

VAT

Questions & Answers for Club Treasurers

The purpose of this document is to assist Gliding Club Treasurers with some of the features and common pitfalls of Value Added Tax as it affects our sport.

We all think we have some idea of the operation of VAT. Much of the rest of our knowledge is “handed down” by our predecessor or we try to copy what was done before. This mechanism unfortunately perpetuates many myths and mysteries.

Disclaimer

Neither the author of this document nor the British Gliding Association is qualified or insured to give tax advice. Guidance is given here in general terms. Should the reader be persuaded to take some course of action (or inaction) as a result of any statement herein they should take appropriate professional advice so far as they may not be absolutely certain of the legal position.

Please advise any errors, misstatements or corrections to the BGA Treasurer.

Common Questions...

[What do I need to know about VAT?](#)

[Should we register for VAT?](#)

[Please explain “Partial Exemption” and what input tax can be recovered.](#)

[What pitfalls are there regarding corporate days, trial lesson customers and visiting pilots?](#)

[What should I know about buying or disposing aircraft and equipment?](#)

[Should we deregister for VAT?](#)

VAT: Questions & Answers for Treasurers

Q: What do I need to know about VAT?

A: The first thing that you need to know about VAT is that there are significant escalating penalties for getting it wrong – even if the errors are in HMRC's favour.

The body of VAT legislation is large and complex so it is unlikely that the average person will have sufficient knowledge of the rules to be able to undertake even the simplest accounting tasks for a VAT Registered club.

If you are new to VAT then you may be able to pick up some of the basics from what has been done by your predecessor. Do this with caution as they may not have been doing things correctly! If you have professional advisers then they may be a source of information and advice.

In order to understand the basics of VAT then there is really no short cut do studying the rules. A primary source of information is the [VAT Guide](#) published by HMRC.

Introductory information can be found in [Notice 700/15 The Ins and Outs of VAT](#) and [Notice 700/21 Keeping records and accounts](#).

If you find this all too soporific then a number of training centres run day courses which cover the basics.

This note assumes that you have an understanding of the basics of VAT and is primarily intended to explain special rules of VAT affecting gliding and, particularly, areas of common mistake.

The VAT Notices:

- [Sport](#) explains how the provision of sporting services is exempt from VAT.
- [Partial Exemption](#) covers the rules where you supply goods or taxable services in addition to exempt sporting services.
- Additionally the Notices [Buildings and construction](#) and [Capital Goods scheme](#) may be relevant if you are buying or selling land, buildings or expensive aircraft.

Q: Should we Register for VAT?

A: It is compulsory for individuals and organisations to [Register for VAT](#) if their Taxable Turnover (sales) exceeds or is expected to exceed the [Registration Threshold](#). There is a very short time limit by which you need to apply for registration and penalties apply for failure to do so.

It should be noted that the provision of **sports services is Exempt from VAT and therefore should be excluded** when working out your total Taxable supplies.

In certain circumstances it may be advantageous for you to register voluntarily if your supplies are less than the compulsory threshold. This will be if you carry out (for example) trial lessons for agencies who require a VAT Invoice or where you have outputs which are zero or lower VAT rated (publications, agricultural produce) and you wish to recover the VAT on the standard rated inputs relating to these sales.

Q: Please explain "Partial Exemption" and what input tax can be recovered

A: It is a common mistake that sports clubs apply the partial exemption calculation much too widely to the goods and services they purchase.

The provision of sports (gliding) services is exempt from VAT so that normally you cannot recover any VAT whatsoever on your purchases of equipment, fuel, maintenance and other goods and services exclusively incurred for the exempt activity.

Only sports *services* are exempt – the supply of goods (sports equipment etc.) is taxable.

If you have a bar, canteen, shop selling sports goods or other taxable supplies then you can recover 100% of your input tax on purchases exclusively related to these activities.

Sometimes it may be difficult to allocate purchases between your exempt sales and your taxable sales. In this case you can use the calculation explained in VAT Notice [Partial Exemption](#) to calculate the recoverable fraction of your input VAT.

This may occur where, for example

- where some income from your flying fees is taxable such as where the sports participant is not a club member (or is a short term membership category of less than 3 months)
- you have heating or other bills for a club house which also incorporates a bar or canteen.

The Partial Exemption fraction applies only to purchases.

Sales are either wholly exempt or wholly taxable. The only exception to this is where there is a compound supply where for instance a membership subscription might include a "free" magazine. If you have recovered any VAT whatsoever (even a very small fraction under the Partial Exemption calculation) when you buy an aircraft or other capital equipment then you must charge Standard Rate VAT in full on the value when you sell the asset or de-register for VAT.

Q: What pitfalls are there regarding corporate days, trial lesson customers and visiting pilots?

