



# RUGBY FOOTBALL UNION

## **A VAT Guide for English Rugby Clubs**

This guide has been prepared by The Rugby Football Union. *Sections 2 to 6, 8, the last two paragraphs of section 1 and the appendices make extensive use of the "VAT and Football" document (which was prepared jointly by The Football Association and Deloitte & Touche LLP). Any use made here is done so with their generous permission.*

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This document is for guidance only and some of the comments may not be applicable in certain situations. It should not be regarded as a substitute for obtaining professional advice from either a chartered accountant or a VAT specialist and the Rugby Football Union cannot accept any liability where clubs or individuals have made decisions based on this guidance.

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## **1 Introduction**

Whether large or small, professional or amateur, incorporated or unincorporated, rugby clubs will encounter Value Added Tax (VAT) in their everyday dealings. As such, it is vitally important that all clubs are not only aware of the potential liabilities that can arise from VAT, but also that they have some idea of how to arrange their affairs so that they can be as VAT efficient as possible. With limited budgets and tight cash flows, the last thing that a club wants to do is to be paying out tax (or fines) needlessly. With a varying level of VAT expertise between our clubs, some will be better equipped to deal with VAT than others. However, this document is intended to provide all clubs, including those with little or no current knowledge of the area, with sufficient information to function efficiently and in line with current regulations.

Remember, if you get your VAT management wrong you may be liable to pay taxes that you were not expecting, not to mention the penalties that can arise thereon. Additionally, there may be some events that affect your VAT status and you need to be aware of this in order to plan properly (e.g. capital expenditure can be affected by partial exemption and thus your ability to recover VAT – see section 5). Unfortunately, VAT mishaps can even happen to very small clubs and the fact that you are amateur and functioning with volunteers only will not be seen as a valid excuse!

In the United Kingdom, the VAT system is administered by HM Revenue and Customs (HMRC).

VAT is an indirect tax and is levied on the taxable supply of goods or services made in the UK by a taxable person in the course or furtherance of his business. For this purpose the UK effectively includes the Isle of Man. VAT is also chargeable on the importation and acquisition of goods into the UK and on receipt of certain services from overseas. Rugby clubs whether operating through a company or unincorporated association may find themselves liable to VAT. Its impact will be particularly felt by the larger clubs with increasing levels of commercial income but even the smaller clubs will have to contend with it if their turnover exceeds the VAT registration limit or if they register voluntarily (discussed later).

The main sections of this document give guidance on the basic principles of VAT as they affect rugby clubs. The appendices contain more detailed information including the VAT treatment of various types of income.

## **2 Glossary**

### **Outputs**

Income received for goods and services supplied by the rugby club.

### **Output tax**

VAT on outputs taxable at the standard or reduced rate.

### **Inputs**

Expenditure incurred on taxable goods and services going “into” the business including purchases for use in the business and for resale, and general overheads.

### **Input tax**

VAT on inputs taxable at the standard or reduced rate.

### **Zero rate supplies**

Where VAT is chargeable at 0% (full recovery available for VAT on connected expenditure). Examples are included in Appendix 1.

### **Standard rate supplies**

Where VAT is chargeable at 20.0% (full recovery available for VAT on connected expenditure). Examples are included in Appendix 1.

### **Exempt supplies**

No VAT is chargeable on the supply (VAT on directly related costs cannot be recovered) (See ‘VAT on Income, Section 4.2’ and ‘Recovery of VAT on expenditure, Section 5’).

### **Exempt input tax**

VAT on expenditure related to generating VAT exempt income.

### **Partly exempt entity**

An entity having both taxable and exempt income which therefore may not be able to recover its input tax in full. This situation is known as “partial exemption”.

### **Taxable turnover**

Standard, reduced and zero-rated outputs.

### **Reverse charge**

The procedure whereby the customer, and not the supplier, accounts for output tax at the rate applicable in the country of the customer. The output tax paid is recoverable by the customer as input tax subject to the normal rules governing recoverability.

### **3 VAT Registration**

When the taxable (standard, reduced and zero-rated) turnover of a rugby club exceeds certain limits, it must apply for VAT registration. This procedure is quite separate from any notification required for PAYE or corporation tax purposes. The terms “standard rate” “reduced rate” and “zero rate” and the liability of income to VAT are outlined in Section 4 and covered in more detail in Appendix 1. It must be appreciated that for VAT purposes a rugby club is a “business” – even if it does not set out to make a profit in the commercial sense and is not organised as a company as many businesses are. However, certain income is exempt which may mean that clubs are not required to be registered. (Section 4 gives more detail on what income is exempt).

#### **3.1 Compulsory VAT registration**

VAT registration is compulsory when taxable turnover in the preceding twelve months (or expected turnover in the next thirty days) exceeds the VAT registration threshold. The threshold is revised annually and is currently £73,000 per annum with effect from 1 April 2011. Please note that this limit is usually updated on the 1<sup>st</sup> of April each year.

As stated on the HMRC website, if the value of your taxable supplies is over a specific limit, you need to register for VAT, unless your supplies are wholly or mainly zero rated in which case you may apply for exemption from registration. You may be charged a penalty if you register late. The easiest way to register for VAT is by using HMRC’s VAT Online Registration Service.

Notice 700/1 on the HMRC website explains how to apply for:

- registration if the value of your taxable supplies is above the limit
- exemption from registration if your taxable supplies are wholly or mainly zero-rated
- exemption from registration if you can show your future turnover will be below the ‘deregistration’ limit
- voluntary registration if the value of your taxable supplies is below the limit for compulsory registration
- voluntary registration when you make supplies outside the UK that would be taxable if made in the UK

Please note that you do not include exempt or outside the scope income when determining whether you exceed the VAT registration threshold.

Once you are liable to register you should notify HMRC immediately in writing or online as there are penalties for late registration.

#### **3.2 Voluntary VAT registration**

You may voluntarily register for VAT even if your taxable income does not exceed the compulsory registration threshold. This may be favourable if the VAT you are charged on your expenditure is significant and you are able to reclaim that VAT (but see partial exemption, Section 5.1).

The disadvantage of applying for voluntary registration is that you will then have to charge VAT on all standard and reduced rate supplies made and file VAT returns.

Once registered for VAT your pricing policies may well need to alter to enable you to charge VAT where necessary. You may also find that your cashflow is affected.

#### **3.3 What being registered means for your club**

Registered rugby clubs charge VAT on their standard rated supplies (see Section 4) and are entitled to recovery of VAT charged on supplies to them (see Section 5) resulting in net payments to, or repayments from HMRC.

As noted on the HMRC website, after you have registered you need to charge VAT on all your taxable supplies from your date of registration and keep:

- a record of all standard-rated goods and services you supply or receive as part of your business
- a separate record of any exempt supplies you make
- a VAT account

At preset intervals (see Section 6) you need to fill in a VAT return with details of your sales and purchases. With effect from 1 April 2010 your VAT return must be submitted online if you register for VAT on or after that date, or if you are already registered and have an annual turnover of £100,000 or more. Paper VAT returns can continue to be submitted if you were registered before this date and have a turnover below this figure. If the return is submitted online, payment must also be made electronically.

Some rugby clubs may have an annual turnover below the VAT registration threshold and may therefore not wish to register. Provided they remain below the threshold, clubs which are not registered or liable to be registered can ignore VAT. In such cases VAT charged on any expenditure will not be recoverable and will thus add to operating costs.

