

VAT Notice 749: local authorities and similar bodies

Updated 8 February 2016 {web date}

Contents

[Foreword](#)

- [1. Introduction](#)
- [2. Which activities of public bodies are business or non-business](#)
- [3. VAT registration](#)
- [4. Recovery of VAT by public bodies](#)
- [5. Recovering VAT on taxable business activities](#)
- [6. Recovering VAT on costs related to non-business activities](#)
- [7. Recovering VAT on exempt business activities](#)
- [8. Model special section 33 recovery method and partial exemption](#)
- [9. Amendments to section 33 recovery methods to include additional conditions relating to the capital item adjustment scheme and change of intention](#)
- [10. Local authorities and community projects](#)
- [11. Claiming refunds - public bodies registered for VAT](#)
- [12. Claiming refunds - public bodies not registered for VAT](#)

[Do you have any comments?](#)

[If you have a complaint](#)

Foreword

This notice cancels and replaces Notice 749 (previous edition date). Details of any changes to the previous version can be found in paragraph 1.2 of this notice.

Further help and advice

If you need general advice please contact the [VAT and Customs Helpline](#).

1. Introduction

1.1 What is this notice about?

This notice explains three things:

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- (i) Which activities of local authorities and similar bodies are business or non-business for VAT purposes.
- (ii) The VAT registration requirements for local authorities.
- (iii) When local authorities and certain similar bodies can reclaim VAT incurred on costs that relate to their non-business activities.

It has been restructured and rewritten to improve readability and accuracy. There is also comprehensive guidance in our manual [VAT Government and Public Bodies](#) on GOV.UK

For information on the following please refer to the notice indicated:

Museums and Galleries: [Notice 998 VAT Refund Scheme for National Museums and Galleries](#)

Academy Schools: [VAT Education Manual 70000](#)

Non-Departmental Public Bodies: [VAT Government and Public Bodies Manual 9640](#)

Palliative care, air ambulance, search and rescue and medical courier charities: [Notice 1001 VAT Refund Scheme for Certain Charities](#)

1.2 What changes have been made to this notice?

The contact details for HMRC and the Adjudicator's office have been updated.

The introduction has been changed to give a better overview of the work of public bodies and the general provisions for VAT reclaims.

Links have been added to the HMRC internal guidance.

The name and number of public notices has been updated

More information has been given on the calculation of VAT attributable to exempt supplies. There are also new rules on occasional branches of the insignificance test.

Information on submitting claims has been changed.

1.3 What law covers this notice?

Subject	Legal reference	Section in this notice
Which activities are business or non-business	Section 41A VAT Act 1994	Section 2
VAT registration requirements for local authorities	Section 42 VAT Act 1994	Section 3
Definition of a local authority	Section 96(4) VAT Act 1994	Section 3
VAT refunds for local authorities and certain similar bodies	Section 33 VAT Act 1994	Section 4

2. Which activities of local authorities and similar bodies are business or non-business for VAT purposes.

2.1 Definition of a public body

The term 'public body' takes its normal every day meaning. It includes government departments, non-departmental public bodies, NHS bodies, local government bodies, the police, and the fire and rescue services.

2.2 The general rule

Because VAT is a tax on transactions, individual circumstances need to be considered according to their facts. However, the general rule is that where a public body is funded by way of public expenditure (such as grant-in-aid) to do something for the public good, it is unlikely to be engaging in business activities for VAT purposes. Such activities are outside the scope of VAT. Conversely, where a public body supplies goods or services for consideration and by way of business, and it is registered or required to be registered for VAT, such activities are within the scope of VAT. The term "business" has a wide meaning for VAT purposes. Please see [VAT Manual Business and Non-Business VBNB21000](#)

The following outlines the main differences between business and non-business activities.

Business activities...

- are mainly concerned with making supplies to other persons- for any form of payment or 'consideration'- whether in money or otherwise
- have a degree of frequency and scale
- continue over a period of time
- are within the scope of VAT and may be- standard-rated- zero-rated or- exempt

Non-business activities are...

