



## VALUE ADDED TAX

Regulations for Members Clubs

Secretary At Work: March 2003 (reviewed May 2011)

### FOREWORD

The purpose of this article is to set down the VAT rules applicable to a sporting club which is controlled by its members, or is a non-profit making body

This article does not aim to cover all eventualities; take advice when in doubt.

Remember that:-

1. nothing in this article overrides the law.
2. if in doubt, take professional advice or seek advice from H M Customs & Excise.
3. HM Customs & Excise are not responsible for this article and cannot accept responsibility for any misunderstanding which may arise from it.

### 1. VALUE ADDED TAX

To understand how VAT affects clubs, it is necessary to understand some of the basics of VAT.

Value added tax is a tax on consumption and is payable by registered persons.

#### a) Output tax:

This is the VAT due from the Club on its taxable supplies. For the most part these will be supplies made in return for monetary payment. However, there may be cases of “part exchanges” such as with the disposal of assets, eg equipment. Where this occurs, there is a purchase of new equipment and a sale of old equipment. The Club must account for output tax on the disposal value of the old equipment.

#### b) Input tax:

This is the VAT charged on the Club’s purchases and expenses. Purchase invoices must indicate whether or not VAT has been charged on the items purchased.

**2. OUTPUTS (and Output Tax)**

(ie supplies/outputs on which VAT may or may not have to charged)

The VAT rules have brought about a number of liabilities for the income of sports clubs.

**a Examples of EXEMPT supplies (income):**

- i Entrance fees for playing members.
- ii Subscriptions for playing members.
- iii Locker rental for members only.
- iv Certain fund raising functions. At present, Customs state that the monthly disco, etc, does not qualify for exemption.
- v Competitions for members only.
- vi Snooker/pool receipts from members.
- vii Buggy shed/trolley store rental for members only.
- viii Interest on invested funds (bank, building society, etc).

**b Examples of STANDARD RATED supplies (income):**

- i Entrance fees for social or non-playing members.
- ii Subscriptions for social or non-playing members.
- iii Bar sales.
- iv Food sales where the club is responsible for the catering.
- v Any receipts from non-members, eg snooker/pool receipts, green fees, locker rental, buggy hire, etc.
- vi Sales of club items, eg ties, diaries, etc.
- vii Sales/part exchanges of machinery, equipment, stationery, etc.
- viii Telephone receipts. BT operates rental systems for payphones in clubs:

1. Where a club rents an old installation, the supplies to users are made by BT and money taken from the installation is VAT free.
2. Where a new installation (Payphone 600, 500, 300, 200, 100 Moneybox, Payphone and Moneymate Payphone) is used, the Club makes the supply to the users and VAT is payable on the amount taken from the installation.
3. Phone card systems: VAT will be payable on the commission received from BT.

- ix Dormy House.
- x Regular social events which cannot be shown to have been run to raise funds.

**c Examples of OTHER receipts (which may or may not be OUTSIDE THE SCOPE of UK VAT):**

- i Donations.
- ii Gifts, legacies, etc.
- iii Compulsory loans from members.
- iv Voluntary loans from members.
- v Levies.

- vi Shares, debentures, etc.
- (iii) to (vi) above can give rise to complicated situations; the VAT liability will depend on whether the club provides any benefits to the payee in return for the payment. Professional advice should be taken well before any such income is to be received.

### 3. INPUTS (and Input Tax) - PARTIAL EXEMPTION

A business which makes only taxable supplies can reclaim all of the input tax incurred on its expenditure, subject to certain restrictions which apply to all businesses (eg gifts over a certain value, motor cars, etc). However, a business which makes both taxable and exempt supplies must try to attribute the input tax to the two kinds of supplies. If a business makes both kinds of supplies, it must attribute its input tax to three headings, as follows:-

- a) Input tax on purchases which are used only to enable the club to make taxable supplies (known as “taxable input tax”).
- b) Input tax on purchases which are used only to enable the club to make exempt supplies (known as “directly attributable exempt input tax”).
- c) Input tax on purchases which are used to enable the club to make both taxable and exempt supplies (known as “non-attributable input tax”).

This method of attribution is generally referred to as the “standard method” for partial exemption. If a club cannot show that it has carried out a partial exemption calculation, then a VAT officer would use this method to assess the amount of input tax which cannot be reclaimed.

