

Village halls and VAT on building work and other purchases

This information sheet aims to help hall committees identify potential VAT costs and make VAT savings, when carrying out building work or purchasing goods and services, where these are available. Although every effort has been made to ensure its accuracy it must be emphasised that it is not a substitute for advice from HMRC.



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Introduction

Many community buildings are run by charitable organisations with a relatively small income and expenditure and are not registered for VAT. Consequently, they bear a small burden of irrecoverable VAT which is paid on supplies and maintenance work such as cleaning equipment, heating oil, plumbers, electricians etc. However, the burden of irrecoverable VAT can rise substantially when building work or new equipment is needed. This cost needs to be allowed for when preparing the budget for a project.

This information sheet has been produced with the aim of helping village halls identify potential VAT costs and make VAT savings when carrying out building work or purchasing goods and services. Every effort has been made to ensure its accuracy but it must be emphasised that it is not a substitute for advice from HM Revenue & Customs (HMRC), who publish a range of VAT leaflets and notices. Committees planning build projects should ensure that they read this Information Sheet and then obtain advice, in writing, from HMRC in the initial stages of their plan.

Information about registration for VAT is given in **ACRE's Information Sheet 6, Village halls and registration for VAT.**

In this information sheet the term village halls is used to cover a variety of community buildings such as village halls, community centres, church halls, playing field pavilions and parish/town council run halls unless otherwise stated.



1 VAT explained

1.1 General

VAT is charged on the supply of goods and services 'supplied in the course of business' or on 'economic activity' by a taxable person. The terms 'in the course of business' and 'economic activity' do not just apply to businesses, but also apply to some activities carried out by charities, local authorities and other public bodies. The hiring out of a village hall for a charge is an economic activity, even though most hirings are to regular volunteer user organisations (who are in the case of charitable village halls represented on the management committee). As most village halls are not registered for VAT, they do not have to charge VAT on their hirings; but this means they cannot reclaim it.

HMRC VAT Notice 701/1: Charities, gives more information and guidance to help charities determine whether an activity is business or non-business.

Most village halls are not registered for VAT

1.2 Terms used

Input Tax: this is the VAT paid by the consumer on purchases and other payments (for example, cleaning materials, surveyor's fees etc.).

Output Tax: this is the VAT charged by the supplier on sales and receipts (for example, for a VAT registered hall, on its hiring fees).

There are five categories of VAT:

- **Zero-rate:** output tax is charged at 0% but input tax can be reclaimed, subject to normal rules.
- **Standard Rate:** 20% from 1 January 2011.
- **Reduced Rate:** currently 5% on small fuel and energy supplies.
- **Exempt:** whilst no VAT is charged on the supply, there is usually no entitlement by the organisation making the supply to recover related input tax. For example, the renting of premises will be an exempt activity, unless an option to tax has been exercised (please note that this description does not mean that an organisation is 'exempt from paying VAT').
- **Outside the scope of VAT:** the activity is a non-business activity (for example, grants made by a local authority, internal administration).

2 Supplies to charitable village halls which are zero-rated

Readers should also obtain VAT Notice 708, Buildings and Construction (2008 edition). Please note that some of the following apply specifically to charitable village halls and some apply to a wider range of premises, including village halls.

2.1 New build

2.1.1 Qualifying buildings

The construction of new charitable village halls and community centres is zero-rated under Note (6) of Group 5, Schedule 8 of the 1994 VAT Act. This provision also applies to church halls and similar charitable buildings such as buildings for charitable playing fields and recreation grounds and buildings, which are available for other social and recreational activities such as use by sports clubs. This applies even though their hirings are technically 'business activities' because the management structure of organisations such as a village hall, community association, playing field and parochial church council represents those using the hall, i.e. the local community and user community organisations, (this provision was approved by the EC VAT Commissioner in 1989 following a European Court Judgement).

The construction of new charitable village halls and community centres is zero-rated under Note (6) of Group 5, Schedule 8 of the 1994 VAT Act

2.1.2 Definition of village halls and similar buildings

The HMRC VAT Notice 708 (2008 edition), provides the following guidance:

"A building falls within this category when the following characteristics are present:

- 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);

NB. Users of the building need not be confined to the local community but can come from further afield.

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.

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:

- scout or guide huts
- sports pavilions
- church halls
- community centres
- community sports centres.

Note: A Community Interest Company (CIC) cannot be charitable and construction of a new building by a CIC therefore is not eligible for zero-rating. However, a CIC can register for VAT and make a zero-rated long lease of a village hall that it constructs to a village hall type charity. Subject to that charity certifying to the CIC that it intends to use the building as a village hall, the CIC will be able to recover the VAT on construction costs. If any part of a new such building is to be used exclusively by a CIC advice should be sought from HMRC as to the extent on which VAT on construction costs may be recovered.

