

Dylan Thomas

From: Trevor Steel <trevor.steel@pstax.co.uk>
Sent: 25 June 2026 10:44
To: Kath Evans
Cc: Dylan Thomas; Lavat Helpline
Subject: RE: RE: "PSTAX - Contact Us" - Towyn and Kinmel Bay Town Council

Hi Kath – thanks for correcting these points. Amended version below. I can confirm that these corrections do not affect the VAT/LTT implications or my recommendations. Provided that the Council registers for VAT and opts to tax (as recommended), then it will be able to recover VAT incurred on the works which it contracts for but are funded from the monies received from the charity, or grants which the Council has applied for and been awarded. I've built this in too.

Regards
Trevor

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Background

There is a site currently owned freehold by Conwy Council (CC) which incorporates:

- A community centre, licenced to a charitable operator, renewed annually
- A clinic, leased to Betsi Cadwaladr UHB (BCUHB) for a 99-year term from 1986
- A community library, leased to its operators for a 25-year term from 2015
- A town hall, leased to the Town Council (TC), due for renewal next year
- A free car park, for use of all occupiers

Licence and lease holders pay £1pa, but are recharged a percentage of overall utility costs.

The proposal is as follows:

- CC transfers the freehold of the entire site to the TC
- Prior to this transfer, the charitable operator will decide to not renew its licence of the community centre
- Operation of the community centre will fall to the TC as (new) freeholders. As it will be freeholder, the TC's leasehold interest in the town hall would cease.
- The community centre requires considerable works to remain operational – these will be contracted for by the TC.
- The (by then, former) charitable operator will give monies it holds to the TC, to help fund these works. The TC will also seek other grants.
- The TC will replace CC's role within the leases granted to BCUHB and the library operator.

The TC is not currently VAT registered, and reclaims VAT incurred on its expenditure quarterly, using the VAT126. The TC's main income is currently from hires/sublets of the town hall, a regular donation from a solar farm operator, and ad-hoc photocopying charges.

You've asked us to consider the VAT implications of the proposal. For reasons that I'll set out in the analysis below, I consider that the best approach for the TC is to register for VAT, and "opt to tax" the site, prior to receiving the transfer from CC.

VAT Analysis

The first step needs to be to identify the correct VAT treatment of the income sources which the TC would receive post-transfer:

- Community centre – this will be owned/operated by the TC, income would be from hire charges, which would ordinarily be VAT-exempt.
- Clinic and community library – income received from the occupiers of £1 plus the recharge of a proportion of utility costs. Although £1 (also referred to as “peppercorn”) on its own would be seen as “non-business”, the recharge of a set proportion of utility costs (rather than actual use by the occupier) is regarded by HMRC as being “further consideration” for the lease. Therefore, the leases would ordinarily be VAT-exempt. If the TC was to switch to recharging utilities based on actual metered use, then those recharges would be taxable separate supplies of the utilities themselves, and count towards the requirement for the TC to register for VAT.
- Town hall – the TC’s income from hires and sublets would ordinarily be VAT-exempt.
- One-off receipt of monies from the former charitable operator of the community centre – this would be non-business income, as nothing is being supplied by the TC to the charity in return
- Other grants sought – this would be non-business income, provided that they are applied for and awarded directly to the TC, with nothing supplied by the TC to the funder in return

It should be noted that the last two of these, once received, become the TC’s monies. The ability to recover VAT when spending these funds is the same as that for the spending of any other TC monies on the project – as set out below.

The first three bullet points above create a potential issue with VAT recovery on the TC’s expenditure. For an unregistered Council, VAT can be recovered in relation to the following types of activities:

- Non-business activities – such as statutory functions, and lettings/licences where the *only* consideration is £1/peppercorn
- VAT-exempt activities, provided that the expenditure VAT incurred in respect of such activities does not exceed the higher of £7,500pa or 5% of the total expenditure VAT incurred by the Council. This limit is sometimes referred to as “partial exemption”.

An unregistered Council cannot recover expenditure VAT incurred in respect of activities which generate income which would become subject to VAT if it was to VAT register.

With the current recharging method for utilities, the majority of the site usage would be VAT exempt – the only non-business elements would be the TC’s own use of the town hall, and a suitable apportionment of the car park. The scale of the works required, when added to normal ongoing expenditure, is such that the £7,500pa limit would be exceeded, and that expenditure VAT would become irrecoverable. It might be possible to vary the licences to BCUHB and the library operator such that they are charged for their actual metered usage of utilities – and if no other consideration was received for those licences, the £1pa would become non-business. However, the likely values of the metered utility charges would be such that the TC would be required to register for VAT. This is because local authorities must register for VAT as soon as the amount of VAT which would be due on their income exceeds £1,000pa (rather than the £90,000pa taxable turnover threshold applicable to other types of businesses). Even if the Council did this, it is possible that the £7,500pa partial exemption limit might still be exceeded – particularly given that I understand much of the work required is to the community centre, where VAT-exempt income would still be generated.

