

Summary: Intervention & Options

Department /Agency: HM Revenue & Customs	Title: Impact Assessment of the policy change on the VAT treatment of sports affiliation fees	
Stage: Final	Version: 1	Date: 15 March 2010
Related Publications: None		

Available to view or download at:

<http://www.>

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What is the problem under consideration? Why is government intervention necessary?

Certain supplies of sports-related services are exempt from VAT when supplied to persons taking part in sport. Currently, in the UK some affiliation fees charged to clubs by sports governing bodies are taxed because they are not supplied directly to the persons actually taking part in the relevant sports. The ECJ has ruled however that all these fees qualify for VAT exemption if the true beneficiaries are persons taking part in sport, even where the supply may be to a body such as an unincorporated members association or a corporate person such as a limited company. (The exemption is subject to other existing conditions such as being made by a non-profit making organisation and being closely linked and essential to sport).

What are the policy objectives and the intended effects?

The objective is to bring UK policy in line with the ECJ ruling and in doing that provide those affected with an appropriate lead-in time to make the changes. We are announcing the change now with an implementation date of 1 September 2010 following consultation with those affected. As a result of the change some sports-related services (currently taxed) will become exempt where the 'true beneficiaries' are persons taking part in sport. This will apply to most sports affiliation fees currently treated as liable to VAT. Supplies to commercial profit-making bodies do not meet the true beneficiary test and will continue to be liable to VAT.

What policy options have been considered? Please justify any preferred option.

1. Do nothing - not an option because of the ECJ decision - Case C-253/07 Canterbury Hockey Club, Canterbury Ladies Hockey Club. Failure to make a change will leave the UK open to infraction proceedings.
2. Change policy - this is the only option since the decision of the ECJ is binding on the UK.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

3 years after implementation.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the impact assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs'

Signed by the responsible Minister:



Date: 15 March 2010

Summary: Analysis & Evidence

Policy Option: 2	Description: Policy change to the VAT treatment of sports affiliation fees
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' Businesses will need to spend time familiarising themselves with the changes. Some businesses may be required to carry out partial exemption calculations when preparing their VAT returns.
	One-off (Transition)	Yrs	
	£ 25,000	1	
	Average Annual Cost (excluding one-off)		
	£ 80,000	5	
Total Cost (PV)			£ 400,000
Other key non-monetised costs by 'main affected groups' None			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' None
	One-off	Yrs	
	£ Neg		
	Average Annual Benefit (excluding one-off)		
	£ Neg		
Total Benefit (PV)			Neg
Other key non-monetised benefits by 'main affected groups' It is possible that some sports governing bodies may cease to be liable to register for VAT as a result of the changes.			

Key Assumptions/Sensitivities/Risks

The changes will affect around 275 sports national governing bodies and county associations that are registered for VAT and on average will lead to a small increase in the amount of irrecoverable VAT they incur.

Price Base Year 2010	Time Period Years 5	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ -400,000
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What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	1 September 2010			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£0			
Does enforcement comply with Hampton principles?	N/A			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£ N/A			
What is the value of changes in greenhouse gas emissions?	£ N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of	£ 70,000	Decrease of	£
Net Impact			£ 70,000

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

Overview

The VAT exemption for supplies closely linked and essential to sport is to be extended to supplies made to corporate bodies and unincorporated associations, where the true beneficiaries are persons taking part in sport and the current conditions of the exemption are met.

HMRC's current policy is that the exemption applies to affiliation fees charged by sports governing bodies where the fee is calculated on a per person basis. If the fee is calculated on a different basis, for example according to the size of the club or number of teams fielded, the fee does not fall within the exemption and in most cases is liable to the standard rate of VAT. This is because it is considered the supply is not made to, or by reference to, the individual.

However, the ECJ has decided in the case of the Canterbury Hockey Clubs C-253/07 that, in the context of persons taking part in sport, the exemption includes supplies of services closely linked and essential to sport to corporate persons (e.g. limited companies) and unincorporated associations made by non-profit making organisations provided the true beneficiaries are persons taking part in sport.

