Pic by Jon Stroud

No Income Tax... No VAT?

Whatever business you are running, there is not much that is more complicated than VAT, and even if you are VAT registered you will find some things are VAT exempt, while others most certainly are VATable. Working with horses is never straightforward and it is exactly the same when it comes to VAT and equestrian businesses.

In this article, Janet Pierce of Charter Tax explains when VAT applies, what and what isn't VATable and how a good accountant will help you survive the minefield .

Charter Tax was founded in 2009 by Janet Pierce (neé Paterson) as a full service accounting firm with a particular specialism in tax matters. Janet herself is a keen equestrian, with a small yard and seven horses of her own. Charter Tax are also proud sponsors of Francis Whittington Eventing.

So, we get pretty used to paying VAT on most things, don't we? But have you ever given much thought to the impact of VAT on your horse expenditure (or income)?

You may well be aware that the basic starting point for VAT is that once a business has turnover over £83,000 then it needs to register for VAT and start charging VAT at 20%. However, not all business turnover is actually subject to VAT. It's a massively complex area (how on earth HMRC expect anyone who hasn't trained as an accountant to understand the rules is beyond me), but I've highlighted below some of the key points to be aware of.

Bear in mind in all this that profitability is not a pre-requisite for VAT registration; VAT is based on turnover, not profit. However, being "in business" is a prerequisite – so if your horse activities amount to a hobby not a business then you may not have to worry about VAT (although if you're making losses you may have to think hard about whether you want to say your activity is a hobby or a business, because of course hobbies don't attract any tax deductions for the losses involved).

Livery Fees

For quite some years everyone really assumed that livery fees would be subject to VAT at the standard rate (assuming the livery business is over the turnover threshold / is VAT registered).

However, a case then went to the Tribunal to challenge this position. The Tribunal held that in the case of most types of livery the "dominant" supply was the fact that the customer (i.e. the person with their horse in livery) receives the use of a specific stable. As such, the supply is treated as "related to land" and therefore treated as VAT exempt – unless the livery yard owner "opts to tax" the land.

Now, being VAT exempt certainly has its advantages as it means the livery yard owner doesn't need to charge VAT on the livery. However, it also means that the livery yard owner can't reclaim the VAT on their associated costs – which isn't too bad as a lot of their costs won't have VAT on them (e.g. staff costs). Where it will be a problem for livery yard owners, though, is if they have spent a lot on construction costs / building a new yard, etc – as most of those sorts of costs will have VAT and the livery yard owner won't be able to reclaim that VAT unless they "opt to tax" over the land – meaning that they turn an otherwise VAT exempt supply into a fully VATable supply. So, there's a calculation to be done – does the livery yard owner suffer in effect a loss of ongoing income (as some of the livery fees have to be paid over to the VAT man), but recover the VAT on all their costs, or does the livery yard owner keep all the income, but suffer the VAT on expenses. This really is where a good accountant helps!

But it gets even more complicated than that. The original Tribunal case that viewed most types of livery as the supply of a specific stable is arguably a bit questionable – there's a lot of different types of livery and more than that, it's slightly always surprised me that the case has never been challenged; after all, when you have your horse in livery do you really worry about the stable so much, or do you worry about the overall care of the horse?

Where a horse is away at a specific training livery (e.g. breaking / rehab, etc), HMRC are much more likely to argue that the main supply is the training (VATable) rather than the stable.

Conversely, if the "livery" is in fact strictly grass keep, then it could be zero-rated for VAT purposes. Zero rating is the holy grail of VAT status really, as it means that the supplier (the livery yard owner) doesn't have to charge VAT, but also still gets to recover the VAT on their associated costs.

So, as you may gather, each different type of livery will require a proper analysis.

Teaching

I'm not sure there are many people that earn their living from teaching riding and who earn over the VAT registration threshold (£83,000). If you do – well done.

However, there probably would be a few more yards around (e.g. riding schools) that do have income over the VAT registration threshold and so they need to think about whether or not their income for teaching riding is VATable.

You might initially assume that, if the teacher is VAT registered then they would need to charge VAT. However, there is a specific exemption for: 'the supply of private tuition, in a subject ordinarily taught in a school or university, by an individual teacher acting independently of an employer'.

I'm not sure whether I ever remember riding being taught when I was at school (….. I'm old…..), but these days actually it often is, so potentially a riding instructor's teaching income could fall within this exemption. However, there is a proviso that they are taught "to a level similar to those being conducted by educational establishments across the country"…. Whatever that means. Probably, that means that if you're an olympic medalist being coached by Yogi, then your coach won't be able to fall within this VAT exemption. However, if you're a riding instructor at the local riding school then probably the exemption applies for a lot (maybe all) of your lessons.

Horse Sales

Horse sales are one thing in particular where – if you sell a few good ones – you might be more likely to find yourself over the VAT registration threshold.

That said, there is something of a recognition from HMRC that often horse dealers will buy from someone who is a private seller and therefore isn't VAT registered and as such it would be a bit harsh to charge VAT on the full sale price charged by the dealer when there won't have been any VAT to offset when the dealer purchased the horse. As such there is a "margin scheme" available for sales of "second hand ponies / horses". So, if a dealer buys a horse from a private seller for £10k and sells it for £15k then the dealer only has to charge VAT on their £5k margin.

Note, though, that if you were the breeder of the horse, then – to you – that horse isn't second hand and as such you can't use the margin scheme, I'm afraid!

VAT is a Simple Tax???

I've said it before and I'll say it again… how on earth HMRC expect anyone who hasn't trained as an accountant to understand the rules is beyond me. Sadly, though, I've dealt with a lot of enquiry cases from HMRC where – as far as they are concerned – that's not their problem, they expect anyone in business to understand the rules that apply to them – and they're not afraid to charge penalties if the poor business owner gets it wrong. So, do check out the rules first before you get it wrong, and I'd be delighted to hear from you if you need any help.

Photo by Nigel Goddard

Janet Pierce of Charter Tax competing Sydserff Finnadoon

If you have found this article of interest and would like to find out more about VAT and other tax matters, then contact Janet Pierce at Charter Tax.