### **3.4 Application for VAT registration**

A VAT registration is applied for by completing form VAT 1 and submitting this to the VAT authorities at the Wolverhampton Registration Unit. HMRC aim to reply to applications within three weeks of the application being received and recommend that businesses contact them to ensure it has been received if HMRC do not reply within that period. Once the application is approved, a Certificate of Registration (Form VAT4) is issued showing the VAT registration number and the VAT return periods allocated to that business. If you want return periods to end on a particular quarter, for example to tie in with your year end, you should request this at the time you apply for registration by sending in a covering letter with your application form, though if you do not do this you can request a change of return stagger at a later date.

### **3.5 Deregistration**

If the annual taxable income generated by a rugby club that is currently registered for VAT drops below a certain limit (£71,000 with effect from 1 April 2011) it is possible to deregister for VAT. However, in some cases a cost may arise on deregistration as the rugby club may have to account for VAT to HMRC on certain business assets held at the time of deregistration. If the value of the goods, on which VAT is due on deregistration, is such that the VAT charge would not exceed £1,000 (i.e. the net value of the goods does not exceed £5,000) there is no requirement to account for the VAT.

## 4 VAT on Income

VAT is a charge on business transactions (called supplies) involving goods and services. It is also charged on the import of goods and on certain services received from overseas. Each transaction entered into by a rugby club needs to be examined and its correct VAT treatment identified. For this purpose all types of income and activity can be categorised as set out below.

### 4.1 Taxable Income

Taxable income consists of the following:

- Standard rate  
These are supplies made by you (outputs) which are taxable and on which you charge VAT at the standard rate – currently 20.0%. The VAT on your outputs is called output tax.
- Zero rate  
These are supplies which are also taxable and liable to VAT but at 0%. This means that although this income is considered to be “taxable”, you do not actually have to account for any VAT on it. Receipt of zero-rate income does not affect your ability to reclaim VAT incurred on expenditure.

### 4.2 Exempt Income

Certain types of income are specifically exempted from VAT and therefore you do not charge VAT. Exempt income is not taxable so you do not need to take it into account when you are deciding whether you need to be registered for VAT.

If you are registered and in receipt of exempt income, it is likely to affect your ability to reclaim all VAT incurred on expenditure. This is dealt with in more detail in Section 5.

### 4.3 Income which is outside the scope of UK VAT

Certain forms of income are entirely outside the scope of VAT, so no VAT is chargeable. You do not take income that is outside the scope into account when you are considering whether you need to be registered for VAT.

### 4.4 VAT liability of income

Below is a table of the VAT liabilities of the main sources of income a rugby club is likely to receive. There are specific rules and exceptions applied to each item and you must look at the more detailed notes in Appendix 1 for further clarification. The following list is for quick reference guidance only.

#### Standard rated

- Season ticket income

- Gate receipts
- Sponsorship
- Advertising
- Royalties
- Merchandising
- Hire of equipment
- Corporate events
- Catering
- Sales of goods (but see under “zero-rated” below and consider reduced rate supplies)
- Vending machine income
- Gaming machine income
- Bar sales (including pre-paid bar cards)
- Telephone income (i.e. payphones)
- Sales of assets/equipment
- Fees for rugby “summer school”
- Memorabilia sales
- Stadium tour income
- Non-playing social/fan club membership

#### Zero rated

- Books, magazines and handbooks
- Programmes and fixture cards (provided no more than 25% of the total area is to be completed by the recipient)
- Overseas tours (although these may crystallise VAT issues in the countries where the tours take place)
- In some circumstances cold take-away food (not including soft drinks, ices etc)
- Exports
- Children’s clothing (i.e. children’s team kits)

#### Exempt

- Playing members’ subscriptions and fees
- Perimeter advertising (unless taxation option taken up, see Appendix 1)
- Hire of facilities (unless taxation option taken up, see Appendix 1)
- Lotteries and raffles (including takings from electronic lottery and bingo machines)
- Other lettings (unless taxation option taken up, see paragraph 19, Appendix 1 or the club provides catering as well as the use of premises, e.g. for a wedding reception)
- Competition fees (where all returned as prizes or when provided by non-profit distributing bodies)
- Interest and insurance commission
- 
- Shares and Debentures
- Betting

#### Outside the scope

- Donations
- Gift aided donations to a CASC
- Grants
- Insurance settlements
- Compensation payments

## 5 Recovery of VAT on Expenditure (Input Tax)

When a rugby club is VAT registered and receives only taxable income (explained in Section 4), it can reclaim the VAT it is charged on its expenditure subject to certain rules. VAT on expenditure is called “input tax”. The recovery of input tax on the purchase of some goods and services is specifically blocked, whatever your business. Examples of these are:

- Purchase of a motor car (unless used wholly for business purposes);
- Business entertainment where no onward charge is made (this excludes the hotel expenses and post match refreshments of a visiting team which are met by the rugby club under a reciprocal arrangement);
- Business gifts costing more than £50 (see Section 8.2).

### **5.1 Partial Exemption**

**THIS IS A VERY IMPORTANT AREA FOR RUGBY CLUBS PARTICULARLY WHEN VAT HAS BEEN OR IS ABOUT TO BE INCURRED ON SUBSTANTIAL CAPITAL EXPENDITURE.**

It is a common misconception that once a rugby club has been registered for VAT, 100% of VAT on its purchases can be recovered. This is rarely the case.

Where a rugby club which is registered for VAT receives exempt income (for example, players’ subscriptions or rent from premises which have not had the taxation option taken up) as well as taxable income, it is said to be partly exempt. This means it will not be allowed to recover all the VAT it incurs on expenditure. VAT on costs incurred directly in connection with an activity that generates taxable income can be reclaimed but you cannot reclaim the VAT on any costs which are incurred directly and wholly in connection with an activity which will generate VAT exempt income if those costs exceed certain de minimis limits. For example, as income from lotteries is exempt, potentially you cannot recover the VAT on goods purchased as prizes or on printing the lottery ticket. The VAT on costs connected with exempt income is called “exempt input tax”.

Some exempt input tax will be clearly identifiable. Frequently, however, input tax incurred on expenses will relate both to exempt and to taxable income (eg, telephone bills, club overheads). The VAT on these expenses may need to be apportioned and treated partly as exempt input tax and partly as recoverable input tax subject again to the de minimis limits. The standard method of apportioning this “mixed use” input tax is to reclaim a percentage of it, calculated by taking taxable income as a proportion of taxable and exempt income. [Although interest income is exempt, it can usually be excluded from this calculation as “incidental”]. If this method does not give a fair and reasonable result, it is possible to apply to use another method to establish the recoverable element of mixed use input tax. For example:

- values of taxable and exempt inputs (purchases);
- staff time spent on taxable and exempt activities; or
- floor space of areas used for taxable and exempt activities.

You must get HMRC’s approval prior to using any method which is not based on the values of income. It is always sensible to seek professional advice when determining an alternative method particularly where substantial VAT costs will arise on improved or new buildings and facilities (see planning points in section 9).

Under the de minimis rules, if exempt input tax (including the VAT on the relevant proportion of overheads) is less than £625 per month on average and not more than 50% of all input tax for the period, you can reclaim your VAT in full.

With effect from 1 April 2010 two simplified de minimis tests can be applied.

#### Test 1

Provided your total input tax incurred is not more than £625 per month on average and the value of your exempt turnover is not more than 50% of all of your turnover you can be regarded as de minimis.

#### Test 2

If your total input tax relating to exempt supplies and mixed use supplies (i.e. excluding input tax relating only to taxable supplies) is no more than £625 per month on average and the value of your exempt turnover is not more than 50% of all of your turnover, you are also de minimis.