Issue

The decision of the ECJ was in the context of affiliation fees charged by sports governing bodies to member clubs. Whilst other sports supplies to corporate persons or unincorporated associations may be affected where the true beneficiaries are persons taking part in sport, it is thought that the changes will mainly impact on affiliation fees charged by sports governing bodies and county level bodies for sports with a regional structure. With effect from 1 September 2010 HMRC policy will change to give effect to the decision of the ECJ.

Impact

The main group affected by the changes will be sports governing bodies. Some of these already treat their affiliation fees as exempt from VAT and will therefore be unaffected by the changes. Some take advantage of Extra Statutory Concession 3.35 which allows apportionment of membership subscriptions to certain non-profit making bodies. Governing bodies which currently treat affiliation fees as liable to the standard rate of VAT are likely to be making an exempt supply of an affiliation fee as a result of the policy change. Where the conditions of ESC 3.35 are met governing bodies may continue to take advantage of the option to apportion their affiliation fees between the rates of VAT applicable to the individual elements.

A number of sports governing bodies are not currently registered for VAT (and this change will not affect their position). This may be partly due to their size and may also be due to the current treatment of their affiliation fees as exempt. Some sports governing bodies may cease to be liable to be registered for VAT as a result of the changes.

There will be a financial impact on certain sports governing bodies in changing the VAT treatment of their affiliation fees from the standard rate to exemption. Where significant grant funding is received by a governing body the reduction in VAT payable could be outweighed by the VAT on overheads that becomes irrecoverable as a result of the exemption. This will be most relevant when construction or other capital projects are undertaken. Overall it is estimated that there will be a small increase in the amount of irrecoverable VAT incurred by the sector.

Recipients of affiliation services, for example non-commercial sports clubs, will no longer have to pay VAT on their affiliation fees. However, they may find that the governing body has to raise the fee to take account of the VAT loss on overheads resulting from the exemption of the fee. It is therefore likely that some recipients of affiliation fees will receive little or no benefit from the change. In some cases additional cost incurred may be passed on to the club's individual members in the form of an increase in their subscription fees.

Compliance costs and administrative burdens

Size of affected Population

It has been tentatively estimated that there are around 150 National Sports governing bodies that could potentially be affected by this change in policy. However not all of these bodies will be VAT registered. On the basis of research carried out it is estimated that only around a half will be registered for VAT. In addition to this, there are county associations in the larger sports such as football who will also be affected. In the case of football we estimate there are around 50 such county organisations, with a further 150 in other sports.

There are estimated to be many tens of thousands of membership sports clubs in the UK. They are not expected to face any changes to their administrative burdens or incur any one off compliance costs as a result of this change.

Administrative burdens

The main potential impact on the administrative burdens of affected businesses will be where they are currently only making taxable supplies but as a result of this change will now be partly exempt. The admin burden costs associated with the preparation of VAT returns are greater for partly exempt businesses than for those that are fully taxable. For example according to the standard cost model, (SCM), the costs associated with a small partly exempt business that out sources the preparation of it's VAT return are around £125 per quarter higher than a similar fully taxable business.

If we assume that around two thirds, (50), of the national governing bodies affected are currently fully taxable then this would create additional admin burdens of around £7,000 per quarter or just under £30,000 per year at 2010 prices.

As far as the county associations are concerned based on operational experience it has been assumed that they will already be partly exempt although around half will be de minimis. As a result of the change it is likely that all the county associations will now suffer an element of input tax restriction. The admin burdens associated with a partly exempt business that is treated as being de minimis are lower than those associated with a business that incurs some form of input tax restriction.

It is tentatively estimated that this would create additional admin burdens of around £50,000 per year at 2010 prices.

