

A GUIDE TO THE VAT “SCHEME”

A Significant benefit for Racehorse Owners

1. Introduction

The Memorandum of Understanding, (an extract of which is enclosed), concluded between the racing industry and HM Customs & Excise, enables racehorse owners to register their racing activity as a business for VAT purposes. **The potential benefit is significant and all racehorse owners are urged to take full advantage of the opportunity offered.**

2. Declaration on Intent

A condition of the “Scheme” is that owners must sign a declaration form confirming their intention to seek income from prize money, appearance money and from sponsorship or advertising. Owners registering for VAT after 31st December 1997 must also certify that they have received business income and/or have entered into a sponsorship agreement. Arrangements have been made to support the business activity. A special scheme for appearance money is already in existence and a guide has been published to help owners develop sponsorship and advertising opportunities.

3. Registration

Owners who wish to take advantage of the Scheme must register for VAT with their local VAT office. The procedure for owners who are not currently registered for VAT for other purposes is as follows:

- i) Complete the enclosed declaration form (D1 for all categories of ownership other than partnerships; D2 for partnership only), and submit it to Weatherbys. Additional forms are available from Weatherbys on request. (There are samples of these forms on pages 6 and 7).
- ii) The completed declaration will be certified by Weatherbys and will be returned together with the standard form for VAT registration (VAT1). The completed VAT registration application and the certified declaration should be submitted to your local VAT office. HM Customs & Excise will then allocate a VAT registration number.
- iii) **Since the VAT registration number must appear on all invoices raised by, or on behalf of, the owner, the owners must notify Weatherbys of this number. Failure to do this within three months of the effective date of registration will mean that any income in respect of prize/appearance money won will be deemed to be VAT inclusive.**
- iv) Owners will be able to recover VAT retrospectively on expenses as follows:
 - a) For assets on hand at the time of registration e.g. racehorses, full recovery will be allowed subject to the purchase taking place up to 3 years before the effective date of registration.
 - b) For supplies of services, e.g. training fees, veterinary costs, transports charges etc, recovery will be allowed for all supplies invoiced up to six months prior to the effective date of registration.

It should be noted that these provisions do not remove the need for the expenses to have been incurred by the VAT registered person in connection with his racehorse owning activities and that proper VAT invoices should be available to evidence the claim for VAT recovery.

- v) The person who is liable to be eligible for a VAT registration is the person who actually benefits from the proceeds of the horse’s racing activities. If a horse is leased to a person or persons for racing purposes it is only that person who can register in respect of the racing activity. If a horse is owned by one person and races in the name of another without a leasing arrangement having been entered into, VAT registration must normally be in the name of the owner.
- vi) Owners qualify to register under the Scheme when they have an asset which can be exploited to generate income. This will normally be when a horse goes into training. Once VAT registration is effected, recovery of expenses relating to the production, purchase etc, of that asset will be allowed retrospectively.
- vii) An owner who is already registered for VAT in his own name for other business purposes should

complete the declaration form (see 3 (i)) and send it to Weatherbys for certification. On its return the owner should then send it to the local VAT office to advise them that the original registration is being extended to cover racehorse ownership.

- viii) All businesses registered for VAT are subject to periodic inspection by prior appointment. Owners are therefore required by H.M. Customs & Excise to retain for six years all documentation relating to the business.

4. Partnerships

- i) An application for registration must be made in the name of the legal owner of the horse. Where a legal partnership exists registration must be as a partnership and an additional form (VAT2) must be submitted to the VAT office with the standard registration form (VAT1). This form simply requires the names, addresses, signatures and National Insurance numbers of all the partners.

HM Customs & Excise has accepted that, though a racing partnership may not be a legal partnership in the true sense, it can be registered as a partnership for VAT purposes.