Likewise the construction of a new community hall by a parish, town or district council or a developer is not eligible for zero-rating unless the council or developer is merely taking responsibility for the construction and either handing the completed building to a qualifying charity which will own the freehold on completion, or leasing it to a qualifying charity on a long lease.

2.1.3 Caretaker's Accommodation

Caretaker's accommodation can be zero-rated if it meets the criteria for a 'building designed as a dwelling'.

2.1.4 Non-qualifying and dedicated use

Where part of a village hall cannot be used for a variety of social and recreational activities because it is permanently assigned to a particular activity, (such as a clinic, post office, parish council office or for exclusive use by a sports team or local society so that nobody else can use that part of the village hall), then that part of the building is not being used as a village hall. Consequently, construction costs in respect of that part cannot be zero-rated and a fair and reasonable apportionment of the total construction costs of the building must be made.

However, if the part of the building being so used, and any areas of the building shared with users of that part, such as toilets, kitchen, corridors,

entrance etc. are 5% or less of the total area of the building, then it can be disregarded and the construction of the whole building can be zero-rated.

HMRC will need to approve any calculation.

2.1.5 Car parks

The construction of a car park or landscaping next to a new village hall is zero-rated where it forms part of the construction of the hall itself, i.e. where it is clearly included in the relevant planning permission and is carried out with or immediately following construction of the hall itself. Civil engineering works such as tennis courts, or bowling greens are not eligible for zero-rating.

Exceptionally, if the construction of a car park is delayed after the completion of a new hall, zero-rating may still be allowed. In this situation the charity would have to show that the car park was designed in conjunction with a new hall, for use with the hall and was clearly included in the planning permission as part of one whole project. In most cases HM Revenue and Customs expect tenders for constructing the car park to have been obtained and probably the contract let before the hall itself was finished. It would be prudent to contact the HMRC helpline National Advice Service for advice if, for example, cost over-runs cause delay in construction.

2.1.6 Certification

In order to obtain zero-rating the charity must issue a declaration to its builder in the form and manner set out in Section 18 of VAT Notice 708. Provided that the contractor is satisfied that the work is being directly carried out for the charity in respect of a qualifying building, the work will be invoiced at zero rate of VAT. Declarations can only be issued to each main contractor, not to any sub-contractors.

2.1.7 New building or alteration work – definitions

Several aspects of building services are zero-rated for VAT. These are:

- Business services supplied in the course of completely self-contained new qualifying building work. Any service related to (and supplied in the course of) the construction of a village hall or similar building.
- The supply of building materials, hardware, sanitary ware, fitted kitchen units and other items ordinarily installed as fixtures in conjunction with the above services, when supplied by the provider of those services.
- The demolition of a complete building when carried out as part of a contract for the construction of a village hall or similar building. Demolition work done in isolation is zero rated.

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Not all services, materials and appliances qualify for the zero-rate. Further details can be found in Sections 3 and 13 of VAT public notice 708.

It is not always clear that a new building is being constructed if it is on the same site as an old one. Where this is the case guidance can be found in Section 3.2 of VAT public notice 708. Zero-rating can apply where the construction of a qualifying building makes use of the foundations of an existing building, but the whole of the building has been demolished leaving only a 'slab' of the ground floor. It can also apply where a façade has been retained to comply with statutory planning consent.

A building which is to be completely rebuilt but in phases (for example, to enable use while the work is undertaken) may in some cases, be treated as a new building but HMRC must be consulted first. Buildings which are rebuilt section by section over a period of time may be treated as reconstruction, not new build.

2.1.8 Pre-fabricated buildings

The supply and assembly on site of a pre-fabricated (e.g. timber) building will be eligible for zero-rate VAT if it is for use as a charitable village hall. Where a number of contractors are engaged in the assembly/construction work separate certificates of eligibility will need to be provided to each contractor.

However, where a pre-fabricated building is to be erected with an element of voluntary labour the following points should be noted:

- The supply only of the pre-fabricated kit without assembly/construction services would constitute a standard-rated supply.
- The undertaking of works by volunteers (such as preparation of footings, wiring etc.) does not qualify for VAT relief as no 'supply of construction services' is being made to the village hall committee.

2.2 Church Buildings

Where a new community facility such as a Community Room or Community Hall is to be added to a church there are potentially two mechanisms by which the VAT on construction work may be addressed: It may qualify as a charity annexe and, if the church is a listed place of worship, part of the work may qualify for the Listed Places of Worship Scheme.

2.2.1 Charity Annexes

Section 3.2.6 of HMRC leaflet 708 gives a church hall added to an existing church as an example of a project which can qualify as a charity annexe and therefore be eligible for zero rate VAT. The criteria are that the annexe must be used for a relevant charitable purpose (e.g. hall or village

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hall), be capable of functioning independently (which usually means having its own toilets and kitchen) and it must have its own main access. The church and the annexe must be capable of being accessed and used independently.

