

REPORT TO Cabinet
Urgency Committee

DATE: **19 October 2005**
20 October 2005

REPORTING OFFICER: Director of Resources (John Sowden)

SUBJECT: **VAT EXEMPT LIMIT**

WARD/S AFFECTED: N/A

FORWARD PLAN REF: N/A

1.0 PURPOSE OF REPORT

1.1 The Council is able to recover VAT on exempt activities within tight limits. The purpose of this report is to give delegated authority to the Cabinet Member (Resources) to alter capital spending profiles if this is necessary to seek to avoid loss of VAT recovery.

2.0 RECOMMENDATION

2.1 That the Cabinet Member Resources is given delegated authority to approve variations to capital spending profiles in advance of detailed budgets being agreed by Council.

3.0 RECOMMENDED REASON FOR DECISION/S

3.1 To seek to avoid loss of recoverable VAT.

4.0 ALTERNATIVE OPTIONS CONSIDERED AND RECOMMENDED FOR REJECTION

4.1 Not to give this delegated authority which would increase the risk of loss of VAT.

5.0 BACKGROUND INFORMATION

5.1 Within limits, the Council is able to recover VAT paid on supplies in relation to exempt activities (ie where it does not have to charge VAT on income received). Good examples are swimming tuition and cremation fees. This is a bonus and is not available to other types of organisation. However, the amount of VAT on exempt activities we can reclaim is limited to 5% of total VAT input tax recovered. Typically for the Council this is around £4m pa leaving around £200,000 of recoverable exempt VAT paid. If the total exempt VAT paid reaches £200,001 then none of it is recoverable ie a cliff edge position.

5.2 For many years this calculation has been a close run thing and is therefore tightly managed and below is an example of the final 2004-05 calculation:

VAT DE MINIMIS CALCULATION 2004-05

	VAT	Base Spend (Exc VAT)
	£	£
Total Base Spend	<u>4,236,305</u>	<u>24,207,457</u>
Allowable Exempt Amounts (5%)	211,815	1,210,373
Less Exempt VAT/Expenditure	<u>187,445</u>	<u>1,071,116*</u>
Safety Margin	<u>24,370</u>	<u>139,257</u>
% Exempt divided by Limit	4.42	4.42

* Exempt expenditure spend figure includes £838,890 revenue and £232,226 capital

5.3 Projections for the next 2 to 3 years show that there is an enhanced risk of the exemption limit being breached, especially if the project at the Crematorium to deal with mercury emissions is progressed. This risk could be somewhat mitigated if the Cabinet Member for Resources was given the delegated authority requested. The most likely action would be to bring forward or defer vehicle replacement from within long-term programmes.

Background Papers:

OFFICER CONTACT: Please contact John Sowden if you require any further information on the contents of this report. The officer can be contacted at Crescent Gardens by telephone on 01423 556121 or by email fm01@harrogate.gov.uk

SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS

		Implications are		
		Positive	Neutral	Negative
A	Economy			
B	Environment			
C	Social Equity			
(i)	General			
(ii)	Customer Care/People with Disabilities			
(iii)	Health Implications			
D	Crime and Disorder Implications			

If all comments lie within the shaded areas, the proposal is sustainable.