Sport England
VAT Guidance: Club Matters

November 2016
Introduction

What is the purpose of this guidance?

This guidance has been produced for sports organisations applying for grant funding in order to ensure that the key VAT issues are identified and the potential risks of additional VAT costs are mitigated.

In addition, the guidance highlights the key areas to consider in respect of construction projects.

The guidance will help you in making your decision as to whether the VAT cost of a project should be included within your application for grant funding.

What are the key points?

- VAT is a tax on consumer expenditure.
- Any entity must consider whether its income is subject to VAT.
- The ability to reclaim VAT on expenditure is dependent upon an entity’s VAT status.
- Grant income is generally outside the scope of VAT.
- Capital projects – In most circumstances, sports clubs will be unable to recover the VAT charged on capital projects. Therefore, when costing projects the VAT position should always be considered.
What is VAT?

- VAT is a tax on consumer expenditure.
- It is a tax paid on transactions, not profits.
- VAT is payable at the standard rate (20%) on goods or services if all of the following conditions are met:
  - the supply is made in the UK or the Isle of Man
  - by a taxable person – i.e. an individual who/an organisation which is or is required to be registered for VAT
  - in the course or furtherance of business
  - the goods/services are not specifically exempt, reduced or zero rated.
- Where the above conditions are met, VAT is due on your ‘taxable supplies’ i.e. the supplies upon which you must charge VAT once registered.

Rates of VAT

- VAT is due at the standard rate (20%), unless the supplies are exempt, reduced rated or zero rated. The different rates of VAT are determined by VAT law.

  There is not a list of items which are standard rated for VAT purposes – as the list would be enormous! If an item is not outside the scope, exempt, reduced rated or zero rated it is deemed to be standard rated.

  Examples of supplies which are subject to VAT at the zero rate (0%) include: children’s clothes, water and sewerage, books, passenger transport etc. This would include children’s sports kits – providing all conditions in HMRC VAT Notice 714 are met.

  Examples of supplies which are exempt from VAT include insurance, education, postal services and certain sporting supplies (later described).

  Examples of supplies which are subject to VAT at the reduced rate (5%) include: children’s car seats, domestic fuel and power, smoking cessation products.

What is the difference between exempt and zero-rated?

- It is important to note that whilst no VAT is payable on zero rated and exempt transactions, the two supplies are very different:
  - Zero rated supplies are still regarded as ‘taxable supplies’ for VAT purposes – this means that someone who makes zero rated supplies can reclaim the VAT incurred on purchases (subject to rules which we have detailed below); on the other hand
  - Exempt supplies are exempt i.e. excluded from VAT and are not ‘taxable supplies’ for VAT purposes – this means that someone who makes exempt supplies (e.g. an insurance provider) cannot reclaim the VAT incurred on purchases.

  Please see HMRC’s guidance ‘VAT rates on different goods and services’ which gives an overview of the supplies which can be exempt, zero or reduced rated. However, please note that the VAT liability will depend on several conditions such as:
  - who is making the supply;
  - where the supply is being made; and
  - who the supply is being made to.
VAT basics

When do I need to register for VAT?

- You must register for VAT if the value of your taxable supplies (e.g. bar sales in your clubhouse) exceeds the ‘VAT registration threshold’ in a 12 month period. This is known as a ‘compulsory registration’.

- The VAT registration threshold changes annually and can be checked via the following link.

- If you only make exempt supplies, you will not be required to register for VAT. For example, if you supply exempt sporting services (described below) and do not run a bar/catering at the club i.e. provide exempt sport only.

- If you only make zero rated supplies, you may apply for exemption from registration.

- You may also register for VAT voluntarily for VAT even if your taxable supplies are less than the VAT registration threshold. This is known as a ‘voluntary registration’.

Compulsory Registration

There are two tests to determine whether you are required to register for VAT, these are:

1. The Historic Test

Under the historic test, you look back over the value of your taxable supplies in the last 12 months and if the value exceeds the registration threshold then you will be required to register for VAT.

Example

On the 1 July, Coopers Sports Association reviewed its bar sales for the previous 12 month period:

<table>
<thead>
<tr>
<th>Period Ending</th>
<th>Total Bar Sales (Taxable Supplies)</th>
<th>VAT Registration Monitor</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 July</td>
<td>£9,750.00</td>
<td>£18,500.00</td>
</tr>
<tr>
<td>31 August</td>
<td>£8,750.00</td>
<td>£18,500.00</td>
</tr>
<tr>
<td>30 September</td>
<td>£8,500.00</td>
<td>£27,000.00</td>
</tr>
<tr>
<td>31 October</td>
<td>£6,800.00</td>
<td>£33,800.00</td>
</tr>
<tr>
<td>30 November</td>
<td>£4,800.00</td>
<td>£38,600.00</td>
</tr>
<tr>
<td>31 December</td>
<td>£4,150.00</td>
<td>£42,750.00</td>
</tr>
<tr>
<td>31 January</td>
<td>£3,600.00</td>
<td>£46,350.00</td>
</tr>
<tr>
<td>30 February</td>
<td>£5,550.00</td>
<td>£51,900.00</td>
</tr>
<tr>
<td>31 March</td>
<td>£6,800.00</td>
<td>£58,700.00</td>
</tr>
<tr>
<td>30 April</td>
<td>£8,500.00</td>
<td>£67,200.00</td>
</tr>
<tr>
<td>31 May</td>
<td>£9,800.00</td>
<td>£77,000.00</td>
</tr>
<tr>
<td>30 June</td>
<td>£6,100.00</td>
<td>£83,100.00</td>
</tr>
</tbody>
</table>

If you satisfy this test you must notify HM Revenue and Customs (‘HMRC’) of your liability to be registered within 30 days of the end of the month in which the threshold was breached.

Under this example, as Coopers Sports Association exceeded the VAT registration threshold in the period ending 30 June, it will be required to notify HMRC of its liability to register for VAT by 30 July.
**VAT basics**

**2. The Future Test**

Under the future test, you look to check if the value of your taxable supplies is expected to exceed the [VAT registration threshold](#) in the next 30 days alone. If the value is expected to exceed the VAT registration threshold, then you will be liable to register for VAT.

If you meet this test, you must notify HMRC of your liability to be registered before the end of the 30 day period in which you expect the threshold will be breached.

**Example**

Using the figures above, if for example on 1 June 2016 a local football club asked Coopers Sports Association to host its annual general meeting complete with catering, beverages etc. and offered to pay £85,000 upfront, this would trigger a liability to register for VAT under the future test, as the value of taxable supplies would exceed the VAT registration threshold (£83,000 in 2016) within the next 30 days alone.

**Voluntary Registration**

You are able to register for VAT voluntarily even if your taxable supplies is less than the [VAT registration threshold](#). This is known as a 'voluntary registration'.

**Do the tests interact?**

It is important to note that the tests are completely separate.