- activities you carry out for no charge and no other form of consideration, including- leases you grant, or the freehold sale of land and buildings, for the nominal payment of a peppercorn or a pound and where no other form of payment is involved
- activities you carry out for a charge but- with no degree of frequency or scale and- without continuing over any period of time
- outside the scope of VAT

You can find out more about 'business' and 'non-business' in [Notice 700](#) The VAT Guide

2.3 Section 41A VAT Act 1994

Under section 41A of the VAT Act 1994, supplies of goods and services made by certain public bodies are not regarded as being made by way of business, and they are therefore outside the scope of VAT, if:

- (i) the public bodies form a part of the public administration;
- (ii) the public bodies in question engage as public authorities when they make the supplies in question. This happens when they act under a special legal regime applicable to them - that is under different legal conditions from those that apply to private traders, typically carrying out public interest activities for the service of the community;
- (iii) unless they are carried out on such a small scale as to be negligible, the supplies are not of a type listed in Annex I of the Principal VAT Directive (2006/112); and
- (iv) this outcome would not significantly distort competition.

Thus public bodies which form a part of the public administration, such as government departments and local authorities, can treat activities that they charge for as non-business when they meet the conditions in the decision table below.

If the conditions are not met, they cannot treat their activities as non-business merely because they are a central or local government body.

Step 1

Is the public body acting as a public authority?

- if yes, go to step 2
- if no, the activity is business

Step 2

Is the activity included in Annex I of the EC Principal VAT Directive?

- if yes, go to step 3
- if no, go to step 4.

Step 3

Is the public body's involvement in the activity on such a small scale as to be negligible?

- if yes, go to step 4
- if no, the activity is business

Step 4

Would it lead to significant distortion of competition with other bodies if the public body treated the activity as non-business?

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- if yes, the activity is business
- if no, the activity is non-business

2.4 Annex I of the Principal VAT Directive

This annex lists the following activities:

- telecommunications
- supplying water, gas, electricity and steam
- transporting goods
- port and airport services
- passenger transport
- supplying new goods manufactured for sale
- certain activities of agricultural intervention agencies
- running trade fairs and exhibitions
- warehousing
- the activities of commercial publicity bodies
- running staff shops, co-operatives, industrial canteens and the like, and
- certain commercial activities of radio and television bodies

2.5 Supplies between local authorities

Supplies of services by one local authority to another local authority are not regarded as business activities provided that they are not made in competition with the private sector. Otherwise, they fall within the scope of VAT and VAT must be accounted for at the appropriate rate.

2.6 When will non-business treatment lead to significant distortions of competition?

Non-business treatment might lead to significant distortions of competition if it means that a public body:

- does not charge VAT on a supply, while competitors making similar supplies must charge VAT
- can recover the VAT attributable to an exempt supply or a non-business activity, while the VAT incurred by competitors in making similar supplies sticks with them as a real cost

Significant distortions of competition will occur when non-business treatment:

- places private traders at a commercial disadvantage compared to a public body
- deters private traders from starting up businesses supplying similar goods or services in competition with a public body.

2.7 If there are no competitors, can a public body treat activities as non-business?

Yes, provided it is sure that nobody else could carry out the activity (the test relates to the activity in question rather than to, for example, local or geographical trading situations):

- in the way the public body has to carry it out
- in similar conditions, and
- achieving the results the public body has to achieve

This will normally be the case when:

- customers or other recipients of the supplies in question, could not obtain the goods or services equally as well from some other supplier;
- non-business treatment would not act as a disincentive to a private trader capable of going into business in direct competition.

If you have any doubt whether special treatment will lead to significant distortions of competition you should seek our advice. You can also seek help from professional bodies, such as the Chartered Institute of Public Finance and Accountancy.

2.8 Business and non-business activities

The following will help you decide whether an activity is business or non-business

[VAT Government and Public Bodies manual page 3600 flowchart](#)

[VAT Government and Public Bodies manual page 8000 Other local authority activities](#)

3. VAT registration

3.1 Requirement to register for VAT

For bodies other than local authorities, the usual VAT registration requirements apply as set out in [Notice 700/1](#) VAT: Should I be registered for VAT?

These requirements also apply to bodies that:

- are legally separate from a local authority
- are not a joint board or joint committee and
- where the value of your taxable supplies exceeds the threshold for registration

If the value of your taxable turnover is below the registration threshold limits, you can apply for voluntary registration.

3.2 Must local authorities register for VAT?

Local authorities are required to register for VAT if they make any taxable supplies, whatever the value of those supplies is. However, for ease of administration HMRC's practice is to only enforce this where it is anticipated that output tax will reach £1,000 a year.