However – if the Council was to register for VAT, it could “opt to tax” the site. Doing so would make the majority of VAT-exempt income generated through the lettings, leases and utility recharges taxable. It is possible that some hirers (potentially charities putting the facility to their own non-business charitable use) could “disapply” the option to tax on supplies to them, leaving them as VAT-exempt. But that would still leave the vast majority of income as being either taxable hires/utility recharges or non-business TC’s own use – and any VAT incurred on costs attributable to the minimal remaining VAT-exempt activity would fall safely below the £7,500pa partial exemption limit.

Some practical considerations:

- The impact on hirers of the community centre / town hall. It is quite possible that some of your hirers will not be able to recover the VAT that you’ll need to start charging them on lettings. It is of course a “commercial” decision as to whether you add VAT to your current set charges, or treat the existing charges

as the new VAT-inclusive level. A solution might be to start by treating the existing charges as VAT-inclusive, but increase your charges each year by a higher percentage than you might otherwise have done. This will avoid a sudden additional cost to regular hirers, whilst ensuring that the TC does not suffer reduced income in the longer term.

- The impact on the lessees – BCUHB and the library operator. BCUHB won't be entitled to recover VAT charged to them, and it seems quite likely that a library operator wouldn't be able to either. However if the TC didn't opt to tax, but simply switched to recharging utilities on a metered basis, both occupiers would still incur a VAT charge on all but the £1pa rent charge. Alternatively, if they were to make their own arrangements directly with utility suppliers, those suppliers would charge them VAT. So it would be quite reasonable for the TC, having registered for VAT and opted to tax, to pass on the VAT costs.
- Following VAT registration, the TC would need to submit "normal" VAT Returns, rather the VAT126. You confirmed that the TC uses Rialtas, and it is my understanding that the software can be switched to produce VAT returns rather than VAT126 from the required date. However, this is something that you would need to liaise with Rialtas to advise on and support you with if necessary. I do not know whether Rialtas would make any charge for this, and/or whether it would affect any ongoing charges they make for the software.
- Although by default VAT returns would be quarterly, you can opt to submit monthly – either permanently or temporarily. A change in return frequency might be beneficial whilst the works are being undertaken/paid for, as it would improve cash flow.
- I did note that once you have opted to tax a property, you cannot normally revoke that option to tax for at least 20 years. We agreed that this wouldn't be a problem, as no significant changes in the site's use are anticipated – indeed a key purpose for the asset transfer is to ensure that the community benefits of the site are maintained.

Other income sources previously mentioned:

- Although the solar farm would be a business, you confirmed that they do not receive anything from the TC in return for the money provided (i.e. there is no promotion/advertising, and the solar farm is not on the TC's land). They simply receive details of how their funds have been spent. This income will remain non-business.
- Photocopied use – this is taxable income, and VAT will need to be accounted for on it from the effective date of the TC's VAT registration. However, you confirmed that the sums involved are minimal.

Land Transaction Tax

Although not part of your original request, I have considered whether there would be any land transaction tax implications of the proposal. I can confirm that there are none – this is because:

- The total consideration payable to CC for the freehold is only £1
- Although the current operator of the community centre will cease occupation, they only hold the annual licence, rather than an ongoing lease. Therefore, they are simply failing to renew the agreement, rather than "surrendering" a lease.

Proposed Next Steps

If the Council wishes to proceed with the recommendation, it should register for VAT and opt to tax prior to the asset transfer. Ideally for ease of transition, we would suggest that it is aligned to the VAT126 / VAT return quarters. You mentioned that the transfer is unlikely to be before the start of 2027/28 – therefore an effective date of 01/04/2027 would seem ideal.

The decision to register for VAT and opt to tax needs to be formally taken at a Council meeting. You mentioned that there was a meeting on the 11/01/2027 – this would seem ideal, as it would allow sufficient time for the application to be made and VAT number issued before the 01/04/2027 effective date. Registrations are currently taking around 6 weeks to be processed – although of course by January, HMRC might have a small backlog following the Christmas break. Therefore, it would be useful to prepare for this meeting ahead of the Christmas break.

