of the fully authorised paperwork from RIE or when Finance authorise a CPD or Conference event (where no contract exists).

Income

Includes:

Invoiced Income

On receipt of the appropriate paperwork from RIE or from Finance, the Management Accounting team within Finance will set up all new project codes in Oracle Financials.

Each project will be assigned a Principal Investigator (PI) who is responsible for raising invoices throughout the project. This is done by using the invoice request form and forwarding to Accounts Receivable for processing. The PI will monitor the activity in the project on a monthly basis and will sign off, when appropriate, the project completion. The Management Accounting team close the projects in Oracle Financials and this take place at the end of the next month following the date of completion i.e. project completion date of 16th April will close in Oracle on 31st May.

VAT is applied to all sales invoices raised by the Company.

Howden Academy

Howden Academy is a closed course that is operates in the University. It provides advanced level professional development in aspects of engineering for Howden employees from all over the world.

Expenditure

Includes:

Direct Staff costs

GCUC does not have direct employees, rather employees of the University engage in the activities of GCUC. On notification of a project starting the Finance Office will transfer, on a pro rata basis, the payroll transfers between GCU and GCUC as detailed on the original costing forms.

The University raises a sales invoice to the Company for the salary costs on a monthly basis. VAT is applied to the sales invoices and is 100% recoverable in GCUC.

Management charge

In addition to the recharges for employees of the University being engaged in Project related work, a management charge is raised by the University to GCUC at the end of each financial year for:

- The cost of the support services of Finance staff of GCU carrying out GCUC work,
- The services of the Directors of the Company, and

- The reimbursement of a proportion of Insurance costs paid by GCU. VAT is applied to the management charge.

Audit Fee

The cost of the annual external audit of the Company is invoiced directly by the external auditors to GCUC. VAT is applied to the invoice and is 100% recoverable in GCUC.

Other costs

Other costs should be coded directly to the project using the relevant secondary codes. The coding structure is:

Company number (GCUC = 2). Cost centre. Secondary code. Project. ZZZZZ, i.e.
2.10000.1002.K1234.ZZZZZ

Payments to Personal Development Accounts & additional staff payments

Transfers to a Personal Development Account, Additional Salary payments and/or Pension Contributions (AVC's) are only made at the end of a project. They will be made in line with the details provided as part of the Project Approval Form. They will be automatically actioned once the end date has been reached, subject to the project delivering the surplus detailed in the approved paperwork, and once confirmation has been received from the budget holder that all entries have been processed and are visible on the Project Account Summary (viewed via Discoverer Financials).

7. GCU Academy Ltd

GCU Academy Ltd is a trading company and its principal activity is the provision of closed courses that lead to a university-level qualification.

GCU Academy Ltd cannot be registered for VAT individually as all of its taxable supplies are exempt by virtue of it being regarded as an 'eligible body', its supplies of education are VAT exempt. The company cannot therefore recover its input VAT.

Detailed guidance relating to commercial projects is contained within the 'Commercial Project Account Procedures' guidelines contained within the Finance Office website <http://www.gcu.ac.uk/fno/atoz.html>. All projects in GCU Academy Ltd are prefixed with a 'D' code. Project accounts (where contract exists) are only allocated on receipt of the fully authorised paperwork from RIE or when Finance authorise a CPD event (where no contract exists).

Income

Includes:

Invoiced Income

On receipt of the appropriate paperwork from RIE or from Finance, the Management Accounting team within Finance will set up all new project codes in Oracle Financials.

Each project will be assigned a Principal Investigator (PI) who is responsible for raising invoices throughout the project. This is done by using the invoice request form and forwarding to Accounts Receivable for processing. The PI will monitor the activity in the project on a monthly basis and will sign off, when appropriate, the project completion. The Management Accounting team close the projects in Oracle Financials and this take place at the end of the next month following the date of completion i.e. project completion date of 16th April will close in Oracle on 31st May.

VAT is not applied to sales invoices raised by the company in respect of its supplies of education.

Clyde Union Academy

Clyde Union Academy is a closed course that provides the employees of Clyde Union Ltd a postgraduate level qualification in Leadership and Management for the Manufacturing Sector.

Expenditure

Includes:

Direct Staff costs

GCU Academy does not have direct employees, rather employees of the University engage in the activities of GCU Academy. On notification of a project starting the Finance Office will transfer, on a pro rata basis, the payroll transfers between GCU and GCU Academy as detailed on the original costing forms.

The University raises a sales invoice to the GCU Academy for the salary costs on a monthly basis. VAT is not applied to the sales invoices as it is a supply closely related to the provision of education.