3.3 What is a 'local authority'?

For VAT purposes the term 'local authority' means:

- the council of a county, county borough, district, London borough, parish or group of parishes (or, in Wales, community or group of communities)
- the Common Council of the City of London, the Council of the Isles of Scilly,
- and any joint committee or joint board established by two or more of the foregoing and
- in relation to Scotland, a regional, islands or district council within the meaning of the Local Government (Scotland) Act 1973, any combination and any joint committee or joint board established by two or more of the foregoing and any joint board to which section 226 of that Act applies

3.4 Can public bodies join VAT groups?

Public bodies cannot usually meet the requirements of joining a VAT group-see [Notice 700/2](#) Group and Divisional Registration.

However, HMRC will normally grant requests by local authority joint committees to account for VAT under the registration of the lead authority or any other member if we are satisfied that:

- you do not want the arrangement merely for tax avoidance purposes, and
- it does not create distortion

4. Recovery of VAT by public bodies

4.1 What are the normal rules on recovering VAT?

The normal rules are explained in [Notice 700](#) The VAT Guide. In brief:

If you ...	then you ...
do not make supplies in the course or furtherance of business	cannot recover VAT on related costs.
make taxable (including zero-rated) supplies in the course or furtherance of business	can recover VAT on related costs-see section 6.
make exempt supplies in the course or furtherance of business	cannot (subject to certain limits) recover VAT on related costs.

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4.2 Section 33 of the VAT Act 1994

Section 33 of the VAT Act 1994 refunds to (mainly) local government bodies the VAT attributable to their:

- non-business activities-see section 2 , and
- exempt business activities (providing we consider it an insignificant proportion of the total tax they have incurred-see section 7)

The bodies in question are listed in [VAT Government and Public Bodies Manual page 4120](#) and those admitted by Treasury Order in [on page 4300](#)

For the avoidance of doubt, these bodies do NOT include a:

- joint board or joint committee set up by bodies other than local authorities
- body that merely obtains financial help from local authorities
- purely advisory committee that does not carry out local authority functions
- Community Council in England or Scotland
- Community Association
- parish meeting
- parochial church council
- village hall management committee
- charity

They are also unlikely to include a board or committee where not only local authority but also other members have voting rights.

If you are not registered for VAT, you should read section 12

4.3 Can bodies be added to the list?

The Treasury has powers to add bodies to the list by means of an order. Treasury will consider applications from bodies that meet both the following criteria. The body must:

- undertake a function ordinarily carried on by local government, and
- have the power to draw its funding directly from local taxation

Applications should be sent to your Customer [Compliance](#) Manager or if you do not have one [the public bodies enquiries team](#)

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HM Revenue & Customs
Newcastle-upon-Tyne
NE98 1ZZ

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Your application should include evidence of how you meet both the conditions above.

5. Recovering VAT on taxable business activities

5.1 Can public bodies recover VAT on costs related to taxable business activities?

Yes, but you must be registered for VAT (see section 3) and follow the normal rules for input tax deduction-you can find full details in [Notice 700](#) The VAT Guide. [\[Please see paragraph 6.6 on private use.\]](#)

Deleted: Remember that some costs such as business entertainment and cars (other than those purchased entirely for business use) cannot be recovered.

5.2 Will I be charged VAT on goods I have imported or acquired from overseas and can I recover it?

In brief,

If you...	then you...	but...
import goods from a country outside the European Community	will have to pay VAT on the importation of those goods	if the goods are for your business purposes (see paragraph 5.1), you can reclaim the VAT as input tax under the normal rules.
acquire goods from another member State of the European Community	will not normally have to pay VAT to the supplier if you provide him with your VAT registration	you must account for VAT in the UK on the acquisition of those goods on the VAT return for the period in which the tax point occurs and you can treat this tax as input tax on the same return.

For further information about goods you import from outside the European Community read [Notice 702 VAT: Imports](#) and [Notice-702/8-Fiscal-Warehousing](#)

For further information about goods you acquire from another member State and advice about Single Market requirements generally read [Notice 725 VAT: The Single Market](#).

5.3 I have received services from overseas but I have not been charged VAT on them. What should I do?

First read [Notice 741A:](#) Place of supply of services.

If...	then...
the services have already been taxed in the country where the supplier belongs	you do not have to account for VAT on them.
the services are ones to which the 'reverse charge' procedure applies	you must account for VAT as output tax and recover the input tax to which you are entitled.