If you are no de minimis under these simplified tests a partial exemption calculation should be carried out to see whether you are de minimis.

The standard partial exemption calculation would normally be carried out for each monthly or quarterly return period, but the VAT return figures are provisional and at the end of the VAT year (usually March, April or May) the figures must be recalculated for the whole year. This will show whether or not the exempt input tax incurred falls below the de minimis limits on average. Any difference between the annual calculation and the amounts previously claimed should be declared on the next VAT return (whether an amount is due to or from HMRC).

But, for VAT years commencing on or after 1 April 2009 you can simply apply the recovery rate from your previous year's annual recalculation to the mixed use input tax in the following year's VAT returns and then only carry out a partial exemption calculation at the year end. This reduces the number of calculations from 5 (assuming four quarterly returns and the annual recalculation) to 1. But you still need to categorise the input tax in each quarter as relating to taxable, exempt, or mixed use.

### **5.2 Partial Exemption – Standard Method Override**

Although every business is entitled to use the standard method, HMRC has introduced an additional adjustment to deal with circumstances where the standard method does not in their view produce a fair and reasonable deduction of input tax.

The override requires businesses to make an adjustment when the input tax deducted during the year using the standard method differs substantially from a deduction based on the use or intended use of the goods and services received by the business in making its taxable supplies.

A difference is substantial if it exceeds:

- £50,000; or
- 50 per cent of the mixed use input tax incurred but not less than £25,000.

Any calculation to establish the use or intended use of the input tax will be acceptable to HMRC provided it produces a fair and reasonable attribution.

This rule applies to input tax incurred on or after 18 April 2002. However, the rules do not affect businesses operating an approved or directed partial exemption special method.

### **5.3 Non-Business**

In the event that a rugby club incurs expenditure related to a non-business activity there is no entitlement to recover the VAT on the costs. Unlike the partial exemption calculations described above, there is no "threshold" before the non-business restriction applies.

### **5.4 Capital Goods Scheme**

Clubs planning major capital expenditure need to be aware of the Capital Goods Scheme. This is an extension of partial exemption and applies to those that make both exempt and taxable supplies i.e. most rugby clubs which acquire computer systems in excess of £50,000

value or spend £250,000 or more on construction costs. Even where clubs have been within the de minimis limits previously, expenditure of this nature is likely to put them over the limits.

With the Capital Goods Scheme VAT recovered on the item under their partial exemption method in year one is adjusted over a 5-year period in the case of computers or 10 years in respect of buildings.

To give an example, if a club constructed a new clubhouse at a cost of £1 million and had an 80% VAT recovery rate in year 1 it would recover VAT of £200,000 x 80% = £160,000

If in subsequent years the VAT recovery rate *decreased* it would have to repay additional VAT.

If on the other hand the VAT recovery rate *increased* there would be further VAT to reclaim.

If the item subject to the Capital Goods Scheme is sold within the adjustment period, there are special rules and the extent of possible adverse effects should be calculated with specialist advice if necessary.

It can be seen that by keeping taxable income relatively high, improved VAT recovery can be achieved, even though more output VAT would be due. Special attention should be given to the partial exemption method employed. It may be possible to agree a “special” method with HMRC. This is a complicated area and any club contemplating capital expenditure of this nature should consider taking appropriate VAT advice in advance.

### **5.5 Goods Supplied from another EU Country**

If goods are brought into the UK from another EU country, VAT has to be calculated and accounted for as output tax to HMRC on the VAT return. This VAT can be reclaimed on the same VAT return as input tax subject to any restriction referred to above, e.g. partial exemption or use of the goods for business entertainment.

### **5.6 Services Supplied from outside the UK**

Similarly, most services received by a rugby club from outside the UK mean the rugby club self accounts for VAT using the reverse charge. See Appendix 3 for a list of the exceptions .

## **6 Records and Accounts**

HMRC require that your records are maintained in sufficient detail to enable their visiting VAT officers to check the make-up of the figures on your VAT returns. It is very important that you keep all invoices received and issued as evidence in support of your claims for input tax and declaration of output tax. Unless otherwise agreed with HMRC the records should be retained for six years and in their original form.

For smaller clubs an analysed cash book system (with VAT columns) may be a sufficient recording system for VAT purposes. You may wish to separate your receipts into categories (e.g. gate receipts, bar takings, gaming machine receipts and sundry sales) and to analyse your purchases in detail.

You should ensure that VAT is separately identified in the clubs accounting records – do not enter the gross figures only. You must not merely record the “profit” element of an event (e.g. catering receipts less cost of food) as you will be understating the VAT due. You should also ensure that any cash payments made from the till are included in the till total takings figure which you record after cashing up. Using the current standard VAT rate of 20.0%, to calculate the VAT due from your bar takings, you should multiply the takings by 1/6.

### **6.1 When VAT is due**

Output tax normally has to be recorded on the VAT return either in the period when you issue an invoice or when you receive a payment, whichever happens first. Deposits or instalments are generally treated as advance payments and VAT must be accounted for on receipt.

Where a customer pays by credit card many clubs will account for VAT in the period in which the payment by the customer is accepted (i.e. the date the card is swiped). Strictly speaking payment is not made until the period in which the sum involved is paid to the rugby club by the credit card company, which could be in a later period than when the card is swiped.

## **6.2 Simplified Accounting Schemes**

There are a number of schemes available to small business in order to simplify their accounting requirements.

Annual Accounting – The normal basis for submitting VAT returns is every one or three months. However, there are circumstances in which a business can simplify its VAT accounting and only submit one VAT return per year. For details see Section 6.5 – Submission of Returns.

Cash Accounting – A special cash accounting scheme is available to rugby clubs with a taxable turnover up to £1,350,000 per year. This effectively means that VAT has to be shown on the return only when payment is received from a customer or made to a supplier. The main advantages of the scheme are that the rugby club does not need to consider bad debt relief adjustments or the deferral of the time for payment of VAT where extended credit is given. Output tax is accounted for in the return only for the VAT period in which payment is received. Input tax is reclaimed in the return for the VAT period in which payment is made or other consideration to the supplier is given or in a later period as may be agreed with HMRC. This contrasts with the accruals basis of VAT accounting which most businesses operate which uses invoice dates for purchases and sales, together with bad debt relief adjustments.

Further detail can be found on the HMRC website.

Flat Rate Scheme for Small Business – The flat rate scheme allows businesses to calculate their VAT payment as a percentage of the VAT inclusive turnover. Therefore, businesses do not need to identify VAT on each sale or purchase to calculate the VAT due to HMRC in each VAT return period. The aim is that businesses will spend less time and money maintaining VAT records and calculating the VAT payable to HMRC.

The scheme is open to businesses whose annual taxable turnover does not exceed £150,000. However the scheme cannot be used in conjunction with the cash accounting scheme or in certain other specific circumstances.

Use of the scheme only affects the way in which the VAT due to HMRC is calculated. Therefore, VAT should continue to be charged to customers in the normal way and VAT invoices issued to business customers.

In order to calculate the VAT due to HMRC, the business should take the VAT inclusive turnover and multiply this by the flat rate percentage for the business's particular trade sector. If a business uses the scheme it is not, in general, able to recover VAT on its purchases as the flat rate percentage includes an allowance for these items. However, a business is entitled to claim VAT in the normal way where it purchases a single capital asset with an invoice value (including VAT) of £2,000 or more.