Using the example above, on 1 June Coopers Sports Association would not be required to monitor its taxable turnover for the next 30 days to check if taxable bar sales of £6,001 or more would be made and consequently, the VAT registration threshold would be exceeded. The future test only applies if the [VAT registration threshold](#) will be exceeded within the next 30 days alone.

**Why would I voluntarily register for VAT?**

Whilst registering for VAT voluntarily would mean that you would be required to pay VAT at the standard rate (20%) on your taxable supplies e.g. bar sales, catering etc., it also means that you will be entitled to reclaim the VAT incurred on your purchases (subject to the [VAT recovery rules](#)).

For example, if your taxable supplies were below the VAT registration threshold and you received grant funding to construct a new clubhouse/refurbish the existing clubhouse – you may voluntarily register in order to recover a proportion of the VAT incurred on the construction costs.
How do I register for VAT?

In order to register for VAT on a compulsory or voluntary basis, you can register by:

- Using HMRC's online application service; or
- Completing a form [VAT 1](#).

An application for VAT usually takes approximately 30 working days to process. In order to ensure the application for VAT is processed as quickly as possible, you should provide as much supporting information with your application as possible, for example:

- Why you have to/want to register for VAT.
- What you supply (list examples).
- Who you make supplies to.
- Where you make supplies (UK only or outside the UK).

Please note that the application for VAT must be received by HMRC by the deadline described above.

How will I know when I am registered for VAT?

Once registered, HMRC will send you a VAT4 certificate – this is your certificate of registration which will confirm (amongst other details) your:

- VAT registration number.
- Effective date of VAT registration – i.e. the date from which you were registered for VAT and can charge VAT on your supplies.
- VAT return quarters.

Please retain the VAT4 certificate within your accounting records.

The VAT certificate can also be viewed online via [HMRC online VAT services](#).

What if I do not register for VAT on time?

If you register for VAT late, HMRC will backdate your registration and you will be required to pay over any VAT from when you should have registered for VAT. Please note, HMRC may also seek to impose penalties in respect of late registration, known as belated notification penalties.

**VAT Group Registration**

Subject to certain conditions, you can enter into a VAT group registration with another business, providing:

- You 'control' the other business e.g. have more than 50% of the voting rights and/or shares; or
- You and the other business are 'controlled by the same business/person.

The VAT grouping rules can be complex, and there are both advantages and disadvantages to VAT grouping, so please seek further professional advice.

Are there any other types of VAT Registration?

There are other forms of VAT registration schemes which may be used if you meet the appropriate criteria. These are:

- The annual accounting scheme
- The flat rate scheme
- The cash accounting scheme
VAT basics

How often do I have to submit VAT returns?
You usually submit a VAT Return to HMRC every three months i.e. once a quarter (unless you are using one of the alternate schemes – in which case your VAT return periods may differ).

HMRC will allocate your VAT return periods. You can request a specific VAT return period in your application for VAT e.g. to make sure your VAT return periods align to your accounting periods.

The VAT return periods, referred to as ‘Staggers’ are for the quarters ending:
- 30 June, 30 September, 31 December, 31 March
- 31 July, 31 October, 31 January, 30 April
- 31 August, 30 November, 28 February, 31 May.

Can I submit monthly VAT returns
Monthly VAT returns may be submitted if you are in a regular repayment position i.e. the VAT reclaimable on your purchases exceeds the VAT payable on your sales.

Can I change my VAT return periods?
If you want to change your VAT return periods, an application can be made via:
- Using HMRC’s online application service; or
- Completing a form VAT484.

How long do I have to submit my VAT returns?
Your VAT return must be submitted to HMRC by the 7th of the second month following the VAT return period.

For example, the VAT return for the period ending 30 September must be submitted to HMRC by 7 November.
Can I recover the VAT incurred on purchases?

Input tax is the VAT you are charged on your business purchases and expenses, including:

- goods and services purchased in the UK
- goods you import from outside the EU
- goods you purchase from another EU member state.

What evidence do I need to claim input tax?

For supplies over £250, you will need to hold a valid VAT invoice to reclaim the input tax. A VAT invoice must show the following:

- unique invoice number
- the supplier's business name and address
- the supplier's VAT number
- invoice date
- the tax point (or 'time of supply') if this is different from the invoice date
- the customer's name or trading name and address
- a description of the goods and/or services
- total amount excluding VAT
- total amount of VAT
- price per item, excluding VAT
- quantity of each type of item
- rate of any discount per item
- rate of VAT charged per item – if an item is exempt or zero-rated it should be made clear that no VAT is payable on these items

A pro-forma invoice or a statement of account will not suffice as evidence for an input tax claim.

For supplies of £250 or less, HMRC will accept less detailed VAT invoices which show the following:

- unique invoice number that follows on from the last invoice
- the supplier's business name and address
- the supplier's VAT number
- the tax point (or 'time of supply')
- the tax point (or 'time of supply')
- description of the goods or services
- rate of VAT charged per item – if an item is exempt or zero-rated it should be made clear that no VAT is payable on these items
- total amount including VAT

These are often issued by retailers (e.g. till receipts).
**VAT basics**

**What input tax can I reclaim?**

You can recover input tax that directly relates to your taxable supplies i.e. supplies on which you charge VAT at the standard (20%), reduced (5%) or zero rate (0%).

Examples of input tax incurred on costs which would directly relate to taxable supplies would be stock purchased for the bar and/or catering function, sports clothing which is purchased for re-sale and/or hire.

In respect of input tax which is incurred on overhead costs e.g. rent (if VAT is charged by the landlord), utilities, accountancy & legal fees, payroll services etc. this is:

- reclaimable in full if you do not make any exempt supplies; or
- recoverable under your partial exemption method if you make both taxable and exempt supplies.

**Partial Exemption**

If you make both taxable and exempt supplies, you can recover the input tax on overhead costs by using the partial exemption standard method.

This is an income based method which calculates the proportion of overhead input tax you can recover.

The calculation is as follows:

\[
\frac{A}{A+B} \times 100 = \text{% of input tax recoverable on overhead costs.}
\]

**Where:**

- \(A\) is the total value of your taxable sales in the period i.e. the value of supplies made at the standard rate (20%) and zero rate (0%) of VAT in the period; and
- \(B\) is the value of your total exempt supplies.

The percentage calculated above should be rounded to the nearest whole number e.g. 11.2% should be rounded to 12%.

If the standard method does not present a fair and reasonable result (i.e. it grants too little or too much VAT recovery), other apportionment methods can be agreed with HMRC (such as floorspace, staff headcount etc.). An alternate method must be formally agreed with HMRC before it can be used.

**What input tax can I not reclaim?**

You cannot reclaim input tax that directly relates to your exempt supplies, unless the exempt input tax incurred meets the de-minimis limits.

Examples of input tax incurred on costs which would directly relate to exempt supplies would be gardening services for the sports pitches if only exempt activities take place on the pitches (this is described in greater detail later in the guidance).