5.4 Can I recover VAT incurred in another member State of the European Community?

You cannot recover it as input tax on your VAT return, but you can sometimes reclaim it direct from the authorities in the Member State where you paid it.

[Notice 723A VAT](#): Refunds of VAT in the European Community for EC and non-EC traders tells you how to make claims.

6. Recovering VAT on costs related to non-business activities

6.1 When can I use the special refund provisions mentioned in paragraph 4.2 to recover VAT on costs related to non-business activities?

This section of the Notice concerns those bodies listed in section 33 of the VAT Act 1994 as shown in [VATGPB 4120](#) and [VATGPB 4300](#) and refers to them as "section 33 bodies". There are similar arrangements for other bodies – please refer to paragraph 1.1 of this Notice for details.

If you are a section 33 body, you can recover the VAT you have incurred on your non-business activities only if you:

Condition	Action
1	Place the order.
2	Receive the supply.
3	Receive a tax invoice addressed to you.
4	Pay from your own funds (including funds awarded to you - for example, lottery funds).

These conditions apply whether you have incurred the VAT on:

- supplies you have received from VAT- registered traders in the UK
- goods you have acquired from another member State of the EC, or imported from outside the EC

You cannot, however, recover VAT that would normally be irrecoverable in any circumstances-see [Notice 700](#) The VAT Guide.

6.2 Do I have to be registered for VAT in order to claim refunds?

No-see section 10 of this notice.

6.3 Can I recover VAT under section 33 when I buy goods and services using money given to me for a specific purpose?

Yes, provided you:

Step Action

- 1 Buy the goods or services yourself-that is: Place the order, Receive the supply, Receive a VAT invoice addressed to you and Pay
- 2 Remain owner of the goods or services
- 3 Use them, or make them available, for your own non-business purposes - see section 6
- 4 Keep sufficient records for us to easily identify the goods and services you have bought and your reasons for buying them

6.4 Examples of when VAT can and cannot be recovered

You will not be able to meet the requirements in paragraph 6.3 if the person giving you the money does so only on condition that:

- you give them something or do something for them in return, or
- another person benefits as a direct result of the payment

The following table will help you to decide whether you can recover the VAT paid on goods and services.

You can probably recover the VAT		You cannot recover the VAT	
Use	Source of funds	Use	Source of funds
community and foundation schools	Parent Teacher Association and school funds	premises related expenditure at a voluntary aided school	the governors
welfare services	amenity funds	sports equipment at a youth centre you run	an independent youth club- but only on condition that you give them exclusive use of the equipment

You can probably recover the VAT		You cannot recover the VAT	
homes and schools for the handicapped	voluntary bodies	repairs to a building	the owners of the building

However,

If you ...	then
instigate and carry out a project or pay for goods and meet the cost entirely from your own resources and give the goods or services away free to another body.	your activity is non-business and you can reclaim the VAT you have incurred on the goods and services you have given away.

6.5 Can I claim VAT refunds on goods and services I buy using money from trust funds?

Yes, but only when you act as sole trustee of a trust-for example, a village hall. For your claim to be valid:

- you must be acting as sole managing trustee without payment
- the activities of the trust must be so closely related to your own functions as an authority that you cannot easily distinguish between them, and
- the claim must relate to the non-business activities of the trust

However:

if ...	then ...
we are satisfied that recovery of VAT will create anomalies	we may restrict it.
you are a custodian trustee whose role is simply to hold the property of the trust	you cannot recover the VAT you have incurred unless you are also sole managing trustee.

6.6 Items that may be blocked from VAT recovery

Some items have a restriction on VAT recovery. For example a car which has an element of private use will have a blocking order preventing recovery of the VAT. However if the car is used solely for work purposes then the VAT may be recoverable. For greater detail on the meaning of these terms and other restrictions please see Notice 700 or VATGPB4720

7. Recovering VAT on exempt business activities

7.1 Can I recover the VAT I have incurred on costs related to exempt business activities?

Yes, but only where we consider this VAT (input tax attributable to exempt activities) to be an insignificant proportion of the total VAT you have incurred.

7.2 What do you mean by 'insignificant proportion'?

Section 33(2) of the VAT Act 1994 allows local authorities to recover VAT attributable to exempt supplies so long as the amount involved is insignificant.