You can of course submit the VAT registration application and option to tax yourselves – the relevant forms are the VAT1 and VAT5L (registration), and VAT1614A (option to tax). However, they aren't particularly designed with local authorities in mind, and so a service which we've offered to other local councils is to use PSTAX's online account with HMRC to submit the applications on clients' behalf. The VAT registration application tries to gather information to assure HMRC regarding applicant's past tax compliance – and with very little history on file for local authorities (their VAT registration unit do not appear to be able to access VAT126 returns!), this generally results in it wanting to know about the applicants and their advisers personally, including any other business interests they might have. For this reason, our approach is to send by email a list of the questions that we typically see asked (the exact questions can vary, as they are dependent upon previous replies given) and ask that you get the information to hand. We would then schedule a Teams meeting where we complete the forms "live" via a shared screen. This prevents the need to transfer personal information via email. I can confirm that our current charge for this service, to include advising on the details of the formal decision required, is currently a fixed £880+VAT – which we would be happy to honour for the remainder of 2026/27.

From: Kath Evans
Sent: 24 June 2026 11:50
To: Trevor Steel
Subject: RE: RE: "PSTAX - Contact Us" - Towyn and Kinmel Bay Town Council

Good morning,

Thank you for your report.

The following items need amending

There is a site currently owned freehold by Conwy Council (CC) which incorporates:

- A community centre, licenced to a charitable operator – **This is correct**
- A clinic, licenced to Betsi Cadwaladr UHB (BCUHB) – **This is leased on a 99-year lease from 1986 for a £1 a year**
- A community library, licenced to its operators – **This is also leased on a 25-year lease from 2015 for £1 per year**
- A town hall, leased to the Town Council (TC) – **This is leased to the Town Council but the lease is due to be renewed next year**
- A free car park, for use of all occupiers

The licences are rolling, renewed annually – they are not leases. Licence holders pay £1pa, and are recharged a percentage of overall utility costs.

Could you also clarify that we can claim back any VAT from works paid for by monies received from the charity or grants that we received.

Could you kindly update the report with this information and resend it?

Kind regards

Kath

Dirprwy Glerc y Dref /Deputy Town Clerk
Cyngor Tref Tywyn a Bae Cinmel/Towyn & Kinmel Bay Town Council
Canolfan Adnoddau Cymunedol/Community Resource Centre
Y Sgwâr/ The Square

Oddi ar Foryd Road/Off Foryd Road,
Bae Cinmel/Kinmel Bay
Conwy, LL18 5BB
Ffôn 01745 355899/Telephone 01745 355899
e-bost/e-mail: deputy@towynkinmelbay-tc.gov.uk
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Towyn and Kinmel bay Town Council is proud to support the Civility and Respect Pledge, promoting positive and respectful behaviour within local Town and Community Councils.



**Civility &
Respect**

IN COLLABORATION WITH SLCC, NALC, OVW, COUNTY ASSOCIATIONS

Un Llais Cymru



One Voice Wales

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Mae'r e-bost hwn ac unrhyw atodiadau yn gyfrinachol ac wedi'u bwriadu ar gyfer y derbynnydd a enwir yn unig. Nid yw'r e-bost hwn o reidrwydd yn cynrychioli barn Cyngor y Dref. Mae Cyngor Tref Towyn a Bae Cinmel yn casglu/rheoli eich data personol o dan Ddeddf Diogelu Data 2018. Gweler yr ymwadiad e-bost – Ymwadiad E-bost. I gael rhagor o wybodaeth am ein trefniadau preifatrwydd, ewch i wefan y Cyngor lle gellir gweld ein Hysbysiadau Preifatrwydd, Gwybodaeth a Pholisi Diogelu Data manwl.

From: Trevor Steel <trevor.steel@pstax.co.uk>

Sent: 24 June 2026 08:57

To: Kath Evans <deputy@towynkinmelbay-tc.gov.uk>; Dylan Thomas <clerk@towynkinmelbay-tc.gov.uk>

Cc: Lavat Helpline <helpline@pstax.co.uk>; VAT admin <VATadmin@pstax.co.uk>

Subject: RE: RE: "PSTAX - Contact Us" - Towyn and Kinmel Bay Town Council

Hi Kath and Dylan

Thanks for returning the signed letter of engagement. As agreed, here are the notes of our meeting on the 22nd June, along with our recommendations.

Background

There is a site currently owned freehold by Conwy Council (CC) which incorporates:

- A community centre, licenced to a charitable operator
- A clinic, licenced to Betsi Cadwaladr UHB (BCUHB)
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