You cannot continue using the scheme where the total VAT inclusive turnover for the previous year (the 12-month anniversary of joining the scheme) exceeds £225,000 or there are grounds for believing it will exceed £225,000 in the following 30 days alone.

The flat rate percentages to be applied are set by HMRC and may be amended from time to time. HMRC allocate the percentages across trade sectors .

We would recommend professional advice is sought to clarify the position if you are considering applying the flat rate scheme.

Further detail can be found on the HMRC website.

### **6.3 Invoices**

Generally, invoices only need to be issued by rugby clubs to its VAT registered customers.

With effect from 1 January 2004, the information to be contained with a VAT invoice has been, in the main, standardised throughout the EU. For UK businesses the following information must be included on all invoices:

- supplier's name (i.e. the rugby club's), address and VAT registration number;
- customers' name and address (and VAT registration number when in another EU country);
- quantity and description of the goods or services;
- unit price;
- the date of supply;
- the net value for each description and rate of VAT, expressed in any currency;
- rate of discount;
- the net value of supply, expressed in any currency;
- total VAT payable in sterling;
- date of issue; and
- a sequential identifying number based on one or more series which uniquely identifies the document.

Where purchase invoices are received in a language other than English, HMRC may request an English translation. Notice of the request will be provided in writing and the translation must be provided within 30 days of the date of the notice.

For credit notes or amended invoices, which are issued to customers in other EU countries, full details of the original invoice must be contained in the credit note or amended invoice. However, the following information may be omitted:

- the net value for each description and rate of VAT, expressed in any currency;
- the net value of supply, expressed in any currency; and
- total VAT payable in sterling.

Summary invoices may be issued for supplies under £250 and not to a customer in another EU country. The summary invoices must include the following:

- the name, address and registration number of the retailer;
- the time of supply;
- a description sufficient to identify the goods or services supplied;

- the total amount payable including VAT; and
- for each rate of VAT chargeable, the gross amount payable including VAT, and the VAT rate applicable.

#### **6.4 Bad Debt Relief**

A rugby club is entitled to a refund of VAT relating to bad debts when the following criteria have been met:

- output tax has been accounted for on the supply of goods or services;
- the bad debt has been written off in the accounts; and
- six months have elapsed from the later of the date of the original supply and the date when payment was due.

If all the above conditions are met your rugby club can recover the VAT by entering the amount on box 4 of the VAT return. Please note that if a customer subsequently makes a part payment against various debts the payment must be allocated to the earliest relevant transactions first. Any bad debt relief previously claimed will need to be repaid to HMRC in these circumstances.

A rugby club must also repay VAT previously claimed on its purchases if the debt remains unpaid for at least six months from the later of the date of the invoice or the date the invoice become due for payment.

#### **6.5 SUBMISSION OF RETURNS**

##### **6.5.1 VAT Returns**

Once registered, businesses have to submit VAT returns and payments to the VAT Central Unit at Southend. This will normally be quarterly although there are exceptions such as annual accounting (see below) and monthly returns (which would be of benefit to those clubs that receive regular repayments of VAT). Certain large payers of VAT are required to make payments on account (see below).

VAT returns are made on form VAT100 which HMRC will issue to clubs in advance of their becoming due. If for any reason you do not receive a return form it is important to let your VAT office know as soon as possible so that a duplicate can be issued. HMRC will not accept non-receipt of a VAT form as an excuse for late payment and there are automatic penalties for late submission or payment of returns (see 'Penalties – Section 6.6'). As mentioned above with effect from 1 April 2010 returns must be submitted online where the club has an annual turnover of £100,000 or more. The club must register online to do this and thereafter HMRC will send them reminders when returns are due. The VAT return and any payment should be received by HMRC by the last day of the month following the end of the return period. For example, a VAT return form for the quarter ended 30 June must be received with payment by HMRC by 31 July. Special rules apply where VAT returns do not cover standard monthly or quarterly periods. For clubs which are still entitled to submit paper returns and which pay by cheque, the cheque must have cleared by this deadline. The due date for payment can be extended by up to seven days by use of a credit transfer system and this also applies to clubs submitting online returns where electronic payment is mandatory.

The normal deadlines for submission applies to online returns and businesses must be registered with the Government Gateway (the centralised registration service for e-Government).

A pro forma VAT return (Form VAT 100) is attached at Appendix 2. The return form sets out:

- Box 1 – the VAT due in the period on sales and other outputs;
- Box 2 – the VAT due on acquisitions from EU countries;

- Box 3 – total VAT due;
- Box 4 – the VAT reclaimed in the period on purchases and other inputs including acquisitions;
- Box 5 – the net tax due to or from HMRC;
- Boxes 6 and 7 – statistical information of the value of outputs and inputs for the period (exclusive of VAT);
- Boxes 8 and 9 – statistical information of the value of supplies of goods to and acquisitions from other EU countries; and
- a declaration to be signed by and on behalf of the registered person to the effect that the information given in the return is true and complete.

Box 6 should include any zero-rated and exempt supplies and any reverse charge transactions. Boxes 6 and 7 should exclude VAT, wages/salaries/PAYE/NIC, loans, dividends or gifts of money, and insurance claims.

### 6.5.2 Annual Accounting

After 1 April 2006 it became possible to apply to HMRC to submit one annual VAT return instead of four quarterly returns provided that you expect to have taxable supplies no greater than £1,350,000 in the coming year.

In those cases where HMRC allow annual accounting they require monthly direct debit payments based on their estimate of your VAT liability. This is then adjusted with a balancing payment with your annual return.

Further detail can be found on the HMRC website.

### 6.5.3 Payments on Account

If a VAT registered rugby club has an annual VAT liability of more than £2 million it is required to make monthly payments on account. This means making an interim VAT payment in the second and third month of the VAT quarter with a balancing payment submitted with the VAT return. HMRC will provide an estimate of the VAT interim payments to be made. Alternatively, businesses can opt to make payments based on actual liabilities or by submitting monthly returns. All payments on account have to be made by electronic transfer and there is no seven day extension under the credit transfer scheme.

Further detail can be found on the HMRC website.

## 6.6 PENALTIES

### 6.6.1 Late registration

There is a penalty for failing to register for VAT on time. This penalty is calculated as a percentage of the VAT due to HMRC, from the date when registration should have taken place to when HMRC were actually notified. The amount of the penalty depends on whether any disclosure of the failure is prompted or unprompted, and the reason why you failed to notify HMRC. This is summarised in the table below:

Why you failed to notify HMRC	Disclosure	Minimum penalty	Maximum penalty
Reasonable excuse		No penalty	No penalty
Not deliberate	Unprompted	0% within 12 months of tax being due, otherwise 10%	30%
	Prompted	10% within 12	30%

		months of tax being due, otherwise 20%	
Deliberate	Unprompted	20%	70%
	Prompted	35%	70%
Deliberate and concealed	Unprompted	30%	100%
	Prompted	50%	100%

Essentially a disclosure is unprompted if it is made at such a time that a taxpayer has no reason to believe that HMRC might be enquiring into his affairs.

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As the late registration penalty is based on the VAT due to HMRC it is important to ensure as much credit as possible is claimed for input tax recoverable as this will reduce the amount of any potential penalty.

### 6.6.2 Default surcharge

When a VAT return and/or payment is received late by HMRC a default occurs.

After the first default, HMRC will issue a Surcharge Liability Notice and if further defaults occur a penalty is imposed. The second late return will attract a penalty of 2% and this rises to 5%, 10% and a maximum of 15% for subsequent late VAT returns. The penalty is calculated on the net tax due on the late VAT return. Returns have to be submitted on time for a twelve month period to cancel the default surcharge regime.