Management charge

In addition to the recharges for employees of the University being engaged in Project related work, a management charge is raised by the University to GCU Academy Ltd at the end of each financial year for:

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- The cost of the support services of Finance staff of GCU carrying out GCU Academy Ltd work,
- The services of the Directors of the Company, and
- The reimbursement of a proportion of Insurance costs paid by GCU.

VAT is applied to the management charge.

Audit Fee

The cost of the annual external audit of the company is invoiced directly by the external auditors to GCU Academy Ltd. VAT is applied to the invoice and is an irrecoverable cost to GCU Academy Ltd.

Other costs

Other costs should be coded directly to the project using the relevant secondary codes. The coding structure is:

Company number (GCU Academy Ltd = 3). Cost centre. Secondary code. Project. ZZZZZ, i.e.
3.10500.1002.D0001.ZZZZZ

Payments to Personal Development Accounts & additional staff payments

Transfers to a Personal Development Account, Additional Salary payments and/or Pension Contributions (AVC's) are only made at the end of a project. They will be made in line with the details provided as part of the Project Approval Form. They will be automatically actioned once the end date has been reached, subject to the project delivering the surplus detailed in the approved paperwork, and once confirmation has been received from the budget holder that all entries have been processed and are visible on the Project Account Summary (viewed via Discoverer Financials).

8. GCU INTO Ltd

GCU INTO Ltd is a non trading company and its principal activity is that of a holding company. GCU INTO Ltd holds a 50% share of INTO Scotland LLP, a limited liability partnership. INTO Scotland LLP is a joint venture partnership with INTO University Partnerships Limited and the remaining 50% share is owned by Newincco821 Limited, a wholly owned subsidiary of INTO University Partnerships Limited.

INTO Scotland LLP operates from the Glasgow Caledonian University's campus. Its principal activity is the provision of English language and pre university foundation, diploma and pre masters' courses.

Income

Includes:

Interest

Interest is receivable in the GCU INTO Ltd on any part of the Revolving loan facility that may be drawn down by INTO Scotland LLP. Interest is payable on the principal at 2% above RBS base rate.

Expenditure

Includes:

Audit Fee

The cost of the annual external audit of the Company is invoiced directly by the external auditors to GCU INTO Ltd. VAT is applied to the invoice and is not recoverable in GCU Into Ltd.

9. Glasgow Caledonian University Nominee Company

This company holds the assets collectively known as Heatherbank Museum on behalf of the University. The company does not trade.

The Company is limited by guarantee and therefore has no issued share capital. Under its guarantee, liability is limited to £2.

Primary purpose pot – commercial research (possible charitable status)

In order for the research to remain charitable, any non-charitable benefits must be incidental. What the Commission, as a charity regulator, will look at is not the overall purpose of a research agreement (which may well have a commercial side) but the purpose and scope of the university's participation in that research agreement.

The leading court decisions on charitable research establish that research will normally qualify as charitable only if:

- the subject matter of the proposed research is a useful subject of study;
- it is intended that the knowledge acquired as a result will be disseminated to others; and
- the research is conducted for the benefit of the public or a section of the public

Whether research carried out by arrangement with a commercial partner is charitable will depend on the particular arrangements in place. The fact that research is carried out in collaboration or by arrangement with a commercial partner does not, in itself, determine whether or not the research is charitable. Charitable research may be undertaken in collaboration or by arrangement with non-charitable sponsors or partners. These arrangements may take the form of sponsored collaborations, contract research, or joint ventures.

The main potential areas of difficulty involving a commercial partner are dissemination and public benefit. For example, the commercial entity may wish to restrict dissemination, or may wish to own IPR, in order to gain a commercial advantage. This will be a particular issue with contract research where the HEI is being paid to carry out a specific piece of research by a commercial company, which the commercial company will want to benefit from. In many cases it may not, therefore, be possible for such research to be classed as charitable.

Useful knowledge gained from research MUST be made available to the public. To be justified as a charitable activity, the charity will need to agree on the public dissemination of the results within the appropriate academic timeframe, normally within six months of the research being completed or the outcomes of value occurring; the longer any delay in publication beyond the normal academic timetable, the greater the burden of proof on the charity to show that the delay is reasonable. Where this is not possible, charities should not be directly involved in contract research as a charitable activity unless they demonstrably have a particular research interest in the work to be undertaken.

Pre-publication access to research findings is a non-charitable private benefit. Such private benefit enjoyed by a sponsor would have to be justified alongside the other benefits being given to the sponsor by the charity under the contract. For a private benefit to be incidental the trustees must be satisfied, and must be able to demonstrate, that it was necessary, reasonable and in the interests of the charity, under the circumstances.

In general, a private benefit is a necessary result, or by-product, of carrying out a charity's aims if:

It follows from some action that is taken and is only taken, with the intention of, furthering the charity's aims; and

The amount of private benefit is reasonable under the circumstances (based on what the charity could have reasonably known at the time).