This relief does not cover professional fees, so VAT would be payable on architect's and other fees. It does cover civil engineering to service the building work (e.g. potentially some but maybe not all of the new access) and soft landscaping afterwards.

A certificate of eligibility (which is in leaflet 708) would be issued to all contractors who would then apply 0% VAT.

2.2.2 The Listed Places of Worship Scheme

The Listed Places of Worship (LPW) Grant Scheme is provided by the Department for Culture, Media and Sport rather than HMRC. It provides grants that reimburse the VAT incurred in making repairs to listed buildings in use as places of worship. The scheme covers repairs to the fabric of the building, along with associated professional fees, plus repairs to turret clocks, pews, bells and pipe organs and in some cases approved alterations. Eligibility for a LPW grant is assessed against complex criteria, involving the eligibility of the building and the nature of the work being carried out.

This Scheme will reimburse VAT paid on eligible work, so VAT has to be met up front and then reclaimed. Access and toilets for disabled people are excluded from this Scheme, because a certificate of eligibility for 0% VAT can be issued to builders for that work (see VAT Notices 701 and 708). Where a charity annexe is to be constructed a certificate of eligibility for 0% VAT would be expected to be issued for the annexe, but professional fees, alterations and preparatory or associated work to the church (e.g. piling and foundations) may be eligible for LPW.

The minimum VAT refund that can be made is normally £1,000 in any year and VAT can only be reclaimed on expenditure in the previous 12 months.

The sale or lease for more than 21 years of a listed building, which is used, or is to be used, as a village hall by a person substantially reconstructing it, is also zero-rated, subject to certain conditions.

2.3 Provision for disabled people

The following works are zero-rated when supplied to a charitable village hall:

- Construction of ramps to enable disabled people to enter, or move about within the building or hall. Please note: There is no specific zero-rating for handrails but they could be zero-rated as a general adaptation of goods providing all conditions are met (paragraph 5.3

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of VAT Notice 701/7 refers).

- Widening of doorways or passages to allow disabled persons to move within the building or hall. Please note: the lowering of door handles is not zero-rated under the provisions of facilitating movement which covers widening of doorways and passages but could be zero-rated as a general adaptation of goods, providing all conditions are met (paragraph 5.3 of VAT Notice 701/7 refers).
- The provision of toilet facilities for disabled people (zero-rating also applies if the toilet serves as the ladies or provides baby changing facilities). Adaptation of existing toilet facilities for use by disabled people would also be zero-rated.
- The provision and installation of a vertical or standard lift can be zero-rated where the supply is to a charity that uses the building as a day-centre for disabled persons.
- The provision and installation of a chair lift or stair-lift to help disabled persons move between floors within the building used by the charity, where it is for the benefit of a named individual or group of individuals and access is restricted (for example, by a key ring or access code system).

Work associated with, or needed, as a direct consequence of the above, can be zero-rated, in certain circumstances. For example, if a porch needs to be rebuilt to accommodate a toilet for disabled people, zero-rating may apply to the services of restoring the porch elsewhere in the building to its original size. However, zero-rating will not apply if additional accommodation is constructed to the building.

Zero-rating may also apply to any of the following necessary preparatory, restoration and making good services in relation to any of the qualifying works listed above.

- The supply, installation and maintenance of an induction loop for the hard of hearing.
- There is no specific zero-rating for general-use goods. General-use goods do not qualify for zero-rating when supplied to disabled persons, but the service of adapting such goods to suit the condition of a disabled person can be zero-rated. Goods that are necessarily used in the course of adaptation can also be zero-rated, but not the product or goods being adapted.
- Where zero-rating is applicable, you will be required to provide the contractor with an eligibility declaration (see Section 10 of VAT Notice 701/7). Detailed information on goods and services supplied for use by disabled people can be obtained in VAT Notice 701/7, Reliefs for disabled people.

2.4 Water rates

Water and sewerage services are zero-rated for VAT purposes when delivered to charitable village halls and other community buildings.

2.5 Advertisements

Advertising by charities in newspapers (including classified columns), leaflets, programmes, posts and similar publications is zero-rated. This applies, for example, to advertisements for jumble sales, dances, open days etc. Some pre-printed stationery, such as appeal letters can also be zero-rated when supplied to a charity (see VAT Notice 701/58, Charity advertising and goods connected with collecting donations).

2.6 Energy-saving Materials

Energy-saving materials supplied and installed as part of the construction of a new charitable village hall, or construction of a charity annexe will be eligible for zero-rate VAT if seen as building materials. See HMRC VAT Notice 708/6 for definitions. These include renewable energy sources such as solar panels, wind turbines and heat pumps.