It is possible that some smaller governing bodies will cease to be liable to register for VAT as the changes could mean less of their supplies will be subject to VAT. This will potentially deliver some admin burdens savings, however given that the number of cases in which this is likely is small the extent of these savings has not been quantified.

Overall this gives an estimated increase in annual admin burdens of around **£80,000** at 2010 prices

One off Compliance costs

There will be a number of one off compliance costs associated with this change.

1. The governing bodies and county associations will need to familiarise themselves with the change. If we assume that it will take each of the 275 affected parties that are registered for VAT around 2 hours to familiarise themselves with the changes including whether they can take advantage of extra statutory concession 3.35, based on an average hourly rate of £21.73 from the standard cost model, this will lead to a one off compliance cost of around £12,000.

2. Those governing bodies and county associations that then choose to take advantage of extra statutory concession 3.35 will need to agree an appropriate apportionment. Based on operational experience it has been assumed that the 75 VAT registered National Governing bodies are more likely than the county associations to benefit from the use of the extra statutory concession. Assuming that it will take each of these 75 bodies on average around 2 hours to agree an apportionment based on an average hourly rate of £21.73 from the standard cost model, this will lead to a one off compliance cost of just over £3,000.

3. The approximately 50 governing bodies that are currently fully taxable will need to make a change to their accounting system to recognise that they will now be receiving income that is exempt from VAT. Assuming that on average this change will cost around £100 to implement this will give a one off compliance cost of around £5,000.

4. The approximately 50 governing bodies that are currently fully taxable will also need to familiarise themselves with the regulations relating to partial exemption. Based on operational experience it has been assumed that it will take each of the 50 affected parties on average around 4 hours to familiarise themselves with the changes, based on an average hourly rate of £21.73 from the standard cost model, this will lead to a one off compliance cost of around £4,000.

This gives total estimated one off compliance costs of around **£25,000**.

Specific Impact Tests

Competition Assessment

The proposed changes are not expected to have any adverse impact on competition.

Small Firms Impact test

It is likely that some of those potentially affected by the change will be small businesses. We have discussed this change with the Department for Culture, Media and Sport and CCPR (Central Council for Physical Recreation), the national alliance of governing and representative

bodies of sport and recreation. We understand that their members have been made aware of the impending VAT policy change. We have asked for any feedback on the impact of the proposed changes to be passed to us but there has been little specific comment. We know that a significant number of sports governing bodies are not registered for VAT and it is likely that this includes many of those smaller in size. It is also possible that some of the smaller bodies will cease to be liable to register for VAT as a result of the changes.

Legal Aid

There will be no need for new criminal sanctions or civil penalties.

Sustainable development

The changes will be in accordance with the principles of sustainable development.

Rural Issues

The changes will not have a significantly different effect in rural areas. Neither will they significantly impact on Carbon Emissions, Other Environment or Health.

Race Equality, Disability Equality, Gender Equality and Human Rights

An initial equality assessment has confirmed that the changes have no negative impacts

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

A brief outline of the Standard Cost Model

The 'Standard Cost Model' (SCM) has been used to derive an estimate of the costs to business of complying with HMRC obligations in this area to disclose information to HMRC or to third parties. The SCM considers which activities a business has to undertake to comply with HMRC obligations and requirements, how many businesses have to comply, and how often they need to comply. The SCM considers the burdens which apply to different sizes of business and by whether they outsource their compliance activities. It also differentiates between businesses which use e-solutions and those which do not.

The SCM estimates the costs of using agents and other external providers; the costs of undertaking work in-house, using a pre-defined set of activities; and the costs of actually transmitting the information. The SCM does not consider one-off costs or transitional costs of a change in policy. The SCM does not consider costs which a business would have incurred anyway had the relevant HMRC obligation or requirement not existed. It considers the costs which apply to a normally efficient business. The SCM does not consider any wider compliance cost issues, such as the costs of business uncertainty or cash flow costs. The SCM figures are based on wage rates, prices and populations which existed in May 2005.