HMRC have introduced a special arrangement for "small" businesses whereby the first time such a business defaults it will be sent a letter offering help and support rather than a Surcharge Liability Notice. HMRC define a "small" business as one with a turnover of less than £150,000 (with effect from 1 January 2003).

If a club has a time to pay agreement in place with HMRC then the failure to make the appropriate payment on time will not count as a default for these purposes, but any subsequent breach of the agreement can result in a surcharge being reinstated.

These provisions are due to be replaced by a different regime, which is likely to take effect in April 2011.

### 6.6.3 Penalty for errors in a return

A is triggered when a VAT return has underdeclared the VAT due or overstated the amount of VAT recoverable. A penalty is also triggered if HMRC issue an assessment because a VAT return has not been rendered, the assessment is less than the amount due and HMRC are not notified within thirty days of the assessment of the true amount of tax due. As with the failure to notify HMRC of a liability to register for VAT, the amount of the penalty depends on the reason for the error, and whether any disclosure of it is prompted or not.

Reason for error	Disclosure	Minimum penalty	Maximum penalty
Not careless		No penalty	No penalty
Careless	Unprompted	0%	30%
	Prompted	15%	30%
Deliberate but not concealed	Unprompted	20%	70%
	Prompted	35%	70%
Deliberate and concealed	Unprompted	30%	100%
	Prompted	50%	100%

The definition of when an error is careless is not helpful as it simply states that it is, if it was the result of a failure to take reasonable care. There is little substantive guidance issued by HMRC on what constitutes a failure to take reasonable care but they do say it cannot be

identified without consideration of a given person's abilities and circumstances. It is therefore subjective.

Penalties can be suspended for up to two years but if during the period of suspension a person becomes liable for another penalty, the suspended penalty becomes payable.

#### **6.6.5 Reasonable excuse/mitigation**

It is possible to appeal against the penalties detailed above if you have a reasonable excuse for example, where something was not done as a result of illness or death.

The law precludes certain claims for reasonable excuse such as:

- reliance on someone else;
- a lack of funds; or
- ignorance of the law.

However, it is still possible to appeal against a penalty where you can show, for example, that a lack of funds was caused by unforeseeable circumstances outside your control or that your error was caused not by ignorance of basic law but of a complex area. It is also possible to claim mitigation of penalties and you should take professional advice to see what can be done in the event the rugby club incurs a penalty.

#### **6.6.6 Voluntary disclosure**

Errors which you discover in your accounting records can be adjusted on a current VAT return provided the net errors do not exceed the greater of £10,000 or 1% of the Box 6 turnover up to a maximum of £50,000 . Errors in excess of this should be notified to HMRC in writing and if disclosed in this way should count as an unprompted disclosure which could mitigate a penalty. Where errors are quite properly corrected on a return, HMRC have, at present refused to say this counts as an unprompted disclosure which suggests consideration should be given to notifying HMRC even where the error is corrected on the return. Interest will, however, apply. A four year time limit applies to voluntary disclosures. If errors are discovered after four years there is no legal requirement to disclose them. HMRC will normally reject claims for VAT overpaid more than four years ago.

#### **6.6.7 Assessments**

If VAT returns are not submitted or returns which have been submitted are incomplete or incorrect, HMRC will issue an assessment to recover the underdeclared VAT. Assessments are capped to four years from the end of the VAT period in which the error occurred. If the rugby club wishes to appeal against an assessment, a local reconsideration of the decision can be requested within 30 days of the date of the assessment. A formal appeal can be made to the Tax Chamber of the First-tier Tribunal within 30 days of the date of the assessment.

#### **6.6.8 Interest**

Interest may be charged when you have paid an assessment which later turns out to be too low or when you have underpaid or overclaimed VAT. However, where a repayment of tax is due and payment is unnecessarily delayed by HMRC, a repayment supplement could be due to your club.

#### **6.6.9 Disclosure – Failure to Disclose**

A penalty will arise if a business is under an obligation to disclose either the use of a listed avoidance scheme or a scheme which has the hallmarks of avoidance.

For failing to disclose the use of a listed scheme the penalty is 15% of the VAT saved.

For failing to disclose the implementation of a scheme which bears the hallmarks of avoidance the penalty is fixed at £5,000.

## **7 Minimising VAT Costs**

Some of the ways in which the VAT burden may be minimised are:

1. if not already registered, voluntary VAT registration where your taxable expenditure is high e.g. a capital project;
2. avoiding liability on supplies by analysing supplies into their component parts and taking full advantage of zero rating;

3. taking advantage of the available exemptions identified in Section 4, but subject to any resulting restriction on recovering input tax on purchases;
4. avoiding the worst of partial exemption by:
  - negotiating the best method of recovering input tax with HMRC; or
  - if possible, reducing exempt input tax below the de minimis limit of £625 per month;
5. timing output tax liability e.g. there will be a longer VAT cashflow benefit for an invoice issued at the beginning of a VAT quarter than at the end. The cash accounting scheme can also be an efficient mechanism for improving cash flow;
6. in the case of sponsorship, carefully analysing what is provided, particularly if the sponsor is partly exempt e.g. a bank, building society or insurance company. If part of the sponsorship receipt is not subject to VAT then this may result in more net cash for you (see paragraph 18 of Appendix 1); or
7. ensuring that VAT is charged where it is due, since, if you do not, you may be unable to recover it from your customer. Any exchange of letters of agreement or contracts should make the VAT position clear in relation to payments under it. It will usually be to a club's advantage to specify that the consideration being charged excludes VAT (which you then add to the charges).

Also, please see Section 9.

## **8 Common Issues Affecting Rugby Clubs**

### **8.1 Business Entertainment**

Generally, VAT charged on goods or services is not recoverable where the goods or services are used for the purposes of business entertainment. Business entertainment includes the free provision of food and drink, hotel accommodation and entry to sporting or similar events to persons other than employees. An exception to the general rule is where a rugby club

provides hotel accommodation and general refreshments to a visiting team under a reciprocal agreement or where there is a cup competition and the terms of the competition provide for such a payment. In this case, input tax can be recovered on the associated expenditure.

## **8.2 Business Gifts / Competition Prizes**

For VAT purposes an article is a gift where the donor is not obliged to give it and the recipient is not obliged to do or give anything in return. The gift of business assets by a rugby club for no consideration is considered to be a business gift.

If the VAT exclusive cost of the item is more than £50 and the VAT has been recovered on the item (as it has previously been used for business purposes) output tax must be accounted for on the net price the person would have to pay to purchase or produce goods identical to the goods concerned, i.e. normally their cost value. If the VAT exclusive cost of the item is less than £50 there is no requirement to account for output tax on the gift.

Where there is a series of gifts to the same person there is no requirement to account for output tax if the aggregate cost of the gifts does not exceed £50 made to that person in the same year (i.e. in a 12 month period).

Competition prizes are also considered to be business gifts where there is no direct and immediate link to a taxable business activity.

## **8.3 Charities**

Charitable organisations benefit from certain VAT reliefs. If clubs wish to register as a charity or to set up a charitable arm e.g., to undertake charitable work/projects, specialist VAT and tax advice should be sought.

## **8.4 Corporate Hospitality Packages**

A corporate hospitality package can consist of a number of elements (most commonly a car park pass, food and drink, a ticket to the match, a club programme and a host). Where separately supplied it is likely that the programme would benefit from zero-rating. However, where the programme is included as part of a hospitality package VAT is due on the full package including the programme.