Water and sewerage services are zero-rated for VAT purposes when delivered to charitable village halls and other community buildings

3

Supplies to charitable village halls which are standard-rated

3.1 Repairs and alterations

VAT is normally charged at the standard rate (currently 20%) on all building services and materials supplied in the course of work to any existing building, including extensions, unless to a protected (listed) building or the work involves construction of a charity annexe. (Schedule 8, Group 5, Item 17 VAT Act 1994).

3.2 Professional fees

The services of an architect, surveyor, consultant, paid supervisor and building control fees are always subject to VAT at the standard rate.

3.3 Equipment, cleaning supplies etc.

Most of the equipment and supplies purchased by village hall committees attract VAT at the standard rate. However, committees receiving financial assistance from local authorities or the government may be able to use the arrangements described in Sections 5 and 7 in this information sheet. If an authority makes a gift in kind, rather than cash, it may be able to reclaim VAT paid on the purchase as part of its non-business activity, thereby enabling more goods to be purchased for the same sum.

3.4 Energy supplied in commercial quantities

See section 4.1 and/or ACRE's Information Sheet 26, Coping with VAT on fuel and power supplies.

3.5 Energy-saving materials and renewables

VAT will be payable at the standard rate on the supply and installation of energy-saving materials supplied and installed as part of a refurbishment, improvement or extension project, or maintenance work. A supply of materials alone is also subject to VAT at the standard rate.

4 Supplies to village halls which may be at reduced VAT rate

4.1 Fuel and power

VAT applies at two rates on fuel and power supplied to village halls:

- qualifying use (for example, domestic or charitable non-business use) can be supplied at the reduced rate of 5%
- all other use is charged at the standard rate (20% from 1 January 2011).

Where fuel and power is put partly to a qualifying use and part not, as it is in many village halls, an apportionment should be made and notified to the supplier. If at least 60% of the fuel and power is for a qualifying use then the whole supply can be treated as qualifying and be taxed at the reduced rate.

VAT automatically applies at the reduced rate of 5% to fuel supplies of not more than the following "de minimis" amounts:

- piped gas – at a rate of 150 therms per month or 4,397 KW hrs/mth
- electricity – at a rate of 1,000 KW hrs per month
- liquid petroleum gas (cylinders) – cylinders weighing less than 50kg each: either any number not intended for resale or up to 20 cylinders
- liquid petroleum gas (bulk) – a delivery to premises with a storage capacity exceeding 2 tonnes
- fuel oil, gas oil or kerosene – 2,300 litres
- coke or coal – one tonne (held out for sale as domestic fuel)
- wood, peat or charcoal – any amount (not intended for resale).

Committees will be asked by electricity and gas suppliers to declare how much of their use is for business or non-business purposes. Most

VAT applies at two rates on fuel and power supplied to village halls

companies issue standard forms for this purpose. VAT will apply at the standard rate to the whole supply if it exceeds the levels above unless the committee has declared to the electricity or gas company that all or some of the use of the fuel is for non-business or domestic use.

ACRE's Information Sheet 26, Coping with VAT on fuel and power supplies provides details of how to calculate the business and non-business use of a village hall. In brief, hirings for private events or commercial use and fund-raising activities such as the provision of catering or refreshments are treated as business uses. Use for which no hire charge is made is non-business. If a donation/grant is made in return for the use of the hall then this is not non-business because the funding is not actually a donation at all; instead it is consideration for the use of the hall, and is therefore a business activity (usually exempt from VAT unless there is an 'option to tax' in place, in which case it will be a standard-rated and taxable).

4.2 Energy-saving materials and renewables – residential accommodation

If residential accommodation is provided energy-saving materials are eligible for the reduced VAT rate. These include renewable energy sources (e.g. solar panels, wind turbines, heat pumps, wood fuel heating systems), draught-proofing and insulation materials and some forms of heating, including control panels, but not double glazing. See VAT Notice 708/6 for further details.

5 Recovery of VAT by local authorities (incl parish councils)

5.1 Definition - What is a local authority?

A local authority is defined for the purposes of this provision as including county, district, parish or a group of parishes in England (or, in Wales only, a community or group of communities), and any joint committee established by two or more of these authorities. However, not all committees or sub-committees are covered by the VAT Act 1994 Section 33, so it is important to examine the basis on which they have been established to determine whether they can be treated as a local authority. For the purposes of the above definition, only those committees and joint committees established under Local Government Act 1972, sections 101 and 102(1), which allow local authorities to discharge their functions through committees are covered. In other words, only those committees

that discharge a local authority function may be treated as a local authority. Such committees must:

- be established by a local authority, or two or more, authorities under Local Government Act 1972, sections 102(1) or be preserved under section 101(9); or
- be a sub-committee of a committee constituted as above; and
- have voting rights restricted to local authority members (unless sections 4 or 5 of Statutory Instrument 1553 of 1990, (made under section 13(3)(g) Local Government & Housing Act 1989, apply).