A: One of the [conditions](#) which qualify a non-profit making club to provide a sports service as being exempt from VAT is that:

"It supplies services to an individual, except, where the body operates a membership scheme, an individual who is not a member"

A problem that clubs face with this is that a "member" is defined as a person "whose membership is for at least three months" so that day members such as trial lesson customers or visiting pilots from other clubs are classified as being chargeable to VAT on their flying fees and other payments.

Many clubs offer 3 months membership (from the date of flight) inclusive with trial lesson fees to motivate visitors to return for further pilot training. This practice would seem to meet the 3 month requirement and so avoid the need to charge VAT.

In the same way, the provision of not less than 3 month "free" reciprocal membership to visiting pilots from other clubs should be considered.

In the absence of a "free" reciprocal membership agreement with the other club then such pilots would be asked to pay a daily fee in addition to their flying fees for the provision of those sports services which would normally be covered by a full membership subscription.

Individuals, works outings, hosted BGA courses and the like...

VAT Law has recently been corrected to conform to European Law (after the Canterbury Hockey Club [judgement](#)) so that it is now possible for a corporate body to purchase exempt sporting services from a club provided that "the true beneficiaries are individuals taking part in sport". The beneficiaries would of course, also have to qualify as 3 month "members" for the exemption to be permitted.

Q: What should I know about buying or disposing aircraft and equipment?

A: A club will normally have to pay Standard Rate VAT to the supplier when purchasing a sports asset (aircraft or other flying related equipment) unless they are purchasing it from a private individual, an unregistered club or where it is purchased from another club who have already accounted for it as a wholly exempt asset.

The club purchasing the asset may intend to use it for wholly exempt purposes and will therefore not be able to recover any of the "Input" VAT paid.

The club may intend to use the asset partly for exempt sporting purposes and partly for taxable supplies (such as for trial lessons taken by "under 3 month" temporary and non-members or let out for commercial hire). In this event the club can optionally recover a fraction of the Input VAT under the [Partial Exemption](#) rules.

When you come to sell the asset or if you deregister for VAT you will have to account to HMRC for the full amount of standard rate VAT on the whole of the proceeds (or valuation on deregistration) of the asset if you have recovered any of the VAT on the original purchase.

For example if you sell an asset for £30,000 you will need to pay £5,000 VAT to HMRC (VAT Rate 20%) even although you may only have recovered an exempt fraction of a few hundred Pounds on the original purchase.

If you wish to dispose of the asset and not charge VAT on the proceeds then you have to demonstrate that you did not recover any VAT on the original purchase. For this reason it is essential to retain the purchase invoice, accounting records and/or other documentary evidence that no VAT was reclaimed.

In the event that you did recover a fraction of the Input VAT (or all of it in the toothbrush era) and the amount recovered is less than the Output VAT on the proposed disposal then you could review the usage of the asset or decide that for whatever reason your original claim was an accounting error and repay the VAT using the [VAT Return corrections procedure](#).

Alternatively under the VAT Capital Goods Scheme it may be possible to [change the usage classification](#) of an aircraft to being fully exempt (repaying the VAT previously claimed) where the change of use takes place on or after 1 January 2011 and the aircraft has been purchased within 10 years and at a cost at least £50,000.

When calculating the amounts for a VAT Return period (and the Annual Adjustment) which includes a purchase or disposal of an asset, you should remember to include the VAT relating to the asset in the VAT figures. However you must exclude the goods value of the asset when calculating the Exempt Fraction so as not to distort that fraction.

Q: Should we deregister for VAT?

A: Clubs may voluntarily cancel their VAT Registration if their Taxable Supplies (sales excluding exempt services) fall below the [deregistration threshold](#).

If clubs cease making taxable supplies (continuing only to supply exempt services) then cancelling Registration is compulsory.

The [de-registration process](#) is usually simple. You notify HMRC using Form [VAT 7](#). Once they have confirmed the date of the cancellation of your VAT Registration you complete your final VAT Return up to that date.

Your final VAT Return will account for your Inputs and Output VAT as usual but calculated in the same way as your [Annual Adjustment](#) (i.e. covering the period from the date of your last Annual Adjustment up to the date of cancelling your registration less any VAT already accounted for).

Additionally you need to account for VAT on your stocks of goods for resale, stocks of consumables (fuel etc.) and your capital assets as though your VAT Registered self had sold these items (at cost or valuation) to your VAT unregistered self at the point of the cancellation of Registration. There is a deminimis that if the VAT payable on the stocks and assets is less than £1,000 then they need not be included on the Return. See [here](#) for further information.

The single biggest problem facing clubs will probably be accounting for VAT on their capital assets which is discussed [here](#).

Please send any comments or queries to treasurer@gliding.co.uk