VAT Partial Exemption Rules
for Local Authorities (De-minimis limit)

COMMERCIAL ENTERPRISES cannot claim VAT on costs and expenses relating to exempt activities (i.e. income classified as exempt for VAT purposes).

HOWEVER - there are special rules that apply to Town and Parish Councils that means they **CAN** claim VAT on expenses relating to their exempt activities.

VAT
It doesn't always come back.

BUT - as the letting and hiring of a village hall or community centre is an activity that could be in competition with commercial enterprises offering similar services, this could be considered an unfair advantage, so HMRC limits the amount that a council can claim on their expenses relating to exempt activities to £7,500 in any one financial year. This is not usually too much of a problem until there is a major repair or refurbishment scheme under consideration.

BUT - it's worse than losing any VAT over £7,500, you actually **lose the ability to claim ALL THE VAT relating to exempt activities.**

HOWEVER - if the council 'Opts to Tax' the relevant building, (village hall, community centre etc), the council will then charge VAT on the income relating to the hiring and letting and **ALL THE VAT CAN BE RECLAIMED.**

This means that VAT will be charged on all hirings and lettings, **EITHER** by charging VAT on top of the letting charge, **OR** by making the charges inclusive of VAT. This is a decision that the council will need to address.

Once granted, the 'Opt to Tax' will remain in place for not less than twenty years and only applies to the building in question, any other buildings that the council is concerned with, now or in the future, will still be Exempt.

For a more detailed explanation please contact one of our VAT experts who will be pleased to advise. The time to get advice is before a council embarks on any major project as it may be too late afterwards!