

FG25-010 VAT

**a) To note the HMRC VAT Compliance check**

**Right to VAT Refund:** Under Section 33 of the VAT Act 1994, local authorities such as parish councils are able to reclaim VAT related to their non-business activities which cover most of the services that NPC provide.

**VAT Compliance Check:** In this context NPC had submitted a VAT refund claim for activities in the period from 1st April 2024 to 31st March 2025 for £35,966.77. This was higher than usual due to VAT incurred on the MFF playground (£22,720), pedestrian bridges (£3,660) and new allotment fencing (£1,176.60) and as a result HMRC decided to undertake a VAT compliance check starting 29th May 2025.

**Main Areas of Review:** The areas that we expected questions to be raised were on assessing whether any of the activities or income that NPC undertake were business activities due to their frequency or scale in particular around the annual bonfire event. The consequence for this would be that either NPC had to register for VAT as a result of such activities or be unable to recover VAT.

**Information Provided:** NPC had to provide:

- o an overview of its main forms of income and their VAT treatment
- o copies of the 5 largest VAT invoices mainly related to fixed asset expenditure
- o a short analysis of the reasons why expenditure was incurred
- o a technical analysis of whether bonfire donations should be viewed as consideration/business income
- o an overall description of the annual bonfire event.
- o copies of agreements with Manor Fruit Farm residents
- o a description of the VAT refund (VAT 126) process

**Conclusion of Review:** The VAT compliance check has now concluded, and the findings are that £35,309.27 will be refunded - a reduction of £657.50 from the original request. The 4 affected invoices were:

- o Gallagher Insurance invoice where Insurance Premium Tax (IPT) had erroneously been claimed (VAT £544.28)
- o Booker and Sainsburys invoices relating to bar stock for the bonfire (VAT £39.45)
- o Invoice relating to glow toys sold at various events (VAT £73.77)

PC had notified HMRC of the IPT error during the review, so the only new finding is £113.22 of VAT being blocked from recovery relating to the bonfire event.

NPC technically have no right of appeal against the decision notice although had asked for a review in relation to the treatment of donations and the restriction of VAT relating to the bonfire event.

HMRC are taking the view that the bonfire event is a business activity although are not pressing the point that a VAT registration is required due to donations received. Moreover, HMRC have not raised any challenges in relation to the (one off) Christmas fair event.

**b) To consider Council run events in relation to VAT**

Following HMRCs findings the Council should consider whether to stop recovering VAT on bar stock and purchases made (e.g. glow toys) for stalls at the annual bonfire event for future events.

HMRC have expressed a clear view in their correspondence that the annual bonfire event is a business activity and that VAT on bar stock and items sold at stalls should not be recovered.

NPC have questioned whether this is of sufficient scale and/or frequency to be considered a business activity but are proposing to accept the adjustment given the amounts involved and lack of formal rights for appeal.

**Recommendation:**

The recommendation for future claims would be to take a prudent view and not recover VAT on the above purchases of bar stock and stall inventory at the annual bonfire event given the modest amounts involved.

We are not being requested to VAT register (which would be an arduous process) and would continue to view other NPC one-off events such as a summer fair and donations as being outside the scope of VAT.

**Matters for consideration:**

How would the council like to proceed?

**c) To consider the council's VAT status**

To confirm there is no requirement for the Council to register for VAT