However, you might be able to reclaim input tax that directly relates to your exempt supplies if it is [de-minimis](#) for VAT purposes.
VAT basics

Example One

- Coopers Sports Association received the following income in the period 1 July – 30 September:
  - Bar Sales – £8,000 (taxable sales)
  - Pitch Hire – £5,000 (exempt sales)
  - Total income – £13,000

Coopers Sports Association incurred the following costs in the period 1 July – 30 September:

- £5,500 (plus VAT) for bar stock – alcohol, soft drinks, crisps etc.
- £2,500 (plus VAT) for a new lawn mower for use on the pitches
- £1,000 (plus VAT) for accountancy fees.
- £1,500 (plus VAT) on utilities.
- £1,000 (plus VAT) on legal fees.

The input tax would be recoverable as follows:

- The input tax incurred on bar stock (£1,100) would be recoverable in full, as it relates to a taxable supply.
- The input tax incurred on the lawn mower (£500) would be irrecoverable, as it relates to an exempt supply of pitch hire made by Coopers Sports Association i.e. the cost will not be used in making taxable supplies.

The input tax incurred on the legal fees, accountancy fees and utilities (£700) would be recoverable under the partial exemption method:

- £8,000/ £13,000 x 100 = 62% reclaimable
  - £700 @ 62% = £434
  - The total input tax reclaimable for the quarter would be £1,534 (£1,100 + 434).
**Example Two**

Coopers Sports Association received the following income in the period 1 July – 30 September:

- **Bar Sales** – £8,000 (taxable sales)
- **Pitch Hire** – £4,000 (exempt sales)
- **Taxable Pitch Hire** – £2,500 (taxable sales)
- **Total income** – £14,500

Coopers Sports Association incurred the following costs in the period 1 July – 30 September:

- £5,500 (plus VAT) for bar stock – alcohol, soft drinks, crisps etc.
- £2,500 (plus VAT) for a new lawn mower for use on the pitches.
- £1,000 (plus VAT) for accountancy fees.
- £1,500 (plus VAT) on utilities.
- £1,000 (plus VAT) on legal fees.

The input tax would be recoverable as follows:

- The input tax incurred on bar stock (£1,100) would be recoverable in full, as it relates to a taxable supply.
- Under this example, as Coopers Sports Association has made taxable pitch lettings, the input tax incurred on the lawn mower (£500) would be recoverable under the partial exemption method, as it relates to both exempt supply of pitch hire and a taxable supply of pitch hire made by Coopers Sports Association.

The input tax incurred on the legal fees, accountancy fees and utilities (£700) would also be recoverable under the partial exemption method:

- £10,500 / £14,500 x 100 = 73% reclaimable
- £1,200 @ 73% = £876
- The total input tax reclaimable for the quarter would be £1,976 (£1,100 + 876).
**What if the input tax incurred on exempt costs is minimal?**

If your exempt input tax is ‘insignificant’ you can treat it as if it were taxable input tax and recover it in full, this is known as the ‘deminimis limit’. The input tax will be ‘insignificant’ if its total value does not exceed:

- £625 per month on average; and
- half of your total input tax in the relevant period.

The total value of exempt input tax is that which is directly attributable to exempt supplies (e.g. grounds maintenance fees) plus the proportion of any residual input tax that is attributable to exempt supplies (i.e. the proportion treated as irrecoverable).

**How do I calculate if my exempt input tax is de-minimis?**

To calculate the total exempt input tax, you should use the following steps:

**Step One**

Calculate your total exempt input tax by adding together:

- the value of input tax directly attributable to exempt supplies; and
- the proportion of any residual input tax that is attributable to exempt supplies (i.e. the proportion treated as irrecoverable).

**Step Two**

If this is below £625 (or £7,500 if calculating annually), check that it does not exceed 50% of your total input tax for the period.

**Example**

Coopers Sports Association received the following income in the period 1 October – 31 December:

- **Bar Sales** – £2,000 (taxable sales)
- **Pitch Hire** – £900 (exempt sales)

Coopers Sports Association incurred the following costs in the period 1 October – 31 December:

- **£2,500** (plus VAT) for bar stock – alcohol, soft drinks, crisps etc.
- **£2,000** (plus VAT) for grounds maintenance in relation to the sports pitches.
- **£500** (plus VAT) for accountancy fees.
VAT basics

The input tax would be recoverable as follows:

The input tax incurred on bar stock (£500) would be recoverable in full, as it relates to a taxable supply.

The input tax incurred on the gardening services (£400) would be irrecoverable, as it relates to an exempt supply of pitch hire made by Coopers Sports Association i.e. the cost will not be used in making taxable supplies – unless it meets the de-minimis limits.

The input tax incurred on the accountancy fees (£100) would be recoverable under the partial exemption method:

- £2,000/ £2,900 x 100 = 69% reclaimable

  £400 @ 69% = £276

- De-Minimis Test.

Step One

Calculate your total exempt input tax by adding together:

- the value of input tax directly attributable to exempt supplies – £400
- the proportion of residual input tax attributable to exempt supplies – £100 @ 31% = £31

Total exempt input tax = £431.

Step Two

- As this is below £625 – check it is below 50% of the total input tax: £1,000 @ 50% = £500.
- £431 is lower than £500 – this condition is met.

As the total exempt input tax meets the de-minimis limits, all input tax incurred in the period will be reclaimable in full (£1,000).
**VAT basics**

**How do I reclaim my input tax?**

You recover input tax through your VAT return by entering the recoverable amount into box 4.

**How do I pay my VAT to HMRC?**

The total amount of VAT payable is the difference between the VAT on the income received and VAT incurred on expenditure and is stated in box 5 of your VAT return.

You must pay any VAT due to HMRC by the 7th of the second month following the VAT return period.

For example, the VAT return for the period ending 30 September must be submitted to HMRC by 7 November.

The VAT can be paid via:

- direct debit – a direct debit instruction can be set up via HMRC VAT online services. It may take the direct debit instruction at least three working days to take effect. Therefore, you should ensure that the instruction to pay by direct debit is made well in advance of the due date for payment. Once a direct debit instruction has been set up, VAT payment will be taken by HMRC three working days after the payment deadline.

- a BACS payment – which usually takes three working days; or

- a CHAPS payment – which usually takes one working day.

HMRC’s guidance gives details of the payment options and HMRC’s bank account details.

**What if my VAT on purchases exceeds my VAT on sales?**

If the reclaimable input tax on your purchase invoices exceeds your VAT on sales, you will be in a VAT reclaimable position and will enter the amount of VAT payable to you in box 5 of your VAT return.

HMRC will pay the VAT due to you via a BACS transfer if you provided bank account details with your application or if not, will post a cheque payable to you.
VAT liability of supplies

I am registered for VAT – do I charge VAT on all my supplies?