The following bodies, however, are not considered to be local authorities and are therefore not eligible for section 33 treatment:

- Joint boards/committees established by persons other than local authorities, even where they include local authorities as members or participants, for example, boards established by order of a Minister of the Crown.
- Bodies where voting rights are not restricted to local authority members (unless the exceptions in Statutory Instrument 1990/1553 (made under section 13(3)(g) Local Government & Housing Act 1989 apply).
- Bodies that merely receive financial assistance from local authorities.
- Committees set up under Local Government Act 1972, section 102(4). These are committees whose role is advisory only. Because they only have an advisory role and do not actually carry out local authority activities they are not considered to be discharging a local authority function.
- Community Councils in Scotland and England.
- Community Associations.
- Parish meetings.
- Business improvement districts.

5.2 Recovery of VAT

VAT is only recoverable by the body to whom the supplies have been made and which are related to its business activities. Additionally, a local authority can recover VAT on supplies made to it which are related to its non-business activities and 'insignificant' amounts of input tax related to its exempt activities, subject to normal rules. VAT cannot be recovered by a local authority under any circumstances where the supply has been made to another body.

5.3 Parish councils

Broadly speaking, a parish council is able to recover VAT incurred in relation to village halls where:

- it is acting as either the sole managing trustee (please see section 8 for definition) of the charity or as a sole owner if it is not a charity; or
- the parish council, in its capacity as sole managing trustee or owner, has dele-

gated the day-to-day administration of the hall/recreation ground to a valid, established sub-committee of the parish council; or

- the parish council, in its capacity as sole managing trustee or owner, is leasing/renting the hall/recreation ground to another party.

BUT ALL SUBJECT TO THE GUIDANCE SET OUT BELOW

- It is a basic feature of the VAT system that VAT can only be reclaimed on purchases which a registered person makes for the purposes of his taxable business activities. VAT incurred other than for business purposes cannot, therefore, normally be recovered.
- A voluntary organisation running a hall as a non-business activity (or as an exempt business activity) is thus required to bear the VAT that it incurs on the expenditure connected with the hall.
- Under a special arrangement, Section 33 of the VAT Act 1994 enables local authorities (including parish councils) to claim refunds of the VAT they incur on the purchases of goods and services which relate to their non-business activities. The main aim of this provision is, so far as possible, to avoid VAT falling as a direct burden on the rates or Government funding.
- Section 33 of the VAT Act 1994 contains further special provisions, which allow local authorities to recover VAT relating to their exempt activities, but only where such VAT is an “insignificant” proportion of the total VAT incurred – see Section 8 of VAT Notice 749 for further details.

6 Community project funding - where a local authority manages the project fund on behalf of a voluntary body

It is usually a requirement of funding organisations that grants are awarded and paid directly to the charity making the application. When contemplating a community project, including work to a village hall, a voluntary group may approach the local authority and request its assistance in managing the project. If it agrees, the authority will set up a project fund into which any funds raised locally and any grants received by the voluntary group will be paid. The authority will then use this fund to make the purchase or pay for the work on behalf of the voluntary group.

The VAT implications will depend on the ownership of the village hall. A local authority is regarded as owning a hall if it either owns the hall as part of its statutory function or is sole managing trustee as opposed to custodian trustee, whose role is simply to hold the property of the trust.

The VAT implications will depend on the ownership of the village hall

Some local authorities have treated this fund as if it were their own money and sought to reclaim VAT on these purchases under Section 33. However it is important to note that:

- Grants awarded to a voluntary group are not an authority's own funds – they belong to the voluntary group.
- Applications made by voluntary groups for grant funding should be calculated to include the VAT costs.
- If an authority pays its own money into a project fund, this will cease to be the authority's own money unless the project fund is actually part of the authority, i.e. the project fund forms part of the authority's statutory accounts and the authority retains control over how the money is spent.

An authority will be able to recover VAT on costs it incurs associated with managing the funds, regardless of the ownership of the funds.

7 Recovery of VAT by local authorities on supplies purchased in connection with halls run by voluntary organisations

7.1 Supply paid for from local authority's own funds

The provision of grant aid or a gift to a voluntary organisation is a non-business activity of a local authority if the local authority receives nothing in return. It follows that, VAT may be reclaimed by a local authority where, in lieu of making a grant, the authority purchases goods or services, including work to the hall and gives them to the voluntary organisation and receives nothing in return. The VAT can be reclaimed under Section 33 as being attributable to its non-business activities provided the local authority:

- places the order
- receives the supply
- receives a tax invoice addressed to it
- makes payment from its own funds (including grants it has applied for and has been subsequently awarded) without either being reimbursed by, or receiving any kind of benefit, from, the voluntary organisation which will receive the goods/services, or any other body (see below).