- ii) Owners, regardless of whether they own racehorses in partnership, will be able to register their interest as an individual, if they wish, unless the arrangement constitutes a legal partnership. However, an owner will only be able to register where their interest in any horse is at least 50 per cent. An interest of less than 50 per cent in a horse can not be included in the individual's registration although the interest can still be registered for VAT through a racing partnership. Therefore, in these cases it will be appropriate to register the racing partnership as a VAT partnership.
- iii) Where more than one horse is owned by the same partnership (i.e. by exactly the same group of people, with no omissions or additional parties), only one VAT registration should be made. However, whenever the people involved are in any way different, a separate VAT registration must be made.
- iv) An owner who is VAT-registered as an individual for racing purposes may also be involved in one or more partnerships. These partnerships, in addition to the individual owner, may also be registered for VAT.
- v) Where some of the partners in a horse or horses change and the new partnership continues with the same horse or horses, the existing VAT registration will be allowed to continue.
- vi) If a partnership is disbanded on the sale of the horse or horses but the principal partner or partners reinvest in another horse then a new VAT registration need not be obtained.
- vii) Any change in the partnership must be notified to Customs & Excise.
- viii) A trainer is entitled to invoice a partnership, or indeed anyone, for training fees at any level he chooses. What this could mean is that where a trainer is a partner in a horse in his yard and the partnership is registered for VAT, he can set his training fees accordingly. It must be clear from the invoicing and supporting accounts that this is the full and final sum due from the partnership. Providing no other supplies or payments are made to or by the partnership, VAT will be calculated on the invoiced training fee.

Exceptionally trainers can continue to invoice individual partners with their share of the training fees and VAT can be recovered against these invoices providing:

- a) the person completing the VAT return holds the original invoices
- b) the horse's name is shown on the invoice and the fact that it relates to a partnership asset is clear, and
- c) there is no possibility of duplication of claims for VAT recovery.
- ix) If a horse has been purchased by a VAT registered person who subsequently sells shares in the animal to other parties with whom he joins in a separate VAT partnership, the original invoicing arrangements will not be disturbed, i.e. the seller will not be required to raise a further VAT invoice for his retained share in the horse raced by the partnership.
- x) Where a VAT registered partnership, e.g. husband and wife training business, is involved also in a racing partnership and the other members of the racing partnership do not wish to register for VAT, the VAT registered partnership can recover the VAT on their own share of ownership subject to the normal rules of the Memorandum.

5. Recoverable VAT on Expenditure

Enclosed are guidelines setting out the various areas of expenditure on which an owner may wish to reclaim VAT. It would be prejudicial to the Scheme if owners sought to extend the boundaries unreasonably.

6. Accounting Services

Once an owner's VAT registration details have been recorded by Weatherbys, the following accounting arrangements will apply:

- i) Statements of account will be produced at least on a monthly basis.
- ii) Each statement will be accompanied by a transaction analysis summarising the VAT status of the items on the statement. This will enable the owner to complete the quarterly VAT return. The transaction analysis will not include items (such as privately negotiated sponsorship arrangements), which have not appeared on the statement. VAT on these items should be incorporated by the owner in their VAT return.
- iii) VAT will be added to prize money excluding all stakes (the "sweepstake element") and to appearance money. The VAT on prize money must be declared on the VAT return as well as VAT on appearance money and sponsorship income.
- iv) VAT law requires, the VAT-registered partnership - not its individual members - to be invoiced. Statements will be sent to the nominated partner. VAT returns must be made in the partnership's name.
- v) Where an owner, trainer, breeder or dealer has either
 - a) registered for VAT but not notified Weatherbys of the VAT registration number or
 - b) applied for VAT registration but not received a number,providing notification of the VAT number is made within 3 months of the effective date of VAT registration, Weatherbys will issue tax invoices in respect of prize/appearance money won as necessary. However beyond this time it will be the owners responsibility to issue such invoices, failing which the income will be deemed to be VAT inclusive.

7. Assistance for Owners

A Help Desk is available at Weatherbys (Tel. No.: 01933 440077) to handle enquiries on all aspects of VAT registration, with a similar facility offered by the Racehorse Owners Association (Tel. No.: 020 7408 0903). Weatherbys also offer their clients a full personal VAT service and, for those registered for VAT as a partnership, additional account options to help in the division of costs and income between the partners. Charges and further details are available from Weatherbys' Bank.

8. Breeders, Trainers and Dealers

Breeders, trainers and dealers who are already registered for VAT should consult their representative organisations for information about the extended VAT arrangements affecting their operations. In any event, any of the above who intend to race horses must advise Weatherbys of their VAT number. Failure to do this will result in any prize money and appearance money won being treated as VAT inclusive, unless tax invoices are raised by the individuals.

9. Fees

Each VAT registration recorded by Weatherbys will be charged an annual fee by the British Horseracing Board, to cover the cost of administering the "Scheme".