A club using this method will be able to reclaim its input tax in a VAT period as follows:-

- i. The input tax in a) above will be recoverable in full.
- ii. The input tax in b) above will not be recoverable (but see 5. below re the de-minimus limit).
- iii. The proportion of the input tax in c) above which equates with the ratio of (value of taxable supplies exc VAT/value of total supplies exc VAT) will be recoverable. The remainder of this input tax will not be recoverable (but see 5. below re the de-minimus limit).

For example, if, in a VAT period, a club’s taxable supplies, exc. VAT, amount to £48,000 and its exempt supplies amount to £105,000, then the proportion of its’ non-attributable input tax which could be reclaimed would be:-

$$\frac{48,000}{48,000 + 105,000} = 31.37\%$$

This fraction must be rounded up to the nearest whole number, so that the recoverable proportion of the non-attributable input tax would be 32% for that period.

**NB** When there is a sale of a capital asset (eg sale or part exchange of a tractor, or some land) which would distort the figures unfairly, then the value of that transaction should be excluded from all values.

A few examples (and by no means a complete list) of the attribution of input tax are as follows:-

**Exempt input tax:**

Any costs relating directly to the AGM, unless social members have attendance and/or voting rights, in which case the it will be non-attributable input tax.

Costs of updating honours boards.

Club team expenses, such as clothing, hotels, travel, etc...

Members' bag tags.

Repair or renewal of members' lockers.

Snooker or pool table hire/maintenance if only members are allowed to play.

Advertising – aimed at finding new playing members only.

**Taxable input tax:**

Bar purchases, stocktake, bar repairs, maintenance, cleaning, etc.

Gaming machine rental.

Professional's commission on green fees.

Club goods for resale, such as ties, diaries, shirts, etc.

Disposal of assets (even second-hand).

Telephone bill for payphones (when output tax accounted for by the club on calls made).

Advertising – aimed at attracting visitors, societies, or social members.

**Non-attributable input tax:**

Professional's retainer.

Secretary's office expenditure.

Score cards.

Snooker/pool table hire/maintenance if members and visitors are allowed to play.

Accountancy charges.

Course and course machinery - maintenance and improvements.

Clubhouse maintenance.

Electricity, gas, etc.

Refuse collection.

Advertising – aimed at finding staff (other than bar staff, or catering staff if the club runs the catering).

**NB** General guidance such as the above may not be correct in specific circumstances. Every purchase must be considered in isolation in order to attribute the input tax correctly. For example, stationery (like advertising) could be included under all three headings as a general rule! However, each stationery purchase needs to be considered on its own merits.

**SPECIAL METHODS – PARTIAL EXEMPTION**

If a club considers that the “standard method” for partial exemption does not produce a fair and reasonable result, then it can apply to its local VAT office for the approval of any other method of attributing its input tax (a “special method”) which the club thinks will produce a fairer result. Such a method must not be used without the prior written agreement of the VAT office.

There are a number of special methods for golf clubs which have been approved by Customs; clubs wishing to change to a special method should consult their accountant or VAT consultant before applying for approval – mistakes can prove costly. A special method must be used for a minimum of two years.

**4. ANNUAL ADJUSTMENT**

Whichever method is used for partial exemption, it must be applied to the input tax for every VAT period. However, at the end of the club’s VAT year, the total figures for the whole year must be used together to recalculate the amount of input tax which can be reclaimed.

The VAT year for any business is the twelve months ending on 31st March, 30th April or 31st May, whichever coincides with the end of one of the club’s VAT periods. (Clubs can apply for their VAT year to be changed to coincide with the end of their annual accounting year, but the written approval of Customs must be obtained before such a change is adopted.)

The annual adjustment is intended to prevent any seasonal fluctuations in the nature of the business from distorting the results of the calculations in favour of the club or Customs.

If the amount of input tax reclaimable according to the annual adjustment calculations is greater than the total input tax claimed on the VAT returns for the four VAT quarters in the year, then the club can claim back the excess. If the annual adjustment calculations show a lesser amount of input tax claimable than has been claimed on the four returns, then the difference must be paid back to Customs. Any adjustment in either respect must be made on the VAT return for the first period following the end of the VAT year. Thus, if a club’s VAT year ends on 30th March, any annual adjustment should be made on the return for the period ending 30th June.