Once you are registered for VAT you must charge VAT on all your ‘taxable supplies’. These are:

- business sales – i.e. the goods and services which you sell
- items sold to staff e.g. any items purchased by the sports club and sold to members of staff (refreshments, clothing etc.)
- business goods used for personal reasons e.g. if a sports club purchased a new lawn mower and is was used by the Treasurer for his own garden only.
- You do not charge VAT on your exempt supplies.

What are my business sales?

Example of taxable business sales include:
- admission to watch a sporting event for a charge
- bar sales
- catering

What supplies can be treated as exempt?

If your sports club is an ‘eligible body’ for the purposes of sport, it may treat the following income as exempt from VAT:

- Sport Lessons e.g. sports coaching, tuition etc.
- Sport Training
- Hire of sporting equipment (tennis rackets, balls etc.)
- Sports Venue Hire – providing the venue is hired for sporting purposes i.e. not social hires such as children’s parties.
- Competition Entry Fees
- Membership Fees

This is subject to specific conditions, which we have detailed below under ‘Overview of typical income streams and VAT liabilities’.
VAT liability of supplies

What if my supply consists of more than one element?

It is quite common for different supplies to be sold as a package. Where the different supplies do not have the same rate of VAT, it is important to decide whether you are making a ‘single supply’ or a multiple supply’.

What is a single supply?

A single supply is a supply which has more than one component – but is considered as one supply for VAT purposes as it would be artificial to split the supplies. Usually, a single supply will have a predominant element and ancillary features to enhance the main supply. An example includes an aeroplane flight (zero rated) with an onboard meal (standard rated) – the whole supply is zero rated, as it would be artificial to split the supply.

As the components in a single supply are considered as a single supply for VAT purposes, they are charged at the same rate of VAT.

What is a multiple supply?

A mixed supply is where there are individual elements within the supply that are treated separately for VAT. An example includes hosting a competition and collecting entry fees (exempt) and charging spectators for parking (standard rated).
When can I treat my supplies as exempt?

You will be entitled to treat your sporting income as exempt if the following conditions are met:

1. You engage in activities included within the meaning of ‘sports and physical education’

In other words – you supply sporting services and education.

For these purposes, ‘sports and physical education’ means any of the sports detailed in Paragraph 3.2 of HMRC’s Notice 701/45.

2. You supply services that are closely linked with and essential to sport or physical education

The following are considered to be supplies closely linked with and essential to sport or physical education:

- playing, competing, refereeing, umpiring, judging, coaching or training (but not attending as a spectator or involvement in administration)
- use of changing rooms, showers and playing equipment together with storage of equipment essential to the sporting activity
- match fees charged by an eligible body for use of the playing facilities.

Please note if the match fees cover additional services e.g. a share of pitch hire, catering, transport etc, this will be a ‘multiple supply’ for VAT purposes and the VAT treatment may be different (see ‘What is a multiple supply?’)

3. You supply services to an ‘individual’.

For the purposes of the VAT exemption, an ‘individual’ is a person who actually takes part in the sporting or physical education activity and this includes:

- an individual person
- family groups
- informal groups, where one individual makes a booking on behalf of a group of users of the sporting facilities i.e. sports clubs
- corporate persons and unincorporated associations, provided that the supplies are closely linked and essential to sport, and that the actual customers are individuals taking part in sport.

For example, if a solicitors firm booked a one off 5 a side football tournament as a team building exercise, although the invoice would be raised to the solicitors, it would be the individual employees taking part in the sport.

‘Individual’ does not include:

- travel agents/tour operators, which have agreements with a sports club to supply use of sporting facilities to individuals, groups or corporate bodies.

Your organisation is an ‘eligible body’ for sporting purposes (see the next page).
**VAT liability of supplies**

**What is an eligible body?**
Your organisation is an eligible body if all of the following conditions are met:

- it is non-profit distributing
- its constitution includes a non-distribution clause or limits any distribution of profits or surpluses to:
  - another non-profit making club or
  - its members on winding up or dissolution
- Please see Appendix A for sample wording.
- it uses all profits or surpluses from its playing activities to maintain or improve the related facilities or for the purposes of a non-profit making body – i.e. any surplus is ploughed back into the furtherance of its activities.
- it is not subject to commercial influence nor part of a wider commercial undertaking.

You will be ‘under commercial influence’ if both (1) and (2) are met below or if (3) is met.

For VAT purposes, you will be considered to be subject to commercial influence if:

- Within the previous three years, a person associated with you (e.g. chairman, treasurer) supplied any of the following to you:
  - management or administration services in respect of your facilities
  - any goods or services for more than the normal market price
  - a supply of land which was made for more than £1,000 and was not used for sporting purposes e.g. leased the clubhouse to you at open market value; and
  - in return for the supply, the connected person received an ‘emolument’ i.e. a payment which is calculated with reference to and is therefore dependent on the turnover of profits of your activities e.g. 10% of turnover; or
- an arrangement existed for a supply under (1) above to be made or emolument to be received after the three years of the date of the supply.

In summary, you will be under ‘commercial influence’ if a connected person derives a benefit from you which is calculated with reference to your income generated via your activities i.e. your profits are extracted by a connected person.

If your club is run by volunteers, it is unlikely you will be under commercial influence.

**Does this mean I can’t recover VAT on purchases?**

As described in ‘VAT Basics’, input tax cannot be recovered on costs which are directly attributable to exempt supplies cannot be recovered.
Overview of typical income streams

**Income Streams and VAT liabilities**

We have set out below an overview of the typical income streams received by sports clubs and how these should be treated for VAT purposes if you are an ‘eligible body’ for VAT purposes.

<table>
<thead>
<tr>
<th>Non Sporting</th>
<th>VAT Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admission charges to social events discos, dances etc.</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Bar Sales</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Bingo – Fees to play</td>
<td>Exempt</td>
</tr>
<tr>
<td>Car Parking</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Catering</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Function Hire (room hire with catering)</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Lottery</td>
<td>Exempt</td>
</tr>
<tr>
<td>Raffles</td>
<td>Exempt</td>
</tr>
<tr>
<td>Sponsorship Income e.g. advertising on playing fields</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Sports Competition Entry Fees</td>
<td>Exempt</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sporting</th>
<th>VAT Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership Fees</td>
<td>Exempt</td>
</tr>
<tr>
<td>Pool table – fees to play</td>
<td>Exempt</td>
</tr>
<tr>
<td>Spectator admission fees</td>
<td>Standard rated (20%)</td>
</tr>
</tbody>
</table>

The above VAT treatment applies – irrespective of who your supply is made to.
Overview of typical income streams

Sporting Income
The VAT liability sports income depends on who the supply is made to, which we have summarised opposite.

Membership Fees
Providing you are an eligible body, membership fees (including fees to non-members) in return for supplies of sporting services are exempt.

If you provide your members with substantial benefits in return for their fees i.e. something other than the benefit of sports tuition, participation in sport, newsletters etc. you may have a ‘multiple supply’ and will need to apply the different VAT rates to your supplies.

