

Hampshire County Council

Basingstoke Canal Joint Management Committee

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Explanation of VAT Position

Report of the Honorary Treasurer

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1 Introduction

1.1 At the moment, the Canal is legally able to reclaim VAT through its inclusion within the Hampshire County Council registration for VAT. If the Canal were to have non local authority voting members this would alter the legal status of the Canal and it would no longer be permitted to remain within the Hampshire VAT registration. This report is in response to a request from the Canal Society to look at alternative arrangements, that would allow non local authority members voting rights without compromising VAT recovery.

2 VAT implications facing the Canal if no longer covered by Hampshire registration

2.1 The Canal has for some years been included in Hampshire County Council's registration for VAT. The annual sum reclaimed each year on vatable expenditure is in the region of £30,000 to £35,000 p.a. If non local authority members are given voting rights the Canal would no longer be able to recover this VAT using Hampshire's VAT registration. This being the case the Canal may be able to obtain its own separate VAT registration. More detailed work would have to be done to determine if the Canal could register for VAT. In any event, the Canal (not Hampshire) would then become liable to 17.5% VAT on vatable purchases thereby, in the worst case, incurring additional expenditure of some £30,000 each year in the future. In addition the nature of the supplies made by the Canal could mean that even if separate registration was possible not all the VAT incurred could be recovered.

2.2 Meeting an ongoing liability of up to £30,000 p.a. would be a highly damaging additional burden on the canal's revenue budget and could only be met by reducing expenditure elsewhere or increasing income.

3 Alternative arrangements

Without the Secretary of State's approval voting rights cannot be given to non local authority members. It is the tax advisor's view that if the Secretary of State, at some time in the future, were to give approval for non local authority members to have voting rights on the JMC, then the JMC would no longer be

covered by Hampshire County Council's registration and Canal VAT could not be recovered unless the Canal was able to register separately for VAT. If the Canal were able to register separately then the tax advisor considers the Canal may well only recover a % of VAT rather than the full amount, known as partial exemption, depending on the canal's level of exempt income. So under this arrangement the tax recovery will be lower and make the Canal worse off than at present. In addition the Canal would have to complete and submit its own VAT returns.

4 Conclusion

After consulting with the tax advisor there do not appear to be alternative arrangements for the Canal to avoid significant VAT penalties through separate registration. Further, any separate registration is likely to mean a lower recovery level of VAT in the future (partial exemption). Partial exemption would place an additional tax burden on the Canal. Finally, any introduction of voting rights for non local authority members by the Secretary of State is likely to result in the Canal having to apply for separate VAT registration.

5 Recommendation

That current VAT arrangements continue and the report be noted.