

Leeds Sports Trust – VAT calculation – background information

	Lawrence Graham appraisal	LCC reassessment
VAT savings	439,864	161,147(worst case)* 599,489(best case)*

*These figures are still subject to amendment due to outstanding queries on:

- Leasing charges
- Level of internal costs to be re-allocated (on 442)
- Allocation of overhead costs to bars & catering
- Confirmation of current status of some income sources (Bodyline, room & equipment lettings)
- Status of some sources of income /costs i.e. will they continue, will they be proper to the Trust?

VAT considerations

- The VAT saving is subject to a number of variable factors. The saving which is achieved by converting admission charges subject to VAT at 17.5% into charges which are exempt from VAT has to be offset by the cost of irrecoverable VAT incurred on expenditure relating to the exempt charges.
- Even though currently some of the income received by Learning & Leisure is already exempt, irrecoverable VAT on the related expenditure does not arise within the Council, due to the Council's status for VAT purposes. This status will not apply to the Trust and therefore irrecoverable VAT becomes a new cost.
- The difference between the worst and best case scenarios above is due to the calculation to determine the recovery rate which is applied to the VAT on the estimated expenditure by the Trust in a year. The calculation involves a number of variable elements and will therefore mean that the amount of recoverable VAT will fluctuate.
- The factor which will improve the Trust's ability to recover VAT on expenditure from the worst case scenario to the best case scenario is the nature of the funding between the Council and the Trust.
- If the funding comprises a management fee from the Trust to the Council on which VAT at 17.5% is charged, this improves the % recovery rate applied to the VAT on expenditure.
- The best case scenario assumes a management fee of £8m plus VAT of £1.4m which will be charged by the Trust to the Council. The Council should be able to recover the £1.4m VAT charged as part of the VAT on the Council's overhead expenditure.
- The basis for the management fee must be clearly described and the obligations between the parties defined within the contract for the funding between the Council and the Trust.

- Provided the nature of the service for which the management fee is paid comprises the Trust undertaking to continue the Council's ethos of providing affordable access to sports amenities, this should not impact adversely on procurement considerations.
- When new arrangements involving new supplies are entered into, it is prudent to obtain a ruling from HMRC that they are in agreement with the analysis of the VAT liability and the method of VAT recovery. This minimises the risk of HMRC assessing either the Council or the Trust for tax they may consider due.
- It is always possible that there could be a change in policy or legislation that will affect the VAT position of the Trust or the Council, but provided HMRC have agreed the treatment of transactions at the outset, they should not be able to take any retrospective action to assess for VAT.