10. Conclusion

This guide has been made as comprehensive as possible in the firm belief that it will enable racehorse owners generally to register for VAT in accordance with the conditions laid down in the "Scheme". Any owner who is uncertain about the practical application of the "Scheme" to their particular circumstances should seek professional advice.

RECOVERY OF VAT ON DIRECT AND PERIPHERAL EXPENDITURE

The following guidelines, which have been agreed with Customs & Excise, are for those racehorse owners registered for VAT under the "Scheme". They identify various areas of expenditure relating to the owner's racing activity on which the owner may wish to reclaim the VAT they have paid (the 'input tax').

These are necessarily only guidelines - firm rules cannot be drawn up because of the difference in individual owners' circumstances. However, the British Horseracing Board is anxious that all owners and their financial advisers have due regard to these guidelines which have been agreed as being fair and reasonable. It would be prejudicial to the Scheme if a few owners sought to extend the boundaries unreasonably.

In general, it should be noted that

- a) in all cases it is the VAT element of the cost which is being reclaimed, not the whole cost.
- b) VAT can now be reclaimed only if the owner is in possession of a valid VAT invoice made out to the owner(s). (This, in turn, depends upon the supplier of the goods or service being registered for VAT). Owners must retain originals of all such invoices, for presentation to Customs & Excise officials in the event of an inspection.
- c) VAT is only recoverable on costs that are invoiced to the VAT-Registered entity for supplies made to that entity. Therefore, the same VAT cost cannot be reclaimed by more than one entity. For example, in the case of a sole owner, any cost shared with the owner's relatives or friends must first be apportioned and only the owner's own share claimed. In the case of a VAT-Registered Partnership, the VAT Return may include the admissible expenses incurred by each partner.

ADMISSIBLE EXPENDITURE HEADS

VAT on the following should normally be fully recoverable:

- Racehorse purchase
- Training fees
- Veterinary fees
- Blacksmith's fees
- Transport of the horse
- Livery yard fees'*
- Keep cost while horse is at owner's premises'*
- Gallop fees
- Jockeys' riding fees and retainers

* For the period immediately prior to the horse entering training and during temporary absence from the trainer's premises.

The following require further explanation/qualification:

- **Travel costs of the owner.** It is accepted that, in the business of racing activity, the owner may wish to see his horse race and, from time to time, when it is in training. The cost of travel to race meetings at which the horse is declared to run and to its trainer's stable may be admissible. This would also apply when the owner travels to buy or sell horses. The following modes of transport have been considered.

- a) By private car Owners may pay a fixed quarterly output tax charge per vehicle in accordance with the agreed scale available from local VAT offices or Weatherbys VAT Help Desk. They are then able to set against this the VAT on all the fuel and repair costs of that car, not just those costs incurred in travelling to and from racecourses etc. This is the only available option with regard to VAT recovery on fuel costs. Owners must therefore assess the likely level of use to judge the cost-effectiveness of this option.
- b) By public transport Under current legislation, public transport is (normally) zero-rated and so no VAT costs would be incurred.

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| c) | By hired car | Hire costs (but not the fuel costs) may be admissible, though the owner may need to demonstrate that there was a genuine need to hire a car. |
| d) | By taxi | The owner may need to demonstrate the need to use a taxi. |
| e) | By light chartered aeroplane | The owner will need to justify this option, as against any public transport alternative. |

- **Accommodation costs of the owner.** Where the race meeting/stable to which the owner travels to see their horse is distant from the owner's home, it is accepted that the owner may require overnight accommodation. It is not possible to specify an allowable minimum distance, but the owner must be in a position to justify this if challenged. Normally, only one night's accommodation will be allowable per visit.

- **Subsistence costs of the owner.** Reasonable costs of meals and refreshments, (Not to include entertainment of others), in association with visits to the owner's horse(s) will be admissible.

- **Owner's costs of racecourse admission.** As explained above, cost relating to racecourse visits will only be admissible where the owner's horse has been declared to run. In most cases, owners receive free admission in such circumstances. However, where this is not the case, (as perhaps, with some partners in an extended partnership), this is an admissible costs. (But note particularly the requirement to be in possession of a VAT invoice),

- **Telephone.** It is accepted that the owner will wish to make contact with their trainers, relevant racecourses, etc., in the course of his business activity. In recognition of this, Customs & Excise have agreed a 10% allowable apportionment of an owner's telephone costs. This may include mobile and car telephones, and incorporate, where applicable, the cost of the calls, installation and rental or purchase.

