

**General Meeting
21st November 2019**

Registering ADEPT for VAT

Summary/Recommendation

The Leadership Team recommends members note that:

- It has reviewed the need for the Association to register for VAT.
- With a growing membership and additional income streams, it is very likely the Association will overshoot the VAT threshold of taxable turnover.
- It has agreed that the Association is registered for VAT as soon as possible.

1. Background

Currently ADEPT is not registered for VAT. This is because income generated by subscriptions is VAT exempt and current turnover does not reach the £85,000 VAT threshold of taxable turnover in any consecutive 12-month period. However, over the past two years ADEPT has established some additional income streams (e.g. the Leadership Development Programme, partnership with Proving Services) that may make registering for VAT necessary, or advantageous to do so, within the next 12 months.

It is possible to register for VAT even if your taxable turnover is less than £85,000 and to claim back any VAT incurred on taxable purchases. Historically, ADEPT has not had much taxable income so there was no substantive benefit in registering for VAT.

The Leadership Team asked the Finance Officer to review whether it would be advantageous for ADEPT to register for VAT now or in the near future.

2. Current budgets

The current 2019/20 budgeted income of £413k is broken down as follows:

<i>Subscriptions</i>	<i>£212k (out of scope for VAT)</i>
Live Labs project management	£50k
Proving Partnership	£19k
Leadership Dev't Programme	£42k
Event sponsorship	£90k (currently most of this income is routed via Aldercross)
TOTAL	£201k

This illustrates that if ADEPT does achieve all the above taxable income, at some point in this financial year ADEPT will overshoot the £85k threshold and need to register for VAT.

If ADEPT did register for VAT, then there would be potential to claim some of the input VAT based on a percentage of the taxable turnover. This could result in a monetary value of estimated potential £16k of recoverable VAT currently costed to expenditure. This is based on the following figures and excludes any events income.

Total turnover £322,753 divided by £110,750 taxable turnover = 34%

VAT of £49,000 on taxable expenditure of £245,424 = £16,800 (34%) input VAT to reclaim.

If more event sponsorship income is routed through ADEPT (which is likely now that Aldercross has confirmed that it will cease trading in December 2020), then the reclaim VAT figure could be higher. There may be a perception advantage from registering for VAT too; as an indicator that ADEPT is growing.

The disadvantages of registering for VAT are outlined below:

- 1) If the above turnover figures are not achieved then the percentage of VAT claimed could reduce.
- 2) There is an additional resource cost as extra paperwork and administration is unavoidable.
- 3) HMRC could visit for an inspection at any time.
- 4) VAT payments may create cash flow issues as VAT may be needed to be paid prior to being paid by customer. However, this can be mitigated by requesting to use the cash accounting scheme for small businesses (where we would only pay the VAT to HMRC when we have been paid the VAT by the customer, therefore not creating a cash flow issue).
- 5) HMRC will not agree to any method of calculating VAT so there is a risk of using the percentage method. However, this is mitigated as ADEPT already has tax insurance cover which would cover any legal challenge by HMRC on the method used.

Summary

The Leadership Team accepted the recommendation to register the Association for VAT with immediate effect, and to route all the sponsorship money from events through ADEPT to maximise the VAT percentage.

Hannah Bartram / June Meadows

Chief Operating Officer / Finance Officer

8 November 2019