Grant Income
▪ Grant income is a very complicated area of VAT.

▪ In most instances, the grant funding received from Sport England in respect of 'Inspired Facilities’ will be outside the scope of VAT and should not be shown on your VAT return.

▪ You should seek VAT advice in respect of any grant funding received.

<table>
<thead>
<tr>
<th>Type of Supply</th>
<th>To members</th>
<th>To non-members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hire of Sporting Equipment</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
<tr>
<td>Match Fees</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
<tr>
<td>Match Fees which include catering and transport</td>
<td>Standard rated (20%)</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Sports tuition</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
<tr>
<td>Refereeing, umpiring</td>
<td>Exempt</td>
<td>Standard rated (20%) – if a separate charge is made i.e. it is not included within the fee paid to participate in sport</td>
</tr>
<tr>
<td>Transfer Fees</td>
<td>N/A</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Use of changing room and showers</td>
<td>Exempt</td>
<td>Standard rated (20%) – if a separate charge is made i.e. it is not included within the fee paid to participate in sport</td>
</tr>
</tbody>
</table>
Overview of typical income streams

Sports Facilities Hire

The VAT liability sports facility hire depends on who the supply is made to, which we have summarised opposite:

What is the 24 hour rule?

If sports facilities are let for over 24 hours, the hire charge will be exempt from VAT if it is:

- let to the same customer for a consecutive period of over 24 hours; and
- the customer who has let the facilities has exclusive control of them throughout the letting period i.e. can access and use the premises for the total let period.

Facilities which have not been opted to tax

<table>
<thead>
<tr>
<th>Is the supply?</th>
<th>To an individual?</th>
<th>To another commercial body e.g. limited company?</th>
<th>Other e.g. commercial groups, schools Governing Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>For sporting purposes (lessons/training/competition)</td>
<td>Exempt</td>
<td>Standard rated (20%) (unless 24 hour rule is met)</td>
<td>Standard rated (20%) (unless 24 hour rule/10+ lets rule is met)</td>
</tr>
<tr>
<td>For sporting purposes (lessons/training) and let consecutively for &gt;10 lets</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
<tr>
<td>For sporting purposes (lessons/training) and let consecutively for &gt;24 hours</td>
<td>Exempt</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
</tbody>
</table>
Overview of typical income streams

What is the 10+ lets condition?
The series of consecutive lets will be exempt from VAT if:

- each let is in respect of the same activity carried on at the same place;
- the interval between each let is between one day and 14 days;
- payment is made by reference to the whole series of lets and is evidenced by written agreement;
- the customer letting the facilities has exclusive use of the facilities; and
- the customer letting the facilities is a school, a club, an association or an organisation representing affiliated clubs or constituent associations.

Facilities which have been opted to tax

<table>
<thead>
<tr>
<th>Is the supply?</th>
<th>To an individual</th>
<th>To another commercial body e.g. limited company?</th>
</tr>
</thead>
<tbody>
<tr>
<td>For sporting purposes (lessons/training/competition)?</td>
<td>Exempt</td>
<td>Standard rated (20%)</td>
</tr>
</tbody>
</table>

If you have opted to tax your sports facilities, the option to tax will overrule the exemption for 24 hour hires and ten consecutive lettings when supplies to someone other than an ‘individual’. 
Overview of typical income streams

What about room hire?

**Room Hire**

Typically, the supply of land and buildings (such as freehold sales, leases, hire etc.) is exempt from VAT.

Therefore, supplies of room hire with minimal refreshments such as tea and coffee is exempt, unless an option to tax is exercised.

However, where catering is provided with room hire e.g. for birthday parties, weddings etc., the supply is regarded as ‘function hire’ and is subject to VAT at the standard rate (20%). Therefore, the catering and room hire cannot be separated and VAT must be charged on both elements. It does not matter whether the catering is provided by the operator of the facilities, or by another person (third party caterer).

**Opting to Tax**

As described above, the supply of land and buildings (such as freehold sales, leases, hire etc.) is exempt from VAT. However, a taxpayer may opt to tax its interest in land or buildings. An option to tax waives the exemption i.e. creates a taxable supply for VAT purposes.

You may opt to tax in order to maximise taxable income, as VAT will be chargeable on the room hire supplied without catering.

**Implications of Opting to Tax**

Once an option to tax is in place any subsequent supplies of land (letting or freehold sale) will be subject to VAT at the standard rate (20%). Once an option to tax is in place, it cannot be removed for at least 20 years.

Before opting to tax you should consider the commercial impact of the additional 20% charge to customers wanting to hire the space for example, whether potential customers would seek alternate venues due to the additional cost.

We have summarised the VAT liability of room hire below:

<table>
<thead>
<tr>
<th>Type of Hire</th>
<th>Option to Tax Exercised?</th>
<th>VAT Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Room Hire for non-sporting purposes (with minimal refreshments e.g. tea and coffee)</td>
<td>No</td>
<td>Exempt</td>
</tr>
<tr>
<td>Room Hire for non-sporting purposes (with catering) i.e. ‘Function Hire’</td>
<td>Yes</td>
<td>Standard rated (20%)</td>
</tr>
<tr>
<td>Room Hire for non-sporting purposes (with catering) i.e. ‘Function Hire’</td>
<td>N/A</td>
<td>Standard rated (20%)</td>
</tr>
</tbody>
</table>
Capital Projects

VAT liability of construction projects

What about VAT on new buildings?

What about VAT on new buildings?

VAT reliefs available and how these can be obtained

Recovery of VAT

Implications of changing the use of the facility

VAT liability of supplies

Overview of typical income streams

Capital Projects

“Do’s and don’ts” of construction planning

HMRC guidance

Case studies

Appendix A

Appendix B

Introduction

VAT basics

VAT liability of supplies

Overview of typical income streams

“What is an enlargement or extension – how are they different to an annexe?”

What is an enlargement or extension – how are they different to an annexe?

An enlargement or extension involves making the building bigger so as to provide extra space for the activities already carried out in the existing building.

Examples of an enlargement or extension are a new changing room added to a sports hall.

An annexe provides extra space for activities distinct from but associated with the activities carried out in the existing building.

The annexe and the existing building would form two separate parts of a single building that operate independently of each other.

Examples of an annexe are a day hospice added to an existing residential hospice, a nursery added to a school building or a crèche added to an adult’s sports club.

VAT liability of construction projects

What about an annexe?

The following works cannot be zero rated – as they are not regarded as the construction of an annexe:

- the demolition and reconstruction of part of an existing building e.g. the wing of a building; or
- the conversion of an existing building (or part) to an annexe

The construction or demolition and reconstruction of an annexe to an existing building can be zero-rated if the following conditions are met.

1. An ‘annexe’ is constructed, rather than an ‘extension’

For VAT purposes, an annexe is a structure attached to an existing building.

Although there is no legal definition of ‘annexe’, a new structure will be considered an annexe if it is attached to an existing building but not in such a way so as to be considered an enlargement or extension of that building.