VAT attributable to exempt activities is insignificant only if it amounts to less than one of the following

- £7,500 per annum or
- 5% of the total VAT incurred on all purchases in a year

If at least one of these conditions is met then this amount of VAT is considered "Insignificant".

The total VAT incurred includes that attributable to non-business activities. A year for section 33 bodies runs from 1 April to 31 March, even if they utilise special VAT periods. In calculating the VAT attributable to exempt business activities, section 33 bodies must include an appropriate proportion of VAT incurred on general expenditure including overheads. ([Recharges do not need to be included in the overheads figure.](#)) Where the amount of VAT attributed and apportioned to exempt supplies exceeds either of the criteria above, then none of it can be recovered.

A calculation must be carried out at the end of each financial year and any necessary adjustment should be included in the VAT return for the next period. It is recognised that many section 33 bodies cannot complete their calculation in the period immediately following their year-end. Extensions can be agreed locally but should be no later than the September VAT period.

If there is a change in the liability of a supply then the related VAT should be apportioned for that financial year. Calculations for previous years cannot be revisited other than for the correction of specific errors, including adjustment where the proportion of previously estimated exempt use is later found to be incorrect.

[If a local authority wishes to change their tax year they will need to notify their Customer Compliance Manager or the public bodies enquiries team mentioned in section 4.3.](#)

7.3 May I opt to use a special section 33 VAT refund method even though all my business activities are exempt?

Yes, you may use either the model method set out in section 8 of this notice, or any other agreed method. Any method must be 'fair and reasonable' and take into account the implications of conditions relating to the Capital item adjustment scheme as detailed in section 9 of this notice.

7.4 What if I choose not to adopt a special section 33 recovery method?

If you are registered for VAT, you may use any alternative method of partial exemption calculation as detailed in [Notice 706 VAT](#): Partial exemption. Normal limits for recovering exempt input tax will then apply.

7.5 I want to opt for a special section 33 VAT recovery method to recover the VAT I have incurred. What do I need to do?

Step	Action
1	Before the start of the financial year call us in order to obtain advice on using a special section 33 recovery method
2	By the start of the financial year, in line with our advice, agree with us the broad principles of the method you intend using
3	By three months before the end of the financial year complete your discussions and have the final method agreed in writing
4	By 31 October following the end of the financial year conclude all annual calculations. If any adjustments are necessary these can be put on the next return

7.6 What if I opt to use a special section 33 VAT recovery method but I have not agreed it before the end of the tax year?

If you do not agree a method before the end of the tax year, you cannot apply it to that year. Under these circumstances:

- you can only begin using it from the start of the next tax year, and
- in the meantime you should use the model special method detailed in section 8 of this notice

7.7 Must I include capital projects in my section 33 recovery calculations?

Yes. VAT on capital projects should be included in the calculation for the year in which it is incurred.

8. Model special section 33 recovery method and partial exemption

8.1 What is the model special method for section 33 bodies?

This method, which is based on the budget structure, takes a worst-case scenario. It assumes that, where a budget heading contains any exempt activity, then all the taxable expenditure within that heading is attributable to that exempt activity. If this broadbrush approach shows that your input tax attributable to exempt activities is insignificant, you are not required to refine your calculations.

8.2 How do I use the model special method?

The section 33 calculation method is based on the budget structure for a body. It adopts a worst case scenario, but this can be refined as necessary. The process starts by working through steps 1 to 3 below, with a more detailed examination applied as necessary.

Step 1: Identification of exempt activities

List, all budget headings or cost centres that contain any element of exempt activity.

Step 2: Identifying taxable expenditure

Within each of the budget headings or cost centres identified at step 1, record all expenditure (net of VAT) for both capital and revenue that would normally carry VAT.

Step 3: Percentage of exempt related input tax

Add up the standard-rated expenditure identified in step 2 and calculate the VAT by multiplying the total by 20%.

If it does not exceed the insignificance test (see section 7.2) then no further calculations are required. However, the total VAT recovered should take account of any error correction or changes to estimation of input tax.

If the insignificance test is exceeded it becomes necessary to make a progressively more detailed analysis of the amount of expenditure that is put to exempt use. A section 33 body cannot be required to repay VAT relating to exempt supplies without more detailed calculations. If, at any stage, a result below the insignificance test is achieved then no further action is needed.