## **8.5 Disciplinary Income**

If an individual player breaks the rules of a rugby club they may have the authority to fine that player.

Fines by the Rugby Football Union are outside the scope of VAT and HMRCs' view is that any associated VAT costs incurred do not directly relate to a specific supply and that the VAT is recoverable to the extent allowed under the partial exemption rules if applicable. It is likely that this position extends to fines imposed on its players by rugby clubs but professional advice should be sought to confirm the position .

## **8.6 Lettings of sports facilities to and by clubs**

Ordinarily, the letting of facilities for the paying of sport is subject to VAT. The rent for a series of lets to and by the club is exempt for VAT if certain conditions are fulfilled, as set out below. However, this exception is itself overridden if the grantee has opted to tax the land or buildings:-

- the facilities are provided for a series of ten or more periods; and
- each period is in respect of the same activity carried on at the same place (but not necessarily using the same pitch, court etc); and
- the interval between each period is not less than one day and not more than 14 days; and

- consideration is payable by reference to the whole series and is evidenced by written agreement; and
- the grantee has exclusive use of the facilities; and
- the grantee is a school, club, an association or an organisation representing affiliated clubs or constituent associations (eg a league).

HMRC accept an exchange of letters, or an invoice issued in advance, as written agreement, but insist that payment must be for the whole series, with no refund if the lessee chooses not to use the facilities each time. They only see refunds as permissible in the event of unforeseen non-availability. They do not, however, insist that payment be made in advance, and accept that it can be made in instalments through the series. The rules are quite complex but can if applicable reduce non-recoverable VAT on for example local authority pitch hire fees.

When a club rents out sports facilities it is often advantageous to reduce its partly exempt supplies by being able to charge VAT (i.e. avoiding the conditions listed above for exemption). See section 9.1.1 below.

### **8.7 Receipts from the RFU**

The RFU has a ruling from HMRC that income received by a club from the RFU as a grant or in respect of travel expenses is not liable to VAT as it is not received by the club in respect of any business supply to the RFU. Such income is outside the scope for VAT. By contrast receipts from the RFU by way of reward for progress in knock-out competitions carries VAT which needs to be shown on your invoice to the RFU.

### **8.8 Merchandising**

The retail sale of goods including shirts, scarves and badges will generally be standard rated unless any of the items qualifies for zero-rating as children's clothing / footwear or as relevant publications. Zero-rating applies to articles designed as children's clothing and in practice this means clothing and footwear suitable for children up to 13 years old as determined by the British Standards Institution.

### **8.9 Non-business income e.g., Grant funding and non-business expenditure**

The receipt of income which is outside the scope of VAT does not of itself create a restriction to VAT recovery. This means that for example lottery funding can be received with no loss of VAT, provided that the funding is used for the purpose of making taxable supplies.

However it is important for clubs to be aware of the VAT implications of non-business activities, as this is a complex area of VAT legislation that may result in restricted VAT recovery. VAT incurred on costs which are used to pursue non-business activities is generally not recoverable. This is because the legislation states that VAT on costs can only be deducted as input tax where it is incurred for business purposes.

Broadly, a non-business activity may arise where a rugby club is carrying on an activity which does not involve the making of supplies for a consideration and where there is no intention in future of doing so. An example of such an activity could be the creation and running of a youth academy.

The issues relating to non-business activity are complex, and if this is relevant to your club, we recommend specific advice be sought.

### **8.10 Overseas VAT costs**

Clubs may incur overseas VAT costs e.g., travel and hotel accommodation as a result of tours. Where the VAT is incurred within another EU country it may be possible for clubs to recover such VAT under a special refund procedure known as the 8<sup>th</sup> Directive procedure.

Subject to certain conditions, VAT incurred in EU countries can be refunded periodically provided the clubs are not registered or liable to be registered for VAT in those countries. For VAT or similar taxes incurred in non-EU countries a similar provision, known as the 13<sup>th</sup> Directive may also allow VAT recovery.

#### **8.11 Perimeter Advertising**

See Appendix 1.

#### **8.12 Property / Concessions**

If clubs opt to tax their stadium (see paragraph 19, Appendix 1), the option will generally apply to the whole site and will mean VAT must be charged on any letting income arising from the stadium e.g., advertising hoardings, concessions, shops, burger vans, health/gym clubs etc.

#### **8.13 Season Tickets**

The time of supply (tax point) for the sale of season tickets is the date payment is received (if no tax invoice has been issued previously). VAT must be accounted for on the full amount received in the VAT return covering that period.

#### **8.14 Sponsorship**

Sponsorship income is normally received in the expectation that the rugby club will have to do something in return (e.g. provide advertising, reduced price tickets, hospitality etc). VAT should be charged on any supplies of sponsorship made by the rugby club to UK persons. However, where sponsors belong outside the UK the supply may be VAT free.

It is not uncommon for sponsorship agreements to include an element of business entertainment e.g., hospitality.

#### **8.15 Travel Clubs**

If a club provides their supporters with travel facilities to away matches or tours it is possible that a system known as the Tour Operators Margin Scheme may apply. This does not apply if the rugby club acts as agent for the travel facility provider and the rugby club should account for VAT on the commission it receives. Specialist advice should be sought.

#### **8.16 Value-in-kind/Barter transactions**

A rugby club may from time to time supply goods or services “free of charge” under a “value in kind” agreement i.e., where it receives goods or services in return rather than payment. For VAT purposes this arrangement results in both parties making supplies. Where these supplies are taxable VAT must be accounted for on the full value of those supplies i.e., it is not possible to net off the VAT amounts due between the parties. Instead both parties should issue “VAT only” invoices related to the value of their individual supplies. Common examples are:

- receipt of goods in exchange for sponsorship (e.g. a sports nutrition company supplies supplements in exchange for their logo on your club shorts);
- where cars are leased in exchange for advertising services. However, special rules apply to VAT on cars and a 50% restriction applies to the recovery of the VAT cost attributed to the value of the cars provided.

#### **8.17 Youth Academies**

Youth academies and centres of excellence may be established in a legal entity which is separate from the club. As such, most of the income received by the academies e.g. funding/donations will be non-business income. Consequently, any VAT incurred by such bodies will be largely irrecoverable for example, costs incurred in building new facilities. It may be possible to mitigate irrecoverable VAT costs in relation to such projects. Specific advice should be sought.

## **9 Planning Points to Minimise Restrictions on the Recovery of Input Tax**

### **9.1 Partial exemption**

Many clubs have been faced with VAT bills and penalties, following an inspection, because they were unaware of the implications of partial exemption and the different methods of calculating it. The amounts may be substantial, particularly when VAT has been incurred on capital expenditure. The partial exemption rules are outlined in paragraph 5.1 above.

#### **9.1.1 Playing activities**

Membership subscriptions and match fees (where charged) of playing members are an exempt output (see Section 4). This means that, regardless of the level of other income, most clubs will be preparing their VAT returns on a partial exemption basis. It follows that there will be some restriction on the recovery of VAT on purchases, unless the de minimis amounts apply.

Direct attribution of expenditure solely to players' subscriptions will result in all the VAT on the expenditure being irrecoverable. This can cover items which are substantial and carry large amounts of VAT, such as mowing machines, floodlights, changing rooms, goal posts and pitch relaying. Conversely expenditure directly attributable to standard rated income eg the bar will be fully recoverable.

However, when expenditure is attributable both to players subscriptions and other income which is VATable or zero-rated, the VAT on the expenditure becomes "non-attributable" and goes into the general pot where it is pro-rated according to the relative levels of VATable and exempt income. It is usually the case that exempt income is only a small proportion of total income so that the irrecoverable VAT is considerably less than under direct attribution to players' subscriptions.

