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9 March 2018

Dear Tina

Sandown Town Council – VAT registration

Whilst carrying out the engagement to advise the council on the VAT implications of the Broadway Centre, I identified that the council appeared to have been making significant taxable supplies over the last four years, without registering for VAT.

Under Section 42 of the VAT Act 1994, local councils are liable to be registered for VAT if they make any taxable supplies. The £85,000 registration threshold for businesses does not apply to public bodies. HMRC have a formal policy (set out in the Government & Public Bodies VAT Manual) that they will not enforce VAT registration on a council unless the VAT on the council's income would exceed £1,000.

The council appears to have annual income of over £45,000 from charges for crazy golf, putting and the sale of drinks and ice cream. Most, if not all, of the charges should be standard rated and attract VAT of 20%. The council should probably have registered for VAT a long time ago. It has most likely also reclaimed VAT on the costs associated with these activities, which it is not entitled to do as it is not VAT registered.

Even though it has not registered when it should have done, the council is still liable to pay the VAT that it should have collected on its income. Unless it registers for VAT, it also owes HMRC any VAT that it has wrongly reclaimed on these activities for the last four financial years. HMRC cannot make an assessment for any financial year that ended more than four years ago, but they can require the payment of tax from the last four financial years and charge penalties (10 to 30% of what is owed) and interest too.

It is possible to backdate VAT registration by up to four years. By backdating its registration, the council will avoid having to repay VAT reclaimed on the costs associated with these sales. It will have to pay the VAT dues on income, but it would be liable for this under any circumstances.

I have assisted two councils that have had to backdate their registration by four years and pay the amounts owing. In neither case did HMRC levy penalties or interest, but I cannot guarantee that they will not in this case.

This is my estimate of the amount due, based on the figures that you have provided, but please check them to make sure I have understood your figures correctly. I have assumed that all sales are taxable and VAT equates to 1/6th of total income (i.e. income of £120 would be made up of £100 income for the council and £20 being VAT at 20%)

VAT owed on income for four financial years

Year	Income	VAT owed to HMRC
2014/15	£46,963	£7,827
2015/16	£52,197	£8,699
2016/17	£56,432	£9,405
2017/18	£42,939	£7,156
Total	£198,531	£33,087

I appreciate that this is not good news for the council, but I feel obliged to inform them rather than leaving them at risk of being caught out by a VAT inspection.

If you have any questions, please let me know.

Yours sincerely



Steve Parkinson
The Parkinson Partnership LLP