There is no set method of allocation or apportionment. A different method may be adopted for each particular area or activity based on the information available such as

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- amount of income
- floor area used
- number of sessions, or
- time.

However it is necessary to demonstrate that any method is fair and reasonable.

If, despite a more detailed analysis the insignificance test is still breached, then none of the VAT relating to exempt supplies is recoverable.

8.3 What do I do if the VAT I have identified at step 4 is not insignificant?

You should now make a progressively more detailed analysis of the amount of expenditure that you put to exempt use. If, at any stage, you achieve a result showing that the VAT is insignificant, then you need take no further action.

If the final result shows that the VAT is significant (more than the higher of £7,500 or 5% of the total VAT recoverable during the year), a method of allocation or apportionment should be agreed.

8.4 Is there any set method of allocation or apportionment?

No. You may adopt a different method for each particular area or activity based on the information available, such as number of staff, amount of income, floor area used, number of sessions, or time. However you must be able to demonstrate that any method you use is fair and equitable.

8.5 What if the VAT I have identified still exceeds the 'insignificant' limit?

If, despite detailed analysis of the amount of expenditure that you put to exempt use, the VAT you have identified still exceeds the 'insignificant' limit during the financial year, you may reconsider the position over a longer period of 7 years. For example you could look at the financial year under review, the previous four financial years and the forecast for the next two financial years. Any seven consecutive seven years may be used as long as no more than two forecast years are included. If, on average, over this 7 year period the VAT identified falls below the 'insignificant' limit the breach may be ignored. This is a rolling average. ***You must keep details of the calculation with your VAT records. HMRC reserve the right to revisit the question of whether a breach is occasional and insignificant if it subsequently turns out that a local authority miscalculated its percentage in any given year. The same applies where there is evidence of manipulation of figures.***

8.6 What if the VAT I have identified still exceeds the 'insignificant' limit

Deleted: (less than 5% of the total VAT recoverable during the financial year)?

If, despite detailed analysis of the amount of expenditure that you put to exempt use, the VAT you have identified still exceeds the 'insignificant' limit, then you may not recover any of the VAT that relates to your exempt supplies.

9. Amendments to section 33 recovery methods to include additional conditions relating to the capital item adjustment scheme and change of intention

9.1 What is this section about?

This section explains the requirement for section 33 refund methods to include conditions relating to the capital item adjustment scheme and change of intention in the use of purchases. It supplements the guidance available in section 8 of this notice.

9.2 What if I have incurred VAT that I have attributed to an intended activity under the Capital item adjustment scheme but I change my intention before undertaking the activity?

You must review your original attribution and possibly make an appropriate adjustment. First identify the VAT attributable to the activity for which there has been a change of intention.

If...	then...
the change of intention is from a taxable or non-business activity to an exempt activity and you cannot treat the new total as insignificant (see paragraph 8.2)	you should add the VAT you have identified to the exempt input tax that you have already identified for the year in which you originally incurred the VAT - you must repay the VAT you have identified to us.
the change of intention is from an exempt activity to a taxable or non-business activity and you can treat the new total as insignificant	you should deduct the VAT you have identified from the exempt input tax that you have already identified for the year in which you originally incurred the VAT - you can reclaim the VAT you have identified from us if you have not already done so.

Note: You do not need to rework the calculation itself in full providing you do enough to quantify the new amount of exempt input tax.

9.3 What if I have made an error in attribution?

If you have made an error in attribution, you must rework the entire calculation for the relevant years.

9.4 What are capital item adjustments?

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If you have a capital item as defined in Regulation 113 of the VAT Regulations 1995 and the extent to which you use that item in making exempt supplies changes, you may need to carry out an appropriate adjustment to the amount of VAT that you reclaimed on the initial acquisition.

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9.5 How do I make these adjustments?

You must carry out accounting adjustments in accordance with the guidance in [Notice 706/2 VAT](#): Capital goods scheme. The scheme covers the purchase of computers, land and buildings. The scheme was extended to cover aircraft and vessels in 2011. However, the following variations are necessary:

- (a) you should treat non-business use as if it were taxable use and
- (b) if your exempt input tax is insignificant, without taking account of any change of use adjustments, then you do not need to complete any further calculations. Only if the insignificant test is already exceeded do you need to take account of the capital item adjustment.