VAT officers are likely to open by suggesting that all expenditure related to playing facilities is solely attributable to players' subscriptions so that the VAT on it is totally irrecoverable. Clubs should be aware that, in many cases, it will be possible to demonstrate that such expenditure is actually non-attributable. Playing activities in most cases will also generate VATable income, either standard rated (e.g. sponsorship of shirts, admission charges, advertising boards when an option to tax has been made) or zero-rated (e.g. programmes). Even if none of these applies, clubs may try to generate VATable income by (say) letting the pitch and changing rooms to third-parties for sports days etc. (A short term let is VATable – see paragraph 8.6 above); even a non-sporting event, such as a summer fair would be better than nothing.

#### **9.1.2 Attribution**

HMRC may try to say that expenditure on playing facilities is not incurred in order to bring in income other than playing members subscriptions. This "motive" argument is not relevant, the relevant test is whether the VAT bearing costs have been used in making both taxable and exempt supplies.

Relating playing expenditure to sponsorship may depend on the terms of the sponsorship. Clubs should try to improve their position by giving the sponsor publicity in the playing activity (names and logos on shirts, flags, post protectors etc.).

The link with playing activities is reinforced when individual matches are sponsored and the package includes a mixture of benefits e.g. attendance at the match, programmes, advertising in the programme and, perhaps, a pre-match lunch.

#### **9.1.3 Cirencester RFC**

A recent VAT Tribunal has made an important decision on this issue. Cirencester RFC incurred substantial costs on building a new pitch. HMRC sought to deny the recovery of any VAT on the cost on the grounds that the expenditure related entirely to members playing activities. The club was able to show that, in making the decision to build the new

pitch, its objectives were not solely the improvement of playing facilities but also the generation of VATable income from perimeter advertising and increased gate money from improvements in the level of play. The Tribunal decided that VAT on the pitch building cost was non-attributable and should be apportioned in accordance with normal partial exemption calculations.

#### **9.1.4 Planning**

In such circumstances, it is important for clubs to be able to demonstrate their intention to generate VATable income at the time the expenditure is approved. This is because, in most circumstances, VAT on the expenditure is likely to be reclaimed before the relevant VATable income is generated. These intentions are often best demonstrated by written records such as minutes of Committee meetings, feasibility studies and any applications for grants towards the cost.

#### **9.1.5 Playing members' subscriptions**

Members who have ceased to play do not qualify for VAT exempt membership fees.

It may be helpful to reduce exempt income by introducing a differential in membership subscriptions whereby the playing members pay less than the non-playing.

#### **9.2 Timing of expenditure**

Use of the de minimis limits if the invoicing of a relatively substantial item can be split over two accounting years.

## 10 Conclusion

Given the wide ranging powers of HMRC it is important to consider the following points regularly:

- Should the rugby club be VAT registered?
- If it is not required to be VAT registered, would voluntary registration be to its advantage?
- Are you aware of the correct VAT treatment of the club's income? Is this being correctly applied?
- Where relevant, have you agreed the most beneficial method to calculate recoverable VAT?
- Are your records up to date?
- When is the next VAT return due?
- Are there sufficient funds in the current account to cover the next VAT payment?
- If the record keeping is seriously behind, ask permission from HMRC in writing to submit an estimated return rather than incur a financial penalty for the late submission of the accurate return.
- Are there any queries which should be resolved with your professional adviser?
- Do you have available expertise to challenge HMRC's grounds for making post-inspection assessments and charging penalties?

This document has been prepared in order to help you determine whether you are likely to be affected by the VAT legislation. To take full advantage of the available opportunities and avoid unnecessary pitfalls you should consider consulting a professional adviser who has VAT expertise with any relevant queries.

There may be planning opportunities available to legitimately mitigate VAT or identify possible VAT savings, other than those set out in section 9 above.

## APPENDIX 1

### RUGBY CLUB ACTIVITIES ANALYSIS

#### 1. Advertising Revenue

Letting of an advertising hoarding at a sports ground or on perimeter fencing is exempt from VAT. However, it is possible to opt to charge VAT on exempt lettings. This taxation option is covered in more detail below (paragraph 19). Advertising on a notice board or wall display is always standard rated as is advertising space provided in club programmes, magazines and posters.

#### 2. Bar Sales

Alcoholic beverages, soft drinks, tobacco, crisps and nuts are all standard rated and if you sell sandwiches or other food at the bar to be eaten on the premises or at the ground these will also be standard rated. No VAT is due on tips for the staff when these are at the discretion of customers.

#### 3. Coaching and Course Fees

The provision of coaching or refereeing services is standard rated.

#### 4. Competition Fees

Other income received from entrance in a sporting competition is standard rated unless all the competition fees are returned to the entrants as prizes (money, goods or trophies), in which case the income is exempt from VAT. It is necessary to be careful as this may not be the case if the entrant is given free use of a facility for which there is normally a charge.

#### 5. Donations and Grants

When an individual or a business gives a grant, donation or award, you do not have to declare VAT on the income if it is freely given and the person donating receives no benefit in return. This income is outside the scope of VAT. A one line credit in a sporting programme would not qualify as a benefit; however, if the donor receives other publicity or advertising in return, VAT should be declared on the income (see under "Sponsorship").

Grants from bodies such as Sport England or UK Sport are normally outside the scope of VAT provided the grantor receives nothing in return other than perhaps an acknowledgement for making the grant. Donations and grants are usually outside the scope of VAT even if the person making the donation or grant has a nominal say in how the money will be spent. See also paragraph 8.7.

#### 6. Eligible bodies

When a club is an "eligible body" membership subscriptions and match fees charged to playing members are an exempt supply for VAT. The term "eligible body" applies to most rugby clubs because their principal purpose is not to be profit-making.

#### 7. Gaming and Amusement Machines

The takings from gaming machines (fruit machines, video games, juke boxes and other coin or token operated amusement machines) or games of skill have been treated as standard rated. However, takings from games of chance are exempt (for example pool betting). A licence is needed to operate certain machines and you should seek guidance from the local HMRC office or your professional adviser.

If you receive payment from a machine owner (either a fixed amount or a share of profits) in return for allowing him to site his machine on your premises, that income will be standard rated.

**8. Gate Money and Royalties**

The fees you charge for entry to a match are standard rated, as are shares of gate receipts from an away game in the UK (including the Isle of Man but excluding the Channel Islands) and royalty income you receive from a UK based television company for broadcasting from your own ground.

**9. Interest and Insurance Commission**

If earned, income received from money deposited with banks or building societies is exempt from VAT as are insurance or affinity card commissions received. However, in a rugby club interest income is usually classed as 'incidental' which means it can be excluded in any partial exemption calculation.

**10. Letting of Rooms and Provision of Catering**

Charges for letting a room for the purposes of a meeting, seminar or conference are exempt from VAT. However, if catering services are also supplied the catering element should be separately identified on the invoice and VAT should be charged on it. It is possible to opt to charge VAT on lettings and this is covered in the section on the "Taxation Option" (see paragraph 19 below).

Please note that the letting of facilities for playing sport is subject to a compulsory VAT charge. The letting will only be exempt from VAT if:

- the let is over 24 hours; or
- there is a series of 10 lets to a school, club, association or an organisation representing affiliated clubs or constituent associations (and the other conditions set out in Section 8.6 above are met ); and
- the rugby club has not opted to charge VAT.

