



## **VAT: power to provide for refunds to certain persons**

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### **Who is likely to be affected?**

Named public bodies which enter into shared service arrangements, where a funding agreement exists with HM Treasury.

### **General description of the measure**

This measure will create a new section 33E of the Value Added Tax Act 1994 (VATA), which will refund to named non-departmental public bodies, and similar public bodies, the VAT incurred as a part of shared services arrangements used to support their non-business activities. Ordinarily VAT can only be recovered on purchases made to support a person's taxable business activities.

### **Policy objective**

The measure will ensure that what would otherwise be irrecoverable VAT does not deter public bodies from sharing back-office services, where this would otherwise result in greater efficiencies of scale.

### **Background to the measure**

The overall policy is for public bodies to enter into shared services arrangements. Where this happens the body or bodies providing services to the others engages in a business activity for VAT purposes, just as any supplier of this type of service does, and VAT is charged to the purchasers of the services. To date these services have mainly been in the fields of HR, recruitment and training, and IT services.

Government departments and NHS bodies recover the VAT incurred on certain outsourced services purchased for their statutory, non-business purposes. This is under section 41(3) of VATA. The eligible services are listed in a Treasury direction, and they include the type of service common to shared services arrangements. Local government bodies recover VAT under section 33 VATA.

There has been no provision to refund VAT to non-departmental public bodies sharing services with their parent department or between themselves. Many such bodies are not engaged in business activities which would allow the recovery of VAT under the normal VAT provisions. With the expected wider take-up of shared services, the Government wishes to ensure that these bodies are not at a VAT disadvantage when they enter into such arrangements. Because of competition issues, this will also include situations where they procure an eligible service directly from a private sector provider.

### **Detailed proposal**

#### **Operative date**

This measure will have effect from the date of Royal Assent to Finance Bill 2015.

#### **Current law**

There are no special provisions in VAT legislation concerning the VAT incurred by non-departmental public bodies, and similar bodies, on the goods and services they purchase. However, due to their nature, a few such bodies do currently benefit from the existing VAT refund provisions in VATA.

## Proposed revisions

A new section 33E VATA will refund VAT incurred by named bodies on goods and services purchased, and goods imported or acquired, for their non-business purposes. Before a body can be named, it (or its parent department) must have entered into an agreement with HM Treasury to adjust the overall level of its public funding to take into account the VAT that will be recoverable. This is because such funding includes tax liabilities.

Because it will not be possible to name bodies in primary legislation as and when such agreements are made with HM Treasury, the measure contains a power to make Treasury Orders to name the bodies. While it is expected that most bodies will be non-departmental public bodies, the measure is not limited to them as there are other types of arms-length public body that may qualify.

It is considered sensible for these bodies to have the same level of VAT recovery as is available to government departments under section 41(3) VATA. Consequently, the Treasury direction made under that provision, which lists the eligible services upon which VAT can be recovered, will also become the direction made for the same purpose under this measure.

In common with government departments, eligible bodies will have a shorter period in which to claim a refund.

## Summary of impacts

<b>Exchequer impact (£m)</b>	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	nil	nil	nil	nil	nil
	The measure is not expected to have an Exchequer impact.					
<b>Economic impact</b>	The measure is not expected to have any economic impact.					
<b>Impact on individuals, households and families</b>	The measure is not expected to have any impact on individuals as it concerns the funding of public bodies. The measure is not expected to impact on family formation, stability or breakdown.					
<b>Equalities impacts</b>	The measure is not expected to have any equalities impact.					
<b>Impact on business including civil society organisations</b>	This measure is expected to have no impact on businesses. It will only impact on certain public bodies which enter into shared service arrangements.					
<b>Operational impact (£m) (HMRC or other)</b>	There will be no significant operational impact.					
<b>Other impacts</b>	Other impacts have been considered and none have been identified.					

**Monitoring and evaluation**

This measure will be monitored through information collected in tax returns and through communication with the affected taxpayer group.

**Further advice**

If you have any questions about this change, please contact Graham Spencer on 03000 585822 (email: [graham.spencer@hmrc.gsi.gov.uk](mailto:graham.spencer@hmrc.gsi.gov.uk)).