Playing Pitches

Construction services and ground works provided in respect of playing pitches, artificial turf pitch (AGP) etc. will be subject to VAT at the standard rate (20%) when provided by a VAT registered supplier. There is no VAT relief available.

The VAT incurred on these costs should only be treated as a residual cost if you will use the playing field or AGP for some taxable purposes e.g. taxable pitch hire, function hire etc.

Building Refurbishments and Extensions

Construction services provided in respect of building refurbishments and extensions will be subject to VAT at the standard rate (20%) when provided by a VAT registered supplier. There is no VAT relief available for refurbishments or extensions.

What about an annexe?

The following works cannot be zero rated – as they are not regarded as the construction of an annexe:

- the demolition and reconstruction of part of an existing building e.g. the wing of a building; or
- the conversion of an existing building (or part) to an annexe

The construction or demolition and reconstruction of an annexe to an existing building can be zero-rated if the following conditions are met.

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For VAT purposes, an annexe is a structure attached to an existing building.

Although there is no legal definition of ‘annexe’, a new structure will be considered an annexe if it is attached to an existing building but not in such a way so as to be considered an enlargement or extension of that building.
Capital Projects

2. It will be used for a relevant charitable purpose.

'Relevant charitable purpose' means use by a charity in either or both of the following ways:

i. otherwise than in the course or furtherance of business i.e. for at least 95% non-business purposes.

ii. as a village hall or similarly in providing social or recreational facilities for a local community

As most sports clubs carry mainly business activities, they will not be able to obtain zero rating under (i) above.

However, as most sports clubs are not for profit organisations and provide facilities for the community, it is possible that zero rating may be obtained under (ii) above. This is covered in more detail under ‘What is a village hall?’.

3. The annexe is capable of functioning independently from the existing building.

For zero-rating to apply the whole annexe must be capable of functioning independently from the existing building.

An annexe is capable of functioning independently when the activities in the annexe can be carried on without reliance on the existing building. For example:

- It has its own boiler and heating system.
- It has its own reception area, staff, equipment etc.
- It has its own catering facilities.
- If the main building closed, it would be able to open and run its activities.


The annexe and the existing building must each have its own independent main access. So, even if the annexe has its own entrance:

- the main access to the annexe must not be through the existing building, and
- the annexe must not create the main access to the existing building
Capital Projects

What about VAT on new buildings?

Construction services provided in respect of new buildings will be subject to VAT at the standard rate (20%) when provided by a VAT registered supplier, unless the building will be used for a ‘relevant charitable purpose’.

What is a relevant charitable purpose?

‘Relevant charitable purpose’ means use by a charity in either or both of the following ways:

i. otherwise than in the course or furtherance of business i.e. for at least 95% non-business purposes.

ii. as a village hall or similarly in providing social or recreational facilities for a local community

As most sports clubs carry out mainly business activities, they will not be able to obtain zero rating under (i) above.

However, as most sports clubs are not for profit organisations and provide facilities for the community, it is possible that zero rating may be obtained under (ii) above.

What is a ‘village hall’?

For VAT purposes, a building will be regarded as a ‘village hall or similar’ if it has the following characteristics:

- there is a high degree of local community involvement in the building’s operation and activities; and
- there is a wide variety of activities carried on in the building, the majority of which are for social and/or recreational purposes (including sporting).

Any part of the building which cannot be used for a variety of social or recreational activities cannot be seen as being used as a village hall.

What does ‘or similar’ mean?

The term ‘similar’ refers to buildings run by communities that are not villages but who are organised in a similar way to a village hall committee.

In order to be ‘similar’ to a village hall:

- your organisation would need to have trustees who are drawn from representatives of local community groups who intend to use the new building e.g. local sports club, individuals from the Women’s Institute, Free Masons etc. In other words, trustees other than those involved in your sports club.

- the building would be hired out to the local community for a modest fee for use by a range of local clubs and groups, and also for wedding receptions, birthday parties, playgroups and other leisure interests.

Whilst the size and level of provision and facilities will be decided by the local community, HMRC would expect the principal feature of a village hall to be a large multi-purpose hall where members of different households can meet to undertake shared activities. For example, a main indoor sports hall which can be used for different activities.
Capital Projects

What should a ‘village hall or similar’ be designed for?

The emphasis for a village hall should be on promoting the use of the facilities for the benefit of the whole community rather than for the benefit of one particular group i.e. your sports club.

The following are important key features of the building:

- it must be available for use by all sectors of the community.
- it must be capable of meeting the social and recreational needs of the local community
- it cannot be predominantly confined to a special interest group i.e. it cannot be used (or held out to be used) predominantly for your own sports club.
- it should also be arranged on a first come first served basis and no single group (i.e. your sports club) should have priority over others.

Sports Clubs

A building designed for a particular sporting activity, for example, a cricket pavilion or football clubhouse is not seen (by HMRC) as being similar to a village hall.

This is because the use by the wider community would be required to fit in around the sports club’s usage. Therefore, it would be the sports club who would determine how the building was to be used and not the wider community.

This is a very important point – please see Case Studies.

Example Buildings

Buildings that are not typically seen as being similar to village halls are:

- community swimming pools
- community theatres
- membership clubs (although community associations charging a notional membership fee can be excluded)
- community amateur sports clubs

Buildings that are seen as being similar to village halls when the characteristics noted above are present:

- sports pavilions
- church halls
- community sports centres
Capital Projects

What if I get zero rating and later find out it was wrong?
Always act with caution when considering applying for zero rating on construction works as if it is found that VAT should have been charged on the supply, it will be payable by you and not the builder.

If your sports club is not a corporate body (CASC, company limited by guarantee etc.) it will be the individual Trustees responsible to pay the VAT debt.

This area of VAT is currently a hot topic with HMRC and certain sports clubs have fallen foul of the rules and have been forced to pay significant penalties and in some severe instances, cease trading.

What steps should I take?
It is very important that the actual use of the building is decided and evidenced before any construction works commence as you will be required to evidence why the use of the building meets the criteria for zero rating.

HMRC will review evidence such as:
- your website – to check for any information regarding fundraising for the new building to check how it is being described e.g. “our new sports community centre” vs “our new football academy for under 21s”.
- the planning application submitted to your local council.
- (if available) the programme of use (sports lessons, community bingo etc.) that are/will be available in the new building.
- Architects reports, builders quotes etc.

Please see ‘Case Studies’ for more information.
Capital Projects

VAT reliefs available and how these can be obtained

The conditions for zero rating are extremely difficult to meet.

Should all conditions be met, you will be required to complete a VAT certificate to confirm you are eligible for the zero rating on construction. Please see Appendix B for an example certificate.

Capital Goods Scheme

If the cost of constructing a new building or extending/refurbishing an existing building is in excess of £250k plus VAT, the building will be a capital goods scheme (CGS) item for VAT purposes.