All these conditions must be met.

To enable a local authority using this arrangement to demonstrate to HMRC that it did indeed accept responsibility for a particular item of work or purchase of goods, it is recommended that the local authority keeps a copy of its written order for goods or if services are involved, a copy of the written contract between the authority and the builders.

If, however, the local authority receives any particular benefit in return from the owners or a third party, monetary or otherwise, (if for example the authority is allowed in return to use the hall at no cost or for a preferential rate) then this benefit is likely to be consideration for the supply of the goods or services and therefore a business supply by the authority and VAT will be due at the appropriate rate.

7.2 Supply paid for from funds awarded to a local authority by another authority or a government department

Where a local authority applies for and is awarded grant aid from another authority or a government department for the purposes of carrying out work or providing equipment for a voluntary organisation, the funds may be treated as the authority's own funds for the purposes of reclaiming VAT under Section 33, provided that the funding is awarded to the authority itself (rather than the organisation).

7.3 Supply paid for from a fund set up by a local authority

A local authority may set up an appeal fund, under Section 139 of the Local Government Act 1972, for work to a village hall which is run by a separate charitable trust. In this case, refunds of VAT under Section 33 may be made to the local authority on work paid for with donations from the public, companies or from other third party sources into this fund, but only if:-

a) the funds are granted to the local authority. Where the local authority is simply managing funds owned by and granted to community projects, for example, lottery and similar grants, then the local authority cannot recover any related VAT (other than costs incurred in managing the fund); and

b) the local authority

- makes the purchase itself i.e. places the order, receives the supply, receives the tax invoices addressed to it and makes the payment; and
- retains ownership of the purchase and uses it, or makes it available for its own non-business purposes; and
- keeps sufficient records of the purchase, and the purpose for which it was made, so that it can be easily identified.

For example, a local authority could claim a reclaim of VAT on the purchase of equipment (such as tables or staging), made with donated funds, which: remain in the authority's ownership, are kept for convenience at a village hall, and which local organisations are allowed to use. This arrangement is unlikely to be feasible with building work unless the local authority owns the hall because the purchase must remain in the ownership of the local authority. See section 8.

7.4 Supply paid for with funding passed to a local authority by voluntary group or third party which will benefit

Where the hall is owned by the voluntary group and they, or a third party, pass funds to the authority to arrange work to the hall, then these funds are likely to be treated as the considerations for the supply of the work to the voluntary group because the donor benefits. In arranging the work the authority may be acting as a "main contractor" in initially receiving the supply and making an onward supply to the voluntary group. This onward supply will be by way of business and may therefore be taxable.

7.5 A Local authority acting as agent of a voluntary group

Alternatively, the authority may act as the agent of the voluntary group in arranging the work on its behalf. If so, the supply of the work will be to the voluntary group, not to the authority (who will be unable therefore to recover and related VAT).

If the authority acts as agent in its own name, the provisions of the VAT Act 1994, section 47 will apply. Further guidance on supplies made through agents acting in their own name can be found in VAT Notice 700 The VAT Guide.

The authority may be able to treat itself as both receiving and supplying the goods and services. This means that although it will be able to recover as input tax any VAT charged to it, it will also be liable to account for the tax on the supply of the goods and services. As this does not alter the nature or value of the principal's supply to the voluntary group, the amount of input tax claimed will normally be equal to the output tax accounted for on the onward supply. The authority must not reclaim the input tax until it has accounted for the output tax.

If the authority charges the voluntary group for the service of arranging the work, this charge will be liable to VAT at the standard rate.

A local authority may set up an appeal fund, under Section 139 of the Local Government Act 1972

8 Recovery of VAT by local authorities where they own the hall or are sole managing trustees of a charity

There are specific VAT provisions for local authorities and other public bodies which apply to halls run by parish councils, whether as part of their statutory function or as sole managing trustee of a charity. HMRC will treat a hall as being owned by a local authority if it is the sole managing trustee, but not if it is custodian trustee only. A council which is sole managing trustee holds the title to the property and is also responsible for managing the charity. It is very rare for a local authority to be the sole managing trustee, so in order to avoid confusion Appendix A gives guidance on determining the status of a local authority. Also see ACRE's Information Sheet 36, Village halls run by parish councils as sole trustees. Parish councils are advised to consult local VAT offices for further information in cases of doubt.

If a parish council holds the deeds to a village hall or recreation ground as custodian trustee, it is unable to recover any VAT under section 33 of the VAT Act 1994, unless it is also the sole managing trustee.

