

## Briefing

### **European Commission Review of existing VAT legislation on public bodies and tax exemption in the public interest.**

**26 November 2013**

The purpose of this consultation is to collect evidence and information to help the Commission develop its thinking about the current VAT rules. It is an opportunity for charities, including village hall management committees, and parish councils to put forward their views and raise awareness of the problems that they face or have had to deal with. The EU website contains details of the [Consultation](#) and how to respond direct should you wish to do so. The deadline for responses is 14 February 2014.

ACRE is a member of the [Charity Tax Group](#) (CTG) which advises us that this is not a firm proposal but is part of EC process and a very early consideration of possible legislative changes in the future. The CTG tells us that the consultation paper is disappointing as it is very general and does not provide a thorough analysis of the options. CTG representatives are meeting with Commission officials and we have informed them of our concerns around the VAT issues for village halls.

#### **VAT and village halls**

The vast majority of village halls are not registered for VAT and are therefore unable to reclaim VAT (20%) on improvement and maintenance work. The construction of new village halls is zero rated. ACRE's research<sup>i</sup> indicated that up to £7million had been spent on irrecoverable VAT, wasting a huge amount of voluntary fundraising. On the other hand, parish councils are able to reclaim VAT and halls owned and managed by them benefit from this. Parish councils are also able to reclaim VAT under Section 33 of the VAT Act 1994 on gifts of work or equipment donated to the village hall. ACRE's Information Sheet 18 explains this in detail.

#### **The Consultation**

We have considered the consultation document and the five options put forward to improve the present VAT system. Village hall committees and parish councils should take note of Options 1 and 2:

**Option 1** – The full taxation model

In simple terms this would mean the abolition of all exemptions so that activities carried out by public bodies and charities would be taxable. This could be at the standard rate or a reduced rate. The consultation document states that this model would require significant amendment of the present VAT system and that it would be very difficult to implement in the EU. We are advised by CTG that it is unlikely to be unanimously agreed by the 28 Member States in the Council of Ministers.

If the proposal were to be taken forward the VAT zero rate on new build would be lost, together with the ability for parish councils to reclaim VAT on goods and services donated to village halls.

### **Option 2 – Refund system**

The introduction of a refund system would be very welcome. It could, for example, enable refunds on extensions and alteration work on village halls. There are examples of refund schemes that have operated in the UK (the Listed Places of Worship Grant Scheme and the Memorials Grant Scheme) and in other Member States, but this option proposes a uniform solution. The consultation document states that refund schemes do not automatically require EU legislation as they can be implemented by Member States outside the VAT system.

### **Actions needed**

We need to provide evidence to the EU Commission of the impact on village halls should the full taxation model ever be considered. If your hall build project has benefited from or is likely to be threatened by the withdrawal of zero rate VAT, we need to hear about it. Similarly, please tell us if the parish council has reclaimed VAT on goods and services donated to the hall or your community has any experience of a VAT refund scheme.

Please provide details of the amounts and the effect on your project and community. We will use this information in ACRE's response to the Consultation.

### **Additional Information**

This Briefing considers the consultation in the light of village halls and parish councils but there are other services that could be affected by the full taxation model, although they could be taxed at a lower rate of VAT. For instance:

- Postal services to the extent that they are not already taxable
- Hospital and medical care, dentistry and ambulance services
- Care and welfare services e.g. those provided by care homes
- Education and private tuition

ACRE welcomes all comments and input that could assist in submitting a comprehensive response to this consultation.

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