The CGS requires that the use of a capital item is monitored for a period of ten years. Any change in use may require a repayment of input VAT recovered to HMRC, or conversely securing an additional repayment from HMRC.

The initial recovery of input tax when a capital item is purchased follows the normal partial exemption rules i.e. you treat the costs as overheads and recover a proportion using the partial exemption standard method.

Example

During October, Coopers Sports Association constructed a new building for £260,000 plus VAT of £52,000. The contractor issued their sales invoice upon completion on 1 December.

Coopers Sports Association received the following income in the period 1 October – 31 December:

- Bar Sales – £73,000 (taxable sales)
- Pitch Hire – £28,000 (exempt sales)

Using the partial exemption standard method, Coopers Sports Association recovered the following input tax:

- 73,000/101,000 x 100 = 73%
- £52,000 @ 73% = £37,960

CGS Adjustments

At the end of every VAT year, you will be required to make a CGS adjustment which basically calculates any change in the taxable use of the building.

The formula for calculating the CGS adjustment is as follows:

\[
\text{Total VAT on purchase} \times (\text{Initial} \% - \text{Actual} \%) = \text{CGS Adjustment}
\]

No. of Years (10)

If the actual taxable use is lower than the initial recovery i.e. if your partial exemption percentage is higher than when you initially recovered the VAT, you pay output tax to HMRC.

On the other hand, if the actual taxable use is higher than the initial recovery, you claim input tax from HMRC.

The adjustment is made in the second VAT return following the end of the VAT year.

This is a difficult area of VAT, please see below an example.

Example

Coopers Sports Association received the following income in the period 1 July – 30 June:

- Bar Sales – £80,000 (taxable sales)
- Pitch Hire – £50,000 (exempt sales)

Therefore, their partial exemption recovery rate for the period was 62%.

The CGS adjustment would be as follows:

\[
52,000/10 \times (73\% - 62\%) = £572
\]

payable to HMRC.
Recovery of VAT
As described on the previous page, the input tax will be:

- irrecoverable if the new building/extension will be used for wholly exempt purposes e.g. exempt pitch hire only.
- partially recoverable as an overhead cost if the new building/extension will be used for both exempt and taxable purposes e.g. exempt pitch hire and taxable sponsorship.

If the value of the construction costs exceeds £250k plus VAT, the VAT recovery will be monitored under the CGS.

Implications of changing the use of the facility
As described above, if your exempt use of the building/playing pitches changes – this will result in either a payment from, or a payment to HMRC.

Therefore, you should consider the impact of any proposed activities and how these will impact on the VAT recovered. For example, if you decided to host regular bingo sessions in your new facility this would increase your exempt income (and therefore use) of the space as admission fees to play bingo are exempt.

On the other hand, you may think of ways in which to increase the taxable use of the facility e.g. by opting to tax the facility so all room hire charges are taxable.
"Do’s and Don’ts" of construction planning

Do:

✓ Consider what your actual use and overall aim of building will be. Failure to do this could result in large penalties from HMRC (see case studies).
✓ Evidence your intended use of the building e.g. Board minutes, local authority planning application, grant funding application etc. The consistency within this documentation will be reviewed should HMRC challenge your VAT recovery.
✓ Be careful around any media publications, these should be consistent with your intended use of the building. E.g. fund raising campaigns, programmes of activities.
✓ If unsure, obtain professional VAT advice at the planning stages of your new build/extension – prevention is better than cure!
✓ If:
  • zero rating cannot be obtained on the construction; and
  • only a small proportion of input tax incurred on construction will be recoverable; or
  • no input tax will be recoverable on construction costs
  you should factor in the irrecoverable VAT cost into any grant funding application.
✓ If the value of the works will be over £250k plus VAT, consider and obtain VAT advice in respect of the capital goods scheme.

Don’t:

✗ issue a certificate for zero rating if you are not confident that all conditions are met and it can be evidence that all conditions are met should you face questioning from HMRC.
✗ submit your grant application form before you have confirmed the VAT liability of the construction and whether the input tax incurred on construction can be recovered (in full or in part).
✗ submit a planning application until you have decided what the new building will be used for and you have obtained VAT advice.
HMRC guidance

I want to know if I can obtain zero rating on my construction – can I ask HMRC?

You are able to request a ruling from HMRC by writing to the following address:

HM Revenue and Customs – VAT Written Enquiries Team
Alexander House
21 Victoria Avenue
Southend-On-Sea
SS99 1BD

You should provide as much information as possible as to how the building will be used and who by.

However, it is very unlikely that HMRC will provide you with an absolute answer. They will however provide the relevant sections of their guidance/manuals and let you make the decision. A response will take a minimum of 40 working days.

Whilst this may seem a pointless exercise if you do not obtain a definitive answer, it will evidence your contentious behaviour as a taxpayer should you ever face scrutiny from HMRC in respect of the VAT liability and/or the VAT recovery on the construction costs i.e. you sought advice from HMRC in order to ensure the VAT treatment was correct.

What guidance does HMRC use?

The following HMRC guidance may prove useful when considered if you can obtain zero rating:

- HMRC’s interpretation of the VAT rules are detailed in the Construction Manual.
- Use as a ‘village hall or similar’ is covered in VCONST16600.
- HMRC will use this when considering your enquiry.
We have set out below some case studies of organisations which fell afoul of the VAT rules and the consequences. The last one refers to an appeal by HMRC which ruled in favour of the sports club.

## Case Study: Boxing Club

- A boxing club obtained grant funding from Sport England and the Amateur Boxing Association of England to construct a new training facility for the club.
- The boxing club assumed that the new facility would meet conditions to be treated as 'a village hall or similar' and completed the appropriate certificate so it would not be charged VAT by the builder.
- Furthermore, the boxing club considered that the 'village hall or similar' criteria would be met as it’s charitable objectives were “The promotion of community participation in healthy recreation” and intended to let local schools, disadvantaged and disabled children to use the new facility.
- The application submitted to Sport England confirmed the funding was required for a new “multi sports centre”.
- HMRC assessed the boxing club for the VAT due on the construction costs, as it considered that the certificate had been incorrectly issued by the boxing club i.e. the facility could not be regarded as a ‘village hall or similar’.
- HMRC confirmed the facility did not meet the criteria for zero rating for the following reasons:
  - The trustees of the boxing club were involved heavily in the boxing club and not the wider community.
  - The purpose of the new facility was to provide a facility for people involved in boxing only i.e. not the wider community. The use by local schools was for the purposes of boxing only.
  - The wider local community had no involvement in the planning or proposed management of the new facility.
  - The schedule on the boxing club’s website showed that the new facility was used for boxing only i.e. there were no other activities for the community e.g. bingo, dance classes.
  - The facility provided limited opportunities to the local community other than those involved in the sport of boxing.
- To support the above, HMRC reviewed the grant funding applications, the planning applications submitted to the local council, the boxing club’s website, press coverage – all of which confirmed the boxing club had sought funding to construct a “new training facility for the boxing club”.
- HMRC assessed the boxing club for the VAT due on the construction – £51,937.
- The boxing club asked for the HMRC Officer’s decision to be reviewed – however, the reviewing Officer agreed with the initial view i.e. the boxing club incorrectly issued a certificate for zero rating.
- The boxing club was unable to pay the VAT and is currently facing going into administration.

