

7.2 Hawkhurst Parish Council - VAT Status

Introduction

HPC is not currently VAT registered. As a Parish Council, we can claim back a certain amount of the VAT we pay (all VAT on non-business activities and up to £7500pa on exempt business activities). To date, this approach has worked well for HPC, and we have been able to recover all of the VAT that we have paid.

However, the new Community Centre project means that HPC will be paying VAT well beyond the £7500pa limit, somewhere in the order of half a million pounds for the project as a whole. Therefore, HPC needs to consider its VAT position.

Review work

Following the EGM on 20th July 2020, HPC has undertaken a considerable amount of work to address this issue. Councillors have already received a paper produced by Cllr Escombe outlining the council's understanding of its current VAT position.

On 27th July 2020, Cllrs Escombe, Taylor-Smith, Green and Whittle met with Elysian Associates, together with the Clerk and Deputy Clerk. Further to this meeting, Elysian Associates have revised their report and clarified their recommendations to HPC (**Appendix 1**).

At the same time, the Deputy Clerk has been in discussion with HMRC to further clarify HPC's VAT position.

Unless HPC takes action, we will not be able to recover the VAT on the new Community Centre project. This is not a viable option.

Options

Option A. – Non Business activity lease

If HPC wishes to avoid VAT registration and recover all of the VAT associated with the project, we could lease the new Community Centre to HCT2018 on a peppercorn rent of £1pa, thus making it a non-business activity. Whilst this would enable us to recover all of our initial VAT expenditure, HPC would never be able to receive any money from the operation of the hall, including any contributions towards costs.

In the immediate future as the new Community Centre gets established, this, perhaps, would not be a significant concern. However, the expectation is that once established, the Community Centre will become a viable operation. At that stage, it seems only appropriate that HPC should receive a reasonable income from the lease, thereby reducing the amount of money required to be raised by the precept.

Option B – opt to tax the building

Alternatively, HPC can opt to tax the building and become VAT registered. This allows HPC to recover all of the VAT we pay including the VAT incurred on building and maintaining the Community Centre. It is worth noting that, at this stage, the expectation is that HCT2018 would operate the building on a full repairing lease. If we opt to tax the building, this will apply for a minimum of 20 years.

By becoming VAT registered, HPC will have to charge VAT on taxable supplies. In practice, we make very few taxable supplies, but this would apply to charges for the MUGA, the football pitches, the lease for the Community Centre and room hire if we opt to tax, say, Copt Hall or the sports pavilion. Although we could opt to tax the Victoria Hall, this is not recommended at this time. We currently let the Victoria Hall to the Kino on a full repairing lease and do not incur any costs on the building.

Impact on fees and charges

HPC sets the level of all of the taxable charges, so we can decide how much of the cost of the VAT will be passed on to users. The options available range from simply adding 20% VAT on to the fees or keeping the cost to the user the same and paying the 20% VAT from our income, or any point in between. Even if HPC chose to cover all of the VAT itself, this would be insignificant in comparison to the £400,000+ VAT incurred on the Community Centre project.

For example, we intend to charge £8 an hour for the MUGA, that becomes £6.67 + £1.33 VAT. Perhaps next year, we would decide to move to £9.60 per hour (£8 + VAT). It is entirely within our control to ensure that this move does not impact our users if we choose to do so. The fees and charges for 2020/21 from 1st September is attached in **Appendix 2**.

The only downside of becoming VAT registered that we are aware of is having to charge VAT. As above, this need not be an issue. The Clerk has spoken to Paddock Wood Town Council who are VAT registered. They do not feel that this is a problem.

Ongoing support

If the Council decides to be VAT Registered, it is proposed to continue with Elysian Associates as VAT consultants to support us through the change and the end of this tax year. The proposed fee is £1,320, plus VAT.

Motion:

- ◆ HPC should become VAT registered as of 1st September 2020.
- ◆ HPC should opt to tax the Community Centre when appropriate.
- ◆ To use Elysian Associates as VAT consultants through the transition period of six months £1,320 utilising the Village Fund budget.

Clare Escombe
2/8/20