The provision of meals (hot or cold and including drinks) for consumption on the premises to club visitors is always standard rated. Cold take-away food is zero-rated. However, for this purpose, food and drink is not deemed to have been taken away when it is consumed within the rugby ground where it is purchased.

**11. Lotteries**

Charges to take part in lotteries and raffles or games where prizes are awarded by chance and no element of skill is required by participants are exempt from VAT. Lottery funding grants are outside the scope of VAT.

**12. Membership subscriptions**

Membership subscriptions are standard rated, with the one major exception being playing members, which are exempt.

**13. Overseas Tours**

If the rugby club tours outside the UK the income received in respect of sports appearances is outside the scope of UK VAT. For VAT purposes, the Isle of Man is part of the UK but the Irish Republic and the Channel Islands are not. If the rugby club receives income from overseas touring it may have a liability to register and pay local VAT in the host country. If in doubt you should check the local tax regulations with your professional advisers.

It may also be possible under certain circumstances to claim repayment of local VAT /sales taxes on hotel bills etc. If this applies to you, it is recommended that you seek professional advice from one of the agencies specialising in such recoveries.

**14. Programmes and Fixture Cards**

Fixture cards and programmes are zero-rated when the portion for completion of results etc. is not more than 25% of the total area, otherwise they are standard rated.

**15. Renting or Leasing Out Premises**

If the rugby club has spare office capacity or a property which it lets out for investment purposes the rent or lease payments received in respect of those premises is normally exempt from VAT. It is possible to opt to tax these (see paragraph 19 on the “taxation option”).

**16. Sales of Assets**

Proceeds from the sale of rugby club assets such as a pool table or a computer are normally standard rated.

**17. Shop Sales**

Sales of sports equipment, clothing, souvenirs, hot food, sweets and soft drinks are all standard rated but books, newspapers, children’s clothing (including kit) and cold take-away food are zero-rated (provided the food is not consumed in the rugby ground where it was sold).

If the rugby club sells both standard and zero-rated goods you should record the sales separately as you need only declare VAT to HMRC on the standard rated sales. Where the volume of sales means that a detailed record is unworkable you should consult with your local VAT office or professional adviser as to how best to calculate the VAT due.

Clubs may consider introducing retail schemes to establish the VAT liability to HMRC on retail sales from its shop. Whilst retail schemes are simplifications for VAT accounting purposes they can, in some circumstances, potentially achieve VAT savings or cash flow benefits.

**18. Sponsorship**

Sponsorship is standard rated income for VAT purposes when it is received in return for a supply (e.g. advertising in a programme). Often a rugby team will agree to wear a product name on a team shirt or feature publicity in a sporting programme for a business or products. To decide if income is sponsorship income, a rugby club should consider if a supply or benefit is given in return. VAT will also be due if someone gives you goods or services (e.g. team strips or equipment) in return for advertising or other benefits.

If a sponsorship package covers a number of separate supplies (tickets, meals and drinks, perimeter advertising boards etc.) it is possible that VAT will not be due on the total value. For example a perimeter advertising board can be exempt subject to the option to tax (see paragraph 19 below).

This will benefit those customers which are unable to recover all of the VAT the rugby club will charge, i.e. those that receive the package for business entertainment and those which are partly exempt. Since such customers will often only pay you a total sum inclusive of VAT you may benefit from carefully reviewing what you provide to see whether any elements are eligible for VAT relief. In all cases it is worth analysing the various elements of the sponsorship package to determine the correct VAT treatment.

If sponsors are VAT registered the rugby club will be required to issue a tax invoice identifying the VAT being charged so the sponsor can reclaim this from HMRC where applicable.

**19. Taxation Option**

It is possible to opt to charge VAT on land and commercial lettings which would otherwise be exempt from VAT by exercising the “option to tax”. It should be noted that the option to tax cannot be used in respect of domestic/residential accommodation or accommodation which is used by a charity for a “non-business” purpose. The advantage of opting to tax is that if the income is standard rated rather than exempt, VAT on connected costs can be recovered (see ‘Categories of income’). However, once the option to tax has been taken up it is irrevocable for 20 years and must apply

to all future lettings or sales of the whole or any part of the property. It is recommended that you seek professional advice before electing to take up the taxation option as property transactions are governed by some of the most complex aspects of VAT legislation. For example, the option to tax can be disappplied in relation to certain supplies if the development is funded and occupied by a business using it for mainly VAT exempt purposes. In addition, valuation can be an important factor where the supply is made to a connected person and inducements and rent free periods can also crystallise a VAT liability.

To opt to tax you need to notify the National Option to Tax Unit, based in Glasgow, in writing. If you have already made VAT exempt supplies in respect of the property you will need to seek permission from HMRC. Where a rugby club opts to tax its stadium the option covers the stadium and immediately surrounding land. Therefore, a bar or shop franchise within the stadium perimeter will also be subject to the option.

**20. Telephones**

Telephone service providers, such as British Telecom, are responsible for the VAT on supplies made from many of the old coin-operated telephones which clubs rent from them. But if the rental is of one of the style of installations such as Payphone 100, 300 or 500, the money removed is for the club's supply to the public and VAT should be accounted for on the takings.

**21. Vending Machines**

Vending machine sales of items such as hot drinks, soft drinks, sweets, crisps etc are standard rated. If you receive payment from a vending machine owner (either a fixed amount or a share of profits) in return for allowing him to site his machine on your premises, that income will be standard rated.

## APPENDIX 2

### VAT RETURN FORMAT

Box 1	VAT due on Sales
Box 2	VAT due on EU Acquisitions
Box 3	Total VAT due to HMRC
Box 4	VAT on Purchases
Box 5	Net VAT due to HMRC
Box 6	Net Sales
Box 7	Net Purchases
Box 8	Value of EU Sales
Box 9	Value of EU Purchases

## **APPENDIX 3**

### **Services purchased from outside of the UK**

Services supplied where received (“Reverse charge” services). Where services are supplied by a UK rugby club to a business outside the UK they are outside the scope of VAT. Where these services are bought in from outside the UK, the rugby club must, if registered, self assess UK VAT using the reverse charge. If the club is not VAT registered then the value of the purchases counts towards the VAT registration limit.

The way the reverse charge works is simply that VAT at the appropriate rate is calculated on the value of the purchase. This VAT is shown as if it was VAT on a sale by the club, and also as if it was VAT on a purchase from a UK supplier. If the purchase related to something on which VAT would be fully recoverable, it is claimed back so this is little more than a paper exercise.

But, if it related to something used in making an exempt supply, e.g. sports consultancy, the VAT that the club has had to charge itself would be either fully or partly irrecoverable. In other words this provision prevents a partly exempt club from avoiding VAT it cannot reclaim simply by shopping abroad.

The reverse charge provision does not apply to the following supplies of services:

1. Cultural, artistic, sporting, scientific, educational and entertainment services. These are seen as being supplied where they are performed.
2. Land related services. These are seen as being supplied where the land in question is situated.
3. Hire of means of transport. Short term hire of a means of transport is not covered by the reverse charge and supplied where the vehicle is put at the customer’s disposal.
4. Restaurant and catering services. These are supplied where they are performed.

A problem may arise in that where a service which is subject to the reverse charge is supplied by a business in another EU country to a business in the UK, the overseas business should not charge you VAT in their country, because the UK business will be accounting for UK VAT using the reverse charge.

But, if the UK club is not able to provide its overseas supplier with a UK VAT registration number, it is likely to be charged overseas VAT which it cannot recover.