It follows that you must keep sufficiently detailed records of your capital items to enable you to carry out the necessary calculations, usually at least 10 financial years following that in which the expenditure was incurred

9.6 Is there anything else I need to know about special section 33 refund methods and the Capital item adjustment scheme?

If you:

- use the section 33 refund method described in section 8, you must apply the conditions described here for the capital item adjustment scheme
- wish to use any alternative method for section 33 refunds, this must include acceptable provisions for dealing with capital item adjustments
- prefer to deal with partial exemption following the guidelines set out in [Notice 706 VAT](#): Partial exemption, you will have to separate and identify the tax you have recovered that relates to your non-business transactions

10. Local authorities and community projects

This Section applies only to local authorities-see paragraph [3.3](#).

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10.1 Can I recover the VAT incurred on community projects, particularly work to village halls?

If you are a local authority, you may:

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- agree with a voluntary group to set up a project fund into which any funds raised locally and any grants received by the voluntary group will be paid, and
- use this fund to make the purchase or pay for the work on behalf of the voluntary group

However, these funds do not belong to you and so you cannot recover the VAT incurred.

10.2 Can I recover VAT if I pay my own money into the project fund?

Not unless the project fund is part of the local authority. For example, this may be the case where:

- the project fund forms part of your statutory accounts, and
- you retain control over how the money is spent

10.3 Can I recover VAT incurred on work done to a village hall that I own?

The following table will help you to decide.

if...	then...	and...
you use your own funds and use of the hall is for your own non-business activities	you are not making a supply for VAT purposes	you can recover the VAT under section 33
you use your own funds and use of the hall is for your business activities	you are making a supply for VAT purposes	you can recover the related VAT if your supply is a taxable supply.
you receive funds from another body in return for letting it use the hall	you are making a supply for VAT purposes	you can recover the related VAT if your supply is a taxable supply.
you receive funds from another body in return for letting a third party use the hall	you are making a supply for VAT purposes	you can recover the related VAT if your supply is a taxable supply.
you receive unconditional funding from another body-that is, the funding is freely given and neither the donating body nor a third party benefits	the funding qualifies as a donation	you can recover the VAT provided you satisfy the conditions of paragraph 7.3.

You should note that:

- we treat a hall as being owned by a local authority if it is the sole managing trustee, but not if it is sole custodian trustee only, and
- allowing someone to use the hall in return for non-monetary payment is a business activity

10.4 What if I use my funds to finance building works to a hall that I do not own?

The following table will help you decide the correct VAT treatment.

If you ...	then ...
use your own funds to carry out work to the hall and give the work away to the owners of the hall (for example, a voluntary group) and receive nothing in return	you are not making a supply for VAT purposes.
receive anything in return from either: the owners or a third party	what you receive is likely to be consideration for the supply of the work to the owners and the supply will normally be a business supply and you must charge VAT at the appropriate rate.

10.4.1 Does the consideration have to be in money?

No-the consideration need not be in money. For example, if you carry out the work only on condition that you can use the hall afterwards, then use of the hall could be consideration from the owners for your supply of the work.

10.4.2 What if the consideration is not in money but I am not sure what its value is?

You should consult the guidance in the [VAT Valuation Manual](#)

10.4.3 What if I act as agent of the owners for work to a hall, rather than as the main contractor?

The work is not supplied to you but to the owners and you cannot recover VAT. But if you act as agent in your own name, separate rules apply. You can find out more about this in [Notice 700](#) The VAT Guide. In brief:

If you ...	then ...
can treat yourself as both receiving and supplying the goods or services	you are liable to account for VAT on the onward supply of the work to the owners, you can recover as input tax any VAT you are charged on the works, the input tax you claim is normally equal to the output tax you account for on the onward supply and you must not reclaim the input tax before you have accounted for the output tax
charge the owners of the hall for the service of arranging the work	this charge is liable to VAT at the standard rate

10.4.4 If I do not own the hall, can I recover the VAT incurred on work done to it?

The following table will help you to decide.

If you ...	then ...	and you ...
carry out the work give it away and receive nothing in return	this is not a business activity	can recover the VAT under section 33
act as a main contractor	your onward supply to the owners is a business activity	can recover the VAT under the normal rules, if your onward supply is taxable.

11. Claiming refunds - public bodies registered for VAT

11.1 How can I claim the VAT refunds I am entitled to?

You should use your normal VAT return to claim any VAT you are entitled to as a section 33 body.