8.1 Payments made by monies from trust funds

Refunds cannot generally be claimed on purchases paid for using monies from trust funds (unless the parish council has been left a legacy or trust fund, in which case such funds would be seen as belonging to that local authority). However, exceptionally, claims can be made where the payment comes from the funds of a trust of which the Section 33 body is the sole managing trustee. For claims to be made under this arrangement:

- the body must be acting as sole trustee without payment
- the activities of the trust must be so closely related to the functions of the body as to be virtually indistinguishable from them
- the claim must relate to the non-business activities of the trust, and
- purchases made from the funds of a trust must not be on such a scale that they could distort competition.

8.2 Recovery of VAT by a local authority running a hall/facility

The eligibility for a local authority to recover VAT incurred in relation to the running of a village hall, community centre or any similar facility will depend on several factors. As stated in paragraph 5.3 of this information sheet, Section 33 of the VAT Act 1994 enables local authorities to recover VAT incurred in relation to any non-business activities carried out by them (subject to the criteria contained in paragraph 8.3 below).

In addition to this VAT may also be recovered on goods or services purchased in relation to 'business exempt' supplies (see paragraph 8.4). Local authorities that are registered for VAT can also benefit from the recovery of VAT incurred in relation to business taxable supplies (see paragraph 8.5). Additionally Sections 6 to 8 of HMRC Notice 749, 'Local authorities and similar bodies' refers.

8.3 Recovery of VAT incurred by a local authority running a hall/facility in relation to its non-business activities

In order for VAT to be recovered under Section 33 certain criteria have to be met in relation to both the funding of any goods/services provided to the local authority and also the use to which the facility is put:

8.3.1 Funding

Whether it be in relation to a large building project (such as a refurbishment) or simple day-to-day running costs, the funding of goods or services purchased by a local authority is an important factor. The following criteria should be met:

- the local authority places the order for the supply
- the local authority receives the supply
- the local authority receives a tax invoice addressed to it; and
- the local authority makes payment from its own funds (including grants it has applied for and been subsequently awarded).

What about VAT recovery on goods and services using money given to a local council for a specific purpose?

A local authority can recover VAT under section 33 when it buys goods and services using money given to it for a specific purpose provided that:

- the first 3 bullet points listed in paragraph 8.3.1 are met
 - the local authority remains the owner of the goods or services
 - the local authority uses them, or makes them available, for its own non-business purposes; and
 - the local authority keeps sufficient records for HMRC to easily identify the goods and services it has bought and its reasons for buying them. A local authority will not be able to meet the requirements above if the person or organisation giving it the money does so only on condition that:
 - the local authority give them something or do something for them in return; or
 - another person benefits as a direct result of the payment.
-

It's worth emphasizing that 'exclusivity' is important here, i.e. does the party giving funds to the local council get exclusive use or exclusive benefit of the goods or services in return.

For example, a cricket club giving money to a local council for the purchase of cricket nets which the local council will purchase and own and make available to everyone for no charge would meet the criteria above i.e. use of the money would be seen as non-business.

However, if the same cricket club gave money to a local council for the purchase of cricket nets which the local council will purchase and own and make available for the exclusive use of the cricket club only, use of the money would fail to meet the criteria above, i.e. fail to be non-business.

8.3.2 Use of the facility

Village halls, community centres and similar facilities are often used in a variety of ways. They can be used as council offices, as a venue to hold council meetings or in many cases they are leased to local groups or sports clubs. The different uses to which the facility is put by the local authority will often have different VAT liabilities. This is an important factor to consider when looking at VAT recovery by a local authority. For recovery under Section 33 the local authority must be incurring the VAT it wishes to reclaim in relation to a non-business activity. Some examples of non-business activities carried out by local authorities in connection with village halls or similar facilities are:

- using the facility as council offices
- using the facility to hold council meetings
- allowing groups/individuals to use the facility free of charge; and
- hiring the facility to groups/individuals for a peppercorn rent or a nominal fee.

If a local authority has met the funding criteria listed in paragraph 8.3.1, and is carrying out only non-business activities with regards to the facility, then any VAT incurred in relation to the building can be recovered under Section 33.

If a local authority has met the funding criteria listed in paragraph 8.3.1, but is using the facility to make 'business exempt' or 'business taxable' supplies, then the VAT may not be recoverable. Paragraphs 8.4 and 8.5 (below) provide further details.

8.4 Recovery of VAT incurred by a local authority running a hall/facility in relation to its business exempt activities

VAT incurred in relation to business exempt activities (known as input tax) can only be recovered if it is an 'insignificant proportion' of the total VAT incurred within a financial year. VAT attributable to business exempt activities is insignificant only if it amounts to:

- Not more than £625 per month on average – that is not more than £7,500 per annum;

OR

- Less than 5% of the total VAT incurred on all goods and services purchased within a financial year. This total includes goods and services for non-business activities but excludes goods and services listed in public notice 700: The VAT Guide, on which you cannot reclaim VAT.

