

## FP 121 : VAT Report

Our previous auditors advised in 2007 that the Priory Charity needed to be registered separately for VAT purposes.

HMRC believe the separate VAT registration they demanded in their 2007 audit note was in fact incorrect and that the Charity should have remained on the Council's VAT registration from 2007 to 2020.

Since 2007 the VAT legislation relating to Charities and Councils has changed and also the way in which the organisations interacted has changed this meant the structure and their relationship needed to be reviewed.

When the Priory Charity purchased a new Multi Use Games Area in December 2019 for use of the people of Ware this was flagged up as a query by HMRC as the new VAT legislation relating to Charities and Town Councils meant that the purchase should have been made by Ware Town Council so this was an error and the VAT should not have been reclaimed by the Priory Charity.

Having a separate VAT registration has meant that the application of section 33 VAT refund rules do not apply to the Charity and it needed to be assessed for all VAT incurred on non business activities over the last four years.

Following the review by HMRC going back for a period of 16 quarters (four years) it was agreed that the Priory Charity had to repay the VAT balance reclaimed on the Multi Use Games area plus an average amount for each quarter that had been reclaimed by the Priory Charity during the four year period.

Once this figure for the balance plus interest was agreed with HMRC the Priory Charity repaid the VAT reclaimed in error plus an interest charge confirmed by HMRC and completed a V652 form on behalf of Ware Town Council.

This meant due to the relationship between the two entities the VAT reclaimed and now repaid by the Priory Charity would be repaid by HMRC to Ware Town Council as the purchase of the Multi Use Games Area should have been made by Ware Town Council and not the Priory Charity.

These issues have now been resolved with the new way in which the organisations are structured predominantly Ware Town Council will be responsible for all purchases relating to the community and Council related activities.

This has been advised as the correct process by both our Auditors and HMRC.

We will continue to review this annually with the auditors to ensure we are following the correct VAT legislation moving forwards.