

BRACEBRIDGE HEATH PARISH COUNCIL

Bracebridge Heath Community Library, London Road, Bracebridge Heath, Lincoln, LN4 2LA
07899 888530 – clerk@bracebridgeheath-pc.gov.uk

Recovering VAT for Bracebridge Heath Parish Council

Meeting date: 15th March 2022

Recovering VAT on Non-Business activities/supplies

Section 33(2) of the VAT Act 1994 allows local authorities to recover VAT payable on supplies for non-business activities. Typically, this includes activities such as the provision of allotments, cemeteries, street lighting, provision of play parks and subsequent maintenance and other activities that generate no income.

Recovering VAT on Exempt supplies

This concession is extended to recovering VAT on activities that are Exempt from VAT (in our case primarily the Pavilion and some activities in the Community Hub and Library) providing the amount claimed in respect of those Exempt Activities is 'insignificant' in any one financial year. All Exempt Activities should be aggregated together in considering whether it is claimable or not. VAT is considered insignificant if it amounts to less than £7,500 per annum or 5% of the total VAT incurred on all purchases in a year. If the total amount of VAT on Exempt Activities exceeds either of the above criteria, then none of the VAT can be recovered.

Councils who exceed the 'insignificant' limit in any one year may reconsider their position over a longer period of 7 years. If on average, over a 7-year period (including the period under review) the VAT identified falls below the 'insignificant' limit, then the breach may be ignored.

Recovering VAT on Business Activities/Supplies

Business activities:

- Involve making supplies to other persons for any form of payment or consideration (whether money or otherwise)
- have a degree of frequency
- continue over a period of time
- are within the scope of VAT and may be standard rates, zero rated or exempt.

Local authorities are required to register for VAT if they make taxable supplies, irrespective of the value of the supply. For ease of administration, HMRC's practice is to only enforce this where the anticipated output tax (i.e. the tax that the Council would charge on its taxable supplies/sales) reaches £1000 per year. This equates to £5000 of standard rated business supplies.

Bracebridge Heath Parish Council is not currently VAT registered as the business supplies that it makes are less than the allowable limit.

Summary of VAT recovery for registered and non VAT-registered Councils

Type of supply	If not VAT registered	If VAT registered <u>and</u> the Council has 'Opted to Tax'
Non-Business activity	Reclaimable in full. No limit to VAT claims.	Reclaimable in full. No limit to VAT claims.
Business activity	Business supplies should equate to less than £1000 per year in output tax (or £5000 per year of business supplies at Standard Rate 20%)	VAT can be reclaimed for business supplies when VAT registered. However, the Council must also charge VAT on its business supplies e.g. ad-hoc pitch hire.
Exempt activity	Council can reclaim VAT incurred on purchases relating to exempt supplies up to £7500 per year or 5% of the total VAT incurred.	Council can reclaim VAT incurred on purchases relating to exempt supplies up to £7500 per year or 5% of the total VAT incurred. <u>If the Council 'Opts to Tax'</u> One implication of opting to tax is that exempt supplies then become a taxable supply. This means that the Council would have to charge VAT on room hire and other exempt supplies. The cost of this would need to be passed on to the Council's customers which in turn may mean a downturn in income if hirers choose to use alternative venues. Most of Council's customers will not be registered for VAT so will be unable to recover the additional costs the Council passes on to them.

Council's current activities at the Bracebridge Heath Pavilion

Activity	Supply type	VAT Rate
Pitch hire	Business	Standard (20%)
Room hire	Business	Exempt
Block bookings of pitches (by sports clubs, schools or leagues)	Business	Exempt
Council meetings	Non-business	Outside scope of VAT
Free use of facility	Non-business	Outside scope of VAT

Council's current activities at the Bracebridge Heath Community Library

Activity	Supply type	VAT Rate
Library room hire	Business	Exempt
Photocopying charges	Business	Standard (20%)
Library fines	Non-business	Outside scope of VAT
Sale of books / other printed material	Business	Zero rated
Council meetings	Non-business	Outside scope of VAT
Free use of facility	Non-business	Outside scope of VAT

Should the Council register for VAT and/or 'Opt to Tax'?

Registering for VAT is necessary if the Council makes any taxable supplies. As can be seen above, the Council does make some taxable supplies but the amount is beneath the allowable limit set by HMRC (£1000 per year output tax).

The projected income from the village hall, pavilion and library show that although business activity would increase, the Council would still not be making significant taxable supplies. This is because the majority of the supplies made by the Council are 'Exempt'. In these circumstances, the Council is not required to register for VAT.

However, should the amount of VAT being recovered from the Council's input tax relating to Exempt supplies (room hire etc) exceed £7500 per year, the Council should consider registering for VAT and 'Opt to Tax' the Village Hall and/or the Pavilion building. To 'Opt to Tax' a local authority must also be registered for VAT.

Opting to Tax a building or area of land allows the Council to charge VAT to its customers and subsequently recover all of the VAT incurred on expenditure relating to these supplies. This consideration is of particular importance if the Council believes that significant expenditure will be required for the repair or maintenance of the village hall in any one year. This is because the cost of these repairs may mean that the Council incurs more VAT than the 'insignificant limit' of £7500 per year. Exceeding this limit will result in the Council being unable to recover any VAT incurred in relation to any of its exempt business supplies.

To ensure that the Council has considered all options and scenarios it is recommended that the Council take specialist advice in this field. Two providers are recommended by other clerks and councils

- Steve Parkinson from the Parkinson Partnership LLP,
- Elysian Associates

References:

VAT notice 749 - <https://www.gov.uk/guidance/local-authorities-and-similar-bodies-notice-749>

VAT guide (notice 700) - <https://www.gov.uk/guidance/vat-guide-notice-700>

NALC Legal Topic Note 32 – Local Councils and VAT