Council 14 January 2026 **Item 11**

Highcliffe and Walkford Parish Council

Options and Implications of VAT Registration for the Council, with Specific Reference to Taking on The Old School Community Centre (Grade II Listed).

Executive Summary

This report examines the pros and cons of Highcliffe and Walkford Parish Council becoming VAT registered, particularly in the context of the likely acquisition and renovation of The Old School Community Centre in April 2026 (projected renovation costs £100,000+). It also outlines the process of VAT registration and the impact assessments under key statutory and operational headings. Relevant legislation and HMRC guidance specific to parish councils are referenced throughout to ensure compliance and clarity.

1. Background and Context

Parish councils are classed as *local authorities* for VAT purposes under HMRC guidance (see **VAT Notice 749: Local authorities and similar bodies**) This classification means:

- The usual VAT registration threshold (£90,000 taxable turnover) **does not strictly apply** to parish councils; they must register for VAT if they make *any taxable supplies* that are regular and not minimal. HMRC tends to enforce this only where output tax is expected to exceed about £1,000/year.
- An unregistered council **cannot charge VAT** on taxable sales and **cannot reclaim VAT** on purchases relating to its taxable business activities.
- Unregistered councils currently typically reclaim qualifying VAT using form **VAT126** for non-business activities or exempt businesses.

Taking on a community centre with ongoing business activities (room hire, event charges, etc.) increases the likelihood that taxable supplies will become regular and significant.

2. Pros and Cons of VAT Registration

2.1 Pros

a) Input VAT Recovery

- As a VAT-registered entity, the Council can reclaim VAT on most costs related to its taxable supplies, including capital costs such as renovation of the community centre (if linked to business activity). This could significantly reduce the *net cost* of a £100,000+ project.

- Even with mixed-use activities, VAT recovery is possible under the normal input tax recovery rules, subject to partial exemption limits and apportionment.

b) Compliance and Risk Reduction

- Registration avoids accidental non-compliance by forcing VAT returns and accounting systems that properly distinguish taxable vs non-taxable activities.

c) Future Proofing

- Planning ahead for future income streams/hiring of facilities will ensure compliance and avoid backdated VAT liabilities.

2.2 Cons

a) Administrative Burden

- VAT registration requires quarterly VAT returns submitted digitally, robust accounting records, and possibly professional support (accountant or specialist VAT adviser).

b) Partial Exemption Complexity

- If the Council has a mixture of taxable and exempt business income (e.g., renting rooms is often VAT-exempt unless opted to tax), it risks complex *partial exemption calculations*. Exceeding the de minimis limit (5% of total VAT or £625 p.m. average) may restrict VAT recoverability and lead to repayments.

c) Charging VAT to Users

- On taxable supplies, standard VAT must be added, which may reduce the attractiveness of prices to some hirers if they cannot reclaim VAT themselves.

d) Listed Building Specific Considerations

- Renovations on a Grade II Listed building often include specialist works; VAT rates and recoverability vary. Some building works may be zero-rated (e.g., certain conversion/renovation works), but understanding these nuances requires specialist advice.

e) Risk of Errors

- Misclassification of activities can trigger HMRC enquiries, penalties, or interest (though rarely applied if proactive compliance is shown).

3. Process of Becoming VAT Registered

Legal Basis:

- VAT Act 1994, Sections 41A and 42 govern business/non-business and registration. Parish councils are local authorities for VAT purposes, so if they

supply taxable goods or services, they should register, even if turnover is below the usual threshold.

Steps:

1. **Council Resolution:** Formal Council decision to seek registration.
2. **Assess Activities:** Determine which activities are taxable, exempt, or outside scope (based on HMRC **VAT Notice 749** definitions).
3. **Register Online:** Through HMRC's VAT online service, providing details of the Council's bank account, activities, and expected sales.
4. **Accounting Preparation:** Implement suitable accounting software for digital VAT record-keeping and quarterly returns.
5. **Submit Returns:** Quarterly VAT returns, accounting for output vs input VAT.
6. **Review Partial Exemption:** Annual or periodic calculations if exempt supplies are significant.
7. **Option to Tax:** If renting property (e.g. community centre rooms), consider an *option to tax* to convert exempt supplies to taxable, enabling greater VAT recovery (with consequences on tenant hirers). *Note: opting to tax has lasting effects.*

4. Impact Assessments

4.1 Equalities

- Pricing of services may increase due to VAT charges; ensure support or subsidy for disadvantaged groups using community space.

4.2 Environment

- VAT planning should not directly affect environmental outcomes; however, enhanced funds from VAT recovery could support environmentally friendly features in renovation (e.g., insulation/renewables).

4.3 Crime & Disorder

- No direct impacts, though increased administration capacity should ensure transparent robust financial controls, reducing fraud risks.

4.4 Financial

Positive impacts:

- Potential significant cost savings via VAT input recovery on renovation costs.
- Greater financial transparency and HMRC compliance reduces future liabilities.

Negative impacts:

- Administrative costs (software, training, staff time) and potential higher prices for users.

Partial Exemption Risk:

- If exempt income (e.g., hall hiring) breaches the de minimis, reclaimable VAT may reduce, affecting financial planning.

4.5 Resources

- Staff or contracted finance support will require training or recruitment for VAT compliance and returns.
- Possibility of seeking external VAT consultancy to structure registration and voluntary option to tax choices.

4.6 Risk Management

Key Risks:

- Misclassification leading to HMRC disputes or penalties.
- Incorrect partial exemption calculations requiring repayments.
- Administrative overload on Council finance staff.

Mitigation:

- Training (e.g., CALC SLCC VAT training).
- Professional advisor retained for initial setup and yearly review.
- Robust accounting systems.

5. Recommendation

That the Council resolves to:

1. **Proceed with VAT Registration** before undertaking The Old School Community Centre renovation, recognising that:
    - Input VAT recovery could materially reduce renovation costs.
    - Current unregistered reclaim methods (VAT126) may not suffice for complex capital projects.
2. **Commission a VAT Impact Assessment** (by an HMRC VAT specialist) to:
    - Confirm likely taxable activities (e.g. hall hire, room hire) and partial exemption exposure.
    - Advise on whether to *opt to tax* the community centre.

3. **Invest in Training/Systems** for VAT compliance and ensure quarterly returns and partial exemption reporting are well managed.

By acting now, the Council maximises financial benefit, minimises risk of non-compliance, and positions itself to manage the community centre effectively. Practical success stories of similar councils show that VAT registration accelerates VAT recovery on major projects when well managed. PSTAX

Key Links to Legislation and Guidance

- **VAT Notice 749: Local authorities and similar bodies (HMRC)** – on VAT registration requirements and recoverability. GOV.UK
- **VAT Act 1994, Sections 33, 41A, 42** – statutory basis for VAT recovery and registration. Legislation.gov.uk
- **HMRC VAT126 refund process** – for councils not yet registered. GOV.UK