**5. DE-MINIMUS LIMIT**

If the total exempt input tax calculated in any period (VAT quarter or VAT year) is less than the de-minimus limit, then all of the input tax for that period can be reclaimed. Remember that the total exempt input tax includes both the directly attributable exempt input tax and the exempt input tax included in the non-attributable input tax (see 3. above).

The de-minimus limit is presently as follows:-

- a) less than £625 per month on average, and
- b) less than 50% of the total input tax for the period/year.

However, if the total exempt input tax in any VAT year or period exceeds the de-minimus limit, the total exempt input tax cannot be reclaimed, not just the amount which exceeds the de-minimus limit.

## **6. GENERAL**

### **Tax points**

The tax point is the time when VAT is to be accounted for.

The basic tax point is the date when a service is provided or when goods are supplied.

Subject to the Cash Accounting section below, the actual tax point is the earlier of (i) the **date of issue** of a VAT invoice or (ii) the **receipt** of a payment in respect of a supply. Thus, if a club issues an invoice charging VAT, then that VAT has to be accounted for at the date of the invoice. If no VAT invoice is issued, then the date of any relevant payment is the date when VAT has to be accounted for. In the latter case, VAT is deemed to be included in the payment (7/47ths at present), even if it is only part payment for the supply.

To qualify as a VAT invoice, a document must show:-

- a) an identifying number.
- b) the supplier's name, address and VAT registration number.
- c) the date of the supply.
- d) the customer's name.
- e) a description of the goods or services supplied.
- f) the net value of the supply, the amount of the VAT and the VAT rate.

If a club issues bar cards to members for an advance payment, then output VAT is considered to be included in that payment, at the time of receipt of the payment, unless the club has requested, and received, permission from Customs to account for the output VAT at the time of the actual supplies of goods/services.

### **Records**

A club must keep records of all standard rated, zero rated and exempt supplies made and received by the club.

A summary of the totals of inputs, input tax, outputs and output tax, must be produced and retained for each VAT period. Also, information must be retained for six years for all matters which affect the amount of VAT payable by the club. This includes:-

- a) All purchase and sale invoices.
- b) All details of payments made and received by the club.
- c) Adjustments made to the records.
- d) Any credits allowed or received.

- e) Any documents relating to a supply made by, or received by, the club, including delivery notes, orders, etc.
- f) Books of account.
- g) Till rolls.
- h) Relevant business correspondence.
- i) A VAT account.
- j) Annual accounts.

**Cash Accounting**

If the club's annual VATable turnover (excluding VAT and excluding exempt turnover) is less than £600,000, then the club can apply to use this scheme. Under this scheme, input tax and output tax are accounted for using the date of payment as the tax point, regardless of whether or not a VAT invoice has been issued. Full details can be obtained from Customs & Excise Notice 731.

**Annual Accounting**

Similarly, if a club's annual VATable turnover (excluding VAT and excluding exempt turnover) is less than £600,000, then the club can apply to use this scheme. Under this scheme, the club would submit one VAT return for each year, and would make nine interim payments during the year plus a balancing payment with the return. The interim payments are normally 1/10th of the previous year's total liability. Full details can be obtained from Customs & Excise Notice 732.

**Cash and Carry purchases**

Many clubs use these suppliers for purchases of goods. Where the supplier issues only a till roll showing code numbers rather than a description of the goods, a list of the code numbers must be obtained from the supplier and retained for production to visiting VAT officers if necessary.

**VAT visits**

VAT officers have the right to enter and inspect (not search, without a search warrant) premises at a reasonable time, and have the right to examine and remove any documents relating to VAT.

Officers can also issue assessments for VAT underpaid or overclaimed. Assessments can only cover three years, unless dishonesty can be shown to have been involved in making the errors.

**Errors made on VAT returns**

Such errors can only be corrected if discovered within three years. If the amount of the errors discovered in any period exceed £2,000, then Customs must be notified in writing; if less than £2,000, they may be corrected on the next return.

For further information about VAT and how to contact your local office see website: [www.hmce.gov.uk](http://www.hmce.gov.uk)