This case study highlights why it is very important to consider how your new building will be used and how you should evidence your intention in all documentation. If you cannot obtain zero rating on the construction costs – consider the proportion of VAT you will be able to recover and whether you should apply for additional funding to cover the VAT cost.
Case studies

**Case Study: Canoe club**

- A canoe club constructed a new clubhouse and as above, completed a certificate for zero rating on the basis that the clubhouse would be used as ‘a village hall or similar’.
- HMRC disagreed on the basis that “members of a canoe club do not represent the community at large and the new canoe/paddle sports facility was intended to be for the benefit and use of the canoe club”.
- HMRC reviewed the planning application submitted to the local council which confirmed the canoe club intended to build “a new clubhouse for the canoe club”.
- In addition to the above, HMRC reviewed the architect’s statement which confirmed:
  - that the development of the proposed facility would “be built to reflect the club’s ambitions to achieve a “Top Club” status and in future, ‘Paddle Ability Top Club’ creating an environment which will encourage new members into the sport”.
  - “a new purpose designed clubhouse would provide a much better environment for current and new members and affiliated clubs and local community groups”
  - “In conclusion, the new clubhouse would replace the rather run down facility on the site providing much improved facility for the club and for the sport”.
- It was therefore evident that the aim of the canoe club was to build a new replacement clubhouse for the needs of the canoe club, as opposed to a facility for the benefit of the local community.

**Case Study: Football club**

- A football club obtained grant funding from Sport England for the construction of two new football pitches and a car park.
- The football club incurred total VAT costs of £23,000 and tried to reclaim the VAT in full.
- HMRC confirmed that as the pitches were only used for exempt purposes (as the football club does not have any sponsorship on the pitches) it was not entitled to reclaim the VAT on any construction costs in relation to the football pitches.
- In total, HMRC disallowed input tax of £19,000 and (fortunately for the club) did not raise a penalty.
- The difference in VAT incurred and that recovered could be down to several factors including taxable income being generated by the pitches such as advertising income and gate receipts. It is important to understand the VAT liability of your supplies and the potential consequences for your business.
- Whilst the consequences of this case are less severe, it is important to make sure that you understand the VAT rules – as failure to do so, may result in large penalties.
Case studies

Case Study: Rugby club

- In 2016, a court case ruled in favour of a Scottish Rugby Club, following an appeal from HMRC about whether the club’s new clubhouse met the criteria to be zero rated.

- The club was a charitable members’ club and not registered for VAT, and relied on the new clubhouse being accepted as a ‘village hall or similar’, in order to meet the criteria for zero rating.

- HMRC accepted that the clubhouse was frequently used by the local community, but argued that the clubhouse should be under control of the local community, even indirectly (e.g. by the local community electing representatives into the managing body), for it to be treated as a village hall.

- The clubhouse was used extensively (85%) by people from the local community, including a dance school, choir meeting, multiple sclerosis society meeting, band practice, an athletics club, external fundraising events and more. It was rented out at reasonable rates to encourage use by the wider community. If there was a clash between a rugby fixture and an event that was already booked, the rugby game did not take precedence, for example match start times had previously been changed to accommodate other use of the site.

- It was decided that although community control over the building is a factor that could be taken into account, in this case, the evidence of the actual use of the site was more significant. It was deemed that the clubhouse was used in a similar fashion to a village hall.

- HMRC’s appeal was dismissed and the full ruling can be accessed here.
## Appendix A

### Sample wording for non-distribution clauses

<table>
<thead>
<tr>
<th>Type of body</th>
<th>Examples of acceptable clauses</th>
</tr>
</thead>
<tbody>
<tr>
<td>unincorporated club</td>
<td>The club is a non-profit making organisation. All profit and surpluses will be used to maintain or improve the club’s facilities. No profit or surplus will be distributed other than to another non-profit making body or to members on winding up or dissolution of the club.</td>
</tr>
</tbody>
</table>
| company limited by guarantee      | The income and property of the Company shall be applied solely towards the promotion of its objects as set forth in this Memorandum of Association and no portion thereof shall be paid or transferred directly or indirectly by way of dividend, bonus or otherwise howsoever by way of profit, to members of the Company and no Director of the Company shall be paid by salary or fees, or receive any remuneration or other benefit in money or money’s worth from the Company for discharging his duties as such.  

If upon winding up or dissolution of the Company there remains, after the satisfaction of all its debts and liabilities, any property whatsoever, the same shall not be paid to or distributed among the members of the Company, but shall be given or transferred to some other institution or institutions having objects similar to those of the Company. |
Appendix B

Certificate for Zero Rating

This certificate has the force of law

Certificate for zero-rated building work.

- Address of the building:
- Name and address of organisation receiving the building work:
- VAT Registration number (if registered):
- Charity registration (if registered):
- Date of completion (or estimated date of completion) of the work:
- Value (or estimated value) of the supply (£):
- Name, address and VAT registration number of building contractor:

We have read the relevant parts of Notice 708 Buildings and construction and certify that this organisation (in conjunction with any other organisation where applicable) will use the building, or the part of the building, for which zero rating or reduced rating is being sought solely for (tick as appropriate):

- a relevant charitable purpose, namely by a charity in either or both of the following ways
  - otherwise than in the course or furtherance of business; or
  - village hall or similarly in providing social or recreational facilities for a local community.

I certify that the information given is complete and accurate and acknowledge that if the building, or the part of the building, for which zero-rated supplies have been obtained, within a period of 10 years from the date of its completion:

- ceases to be used solely for a relevant charitable purpose;
- is no longer used to the same extent for a relevant residential purpose and/or a relevant charitable purpose decreases; or
- is disposed of a taxable supply will have been made, on which this organisation will have to account for VAT at the standard rate.

Name (print):
Position held:
Date:
Signed:
Appendix B

General warning

- HMRC reserves the right to alter the format of the certificate through the publication of a new notice.
- You must make sure that the certificate used is current at the time of issue.

Warnings for the issuer

- You may be liable to a penalty if you issue a false certificate.
- You are responsible for the information provided on the completed certificate.

Warnings for the contractor

- You must take all reasonable steps to check the validity of the declaration given to you on this certificate.
- This certificate does not automatically confer zero rating or reduced rating on your supplies. You must check that you meet all the conditions for zero rating or reduced rating your supply – see Notice 708 Buildings and construction.
DISCLAIMER: Information is for guidance only and does not constitute formal professional advice. As such, no reliance should be placed on the information contained in this document. Where specific issues arise in your organisation, advice should be sought from the relevant expert(s) as necessary.