If input tax attributable to business exempt supplies exceeds both these figures, none of it can be recovered.

Some examples of business exempt activities carried out by local authorities in connection with village halls or similar facilities are:

- the hire of the facility or a room to a group or individual for a charge (other than for a nominal fee or peppercorn rent);
- the hire of a sports facility for a let of over 24 hours or for a series of sessions; and
- any form of education or vocational training provided by the local authority within the facility.

8.5 Recovery of VAT incurred by a VAT registered local authority running a hall/facility in relation to its business taxable activities

In addition to the VAT potentially recoverable under 8.3 and 8.4, a VAT registered local authority can recover VAT incurred running a facility when it is related to its business taxable activities. It is important to note that a local authority which is not registered for VAT cannot recover this VAT.

Some examples of business taxable activities carried out by local authorities in connection with village halls or similar facilities are:

- admission to an event held at the facility for which a fee is charged;
 - the running of a bar, sweet shop or the provision of catering services;
 - off-street car parking; and
 - ad-hoc letting of a sports facility.
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9 Supplies for and by charitable village halls registered for VAT

9.1 General

Halls registered for VAT may reclaim VAT borne on expenses incurred in running the hall providing the committee exercises the option to charge VAT on hire charges. (If it did not exercise this option the amount of VAT which could be reclaimed would be significantly reduced.) Although voluntary registration for VAT can be made, for example, where a capital village hall project is likely to incur a significant amount of VAT which could not otherwise be recovered, this should not be considered without advice from a VAT specialist.

9.2 Fundraising events

Goods and services supplied by a charity in connection with one-off fundraising events such as fetes, dinners, dances, jumble sales, concerts etc. are exempt from VAT. This means that VAT cannot be charged on supplies made in connection with the event, but tax incurred on purchases related to the event is not deductible. Eligible events are restricted to 15 events in a year at any one location. Any events taking under £1,000 can be treated as small-scale events and will not count towards the 15 events. Further details are given in HMRC Notice CWL4, Fund raising events: exemption for charities and other qualifying bodies.

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Sources of further information and advice

ACRE provides an information and advice service for committees managing halls through the **ACRE Network**. ACRE publishes a range of village hall publications and information sheets to support the service, which are available from local ACRE Network members.

ACRE publications that may be of particular interest to readers of this publication are listed below:

Information Sheet 6, Village halls and registration for VAT

Useful contacts

HM Revenue and Customs (HMRC)

- HMRC provides [advice and support](#)
- Make a [VAT enquiry online](#)

Send long questions or those with an attachment by post to:

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

Appendix A

How to determine whether a local authority is sole managing trustee

Where the village hall is a registered charity, there should be a document in existence, which governs how the charity must be run - a governing document. This document may be a trust deed, a constitution, a set of memorandum and articles of association or another document.

In addition to determining the charitable objects of the village hall, this document is likely to set out who the trustees of the charity are. Charity trustees (also referred to as managing trustees) are defined as being those people who are responsible for the overall management and administration of the charity. A variety of terms can be used in the governing document to describe charity trustees including trustees, a (management) committee and directors. The charity trustees may have a power contained in the governing document to delegate certain duties to a sub-committee, but the sub-committee remains answerable to the charity trustees.

Where an unincorporated charity's property includes land (such as a village hall) there is usually a provision for the legal title to the land to be held by a 'nominee' or 'custodian trustee'- individuals or a corporate body. Nominees/custodian trustees have no role as such in the management of the charity unless expressly provided for in the charity's governing document. Nominees/custodian trustees must act on the instructions of the charity trustees, unless they are asked to do something, which would be a breach of trust. In the case of village halls and recreation grounds, parish councils may be the nominee/custodian trustee.

Where the deeds provide both for the legal title to the land to be held by the local authority and for the local authority to manage the charity, the local authority is sole managing trustee.

What makes the parish or town council the sole trustee?

There are two principal sets of circumstances which give rise to a parish or town council running a village hall as sole trustee:

a) Where a local benefactor has given or sold land and a building to a parish council to be used as a village hall and has set out charitable trusts in the conveyance/transfer. In this case, the governing document might contain no provision to appoint a separate management committee or, where there is to be separate a management committee, give it responsibility only for the day-to-day running of the charity.

b) Where the management committee of a charitable village hall has found it could no longer run the hall and has applied to the Charity Commission for a Scheme appointing the parish council as charity trustee in place of the management committee. This could arise for instance if it had not been possible to recruit sufficient volunteers to form a management committee. The parish council would have to give its consent to the arrangement. Please note that if the parish council was not already custodian trustee an Order may also have been made appointing the parish council as custodian trustee.