Step	Action
1	Include the amount of VAT in the 'VAT deductible' side of your VAT account and in box 4 of the VAT return.
2	Include the net value of your claim in box 7. Make your claim within 3 years of the due date of your return for the prescribed accounting period in which the VAT became chargeable, For example, if you should
3	have claimed the refund on your July 1999 return, you must submit your claim by 31 August 2002 at the latest. (Input tax claims for business purposes must be made within 4 years of the prescribed accounting period.)

11.2 How do I go about making a late claim?

Adjustments to previous claims should be made in accordance with HMRC manual [VATGPB4960](#). A summary should be kept detailing the errors and the periods covered.

Further details on error correction is available in [VAT Notice700/45 how to correct vat errors and make adjustments or claims](#)

12. Claiming refunds - public bodies not registered for VAT

12.1 What is this section about?

If you are a public body in section 33 and you are not registered for VAT, this section will help you make sure your claims for VAT refunds are valid. It also explains how to make them.

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12.2 I am in section 33 but I am not registered. I am not sure what goods and services I can recover VAT on. How can I find out?

Step 1

Read section 4 of this notice to find out the main principles.

Step 2

Read sections 5 and 7 to see whether you can meet the various requirements set out there.

Step 3

Reclaim the VAT you have incurred only when you can attribute it to:

- your non-business activities (providing you can meet the conditions of section 6) Deleted: and
- and
- your exempt business activities that are insignificant (see section 7)

Step 4

Remember that, because you are not registered, you may neither:

- charge VAT on your taxable business activities nor
- recover the VAT relating to them

12.3 How can I claim VAT refunds I am entitled to?

Step 1

Apply in writing. If you are claiming for the first time you may use [VAT 126 - Claim for refund of VAT by certain bodies](#).

For each invoice please provide the following details:

- Date of invoice
- Supplier's VAT Registration number
- Brief description of supply
- To whom addressed
- VAT paid

Step 2

Make sure that your claim relates to a period of at least one calendar month-or at least 12 months if it is for less than £100.

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Step 3

Make sure the period you choose ends on the last day of a calendar month.

Step 4

Make sure you make your claim within 3 years after the end of the month in which you received the supply, acquisition or importation. For example:

- you receive goods in July 2015, so
- you must submit your claim by 31 July 2018

Step 5

Keep invoices and other records to support your claims for 6 years, unless we agree in writing to a shorter period.

Step 6

If this is your first claim please also send evidence of your banking details e.g. a copy of a statement or bank letter. Otherwise please inform us only if you change bank details.

12.4 Do I need a special form to apply for my refund?

No. You need to send

- a signed declaration (see below)
- a list of invoices you wish to claim for – please see paragraph 12.3 step 1 (but not the invoices themselves)

I am claiming a refund of £X for the period..... to..... to cover VAT charged on goods and services bought for (name of body) non-business activities.

- The tax claimed includes VAT incurred for exempt business activities that can be reclaimed under [Notice 749](#) Local authorities and similar bodies.

Signed

For (name of body)

Address

Contact name:

Contact telephone number

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- Delete as appropriate

12.5 Where should I send my claim?

Send your claim to:

HM Revenue and Customs
Corporate Treasury
DMB 613
West Yorkshire
BX5 5AB

12.6 What will Customs do once they receive my claim?

Once we receive your claim we will:

- Provide you with a unique reference number to be shown on all claims – but this does not mean that we have registered you for VAT.
- Provide you with a link to the online service so that you can complete any future claims.
- Make the refund claimed by BACS transfer direct to the bank account you have entered on your claim (VAT126).

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

HM Revenue and Customs
Public Bodies and Government team
3C/09
100 Parliament Street
London
SW1A 2BQ

If you have a complaint

If you have a complaint about the service you've received please see guidance under Complain to HM Revenue and Customs. If we are unable to resolve your complaint to your satisfaction you can

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ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of HM Revenue and Customs.

For more on the adjudicator please visit their website:

<http://www.adjudicatorsoffice.gov.uk/>

The Adjudicator's Office
PO Box 10280
Nottingham
NG2 9PF

Telephone: 0300 057 1111 between 9am and 5pm, Monday to Friday (apart from Bank Holidays).
Typetalk facilities are available.

You can fax: 0300 059 4513

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