- **Professional advisers.** Where related to the business activity of racehorse ownership, charges from such professional advisers as Bloodstock agents, accountants, etc will be admissible.

- **Professional subscriptions.** Subscriptions to the Racehorse Owners' Association qualify.

- **BHB charges.** All VATable fees relating to the Orders of the British Horseracing Board and the Rules of Racing qualify.

- **Specialist newspapers and journals.** Currently, VAT does not apply to publications. Should this change, such costs would qualify.

- **Advertising.** Advertising of the owner's racing activity - e.g. seeking sponsorship - will be admissible.

- **Horseboxes.** These will not normally be admissible where the owner has placed their horse(s) in the care of a licensed trainer. Such purchases, (or a proportion thereof), may be allowable in the case of Permit Trainers and those with breeding operations covered within the Scheme. If in doubt, a case should be made to your local Customs & Excise.

- **Construction of loose boxes at owner's premises.** When in keeping with the scale of the owner's racing activities, this may be admissible. However, particularly if they are built to an extravagant standard, they may be adjudged a luxury. In addition, problems may arise if the owner's racing activities prove short-lived. If in doubt, a case should be made to your local Customs & Excise.

- **Office.** The admissibility of costs relating to an office will depend upon the scale of the owner's racing operations. Except for owners with substantial interests, an office will not be deemed a legitimate business expense. If in doubt, a case should be made to your local Customs & Excise.

WEATHERBYS DECLARATION D1
SAMPLE



WEATHERBYS

Sanders Road Wellingborough Northamptonshire NN8 4BX
Telephone 01933 440077 Fax 01933 440807

D1

RACEHORSE OWNER'S DECLARATION:
REGISTRATION OTHER THAN AS A PARTNERSHIP

PARTNERSHIPS SHOULD USE FORM D2

Declaration to be signed by a person intending to be a V.A.T. registered racehorse owner under "The Scheme" set out in the Memorandum of Understanding between the British Horseracing Board and H.M. Customs & Excise.

Before completing this declaration please read the notes and instructions overleaf. Please complete in block capitals

NAME

(This should be the owner's name as shown on the racecard)

- 1 I am registered as an Owner under the Orders and Rules of Racing
- 2 I am not in a legal partnership for racehorse ownership purposes and wish to register in my own right.
I confirm I own at least 50% of the horse/s to be covered by my VAT registration
- 3 a) I have a current sponsorship agreement registered with the BHB, or my racehorse/s is/are covered by a trainers' sponsorship agreement
b) I confirm that I have received business income (details attached)

WEATHERBYS DECLARATION	For use by Weatherbys Only	INITIAL/STAMP DATE
We:		
- confirm that the applicant is registered as an Owner under the Orders and Rules of Racing		<input type="checkbox"/>
- confirm that the Owner has registered a current sponsorship agreement		<input type="checkbox"/>

4 I have read the Memorandum of Understanding and I intend to generate income from sponsorship and/or appearance money in addition to prize money in accordance with the requirements of "The Scheme"

5 I accept that the V.A.T. treatment of my racing activities will be governed by "The Scheme"

6 a) I am not registered for V.A.T. in the United Kingdom as a sole proprietor or Limited Company.
b) I am registered for V.A.T. in the United Kingdom as a sole proprietor or Limited Company and wish to extend my registration to cover racing activities under "The Scheme"
and my V.A.T. registration No. is

I,

(Full name in BLOCK LETTERS)

ADDRESS

POSTCODE TELEPHONE NO.

declare that the above statements are correct and complete

SIGNATURE DATE

Proprietor Director Company Secretary Authorised Official Trustee

*Tick one box only

These sections need to be completed by the sole owner

WEATHERBYS DECLARATION D2 SAMPLE



Sanders Road Wellingborough Northamptonshire NN8 4BX
Telephone 01933 440077 Fax 01933 440807

D2

RACEHORSE OWNER'S DECLARATION

(FOR USE BY PARTNERSHIPS: NON-PARTNERSHIPS SHOULD USE FORM D1)

ONLY ONE MEMBER OF A PARTNERSHIP SHOULD COMPLETE A DECLARATION FORM ON BEHALF OF THAT PARTNERSHIP. IN A "RACING PARTNERSHIP" (AS DEFINED) THE MEMBER COMPLETING THE FORM MUST BE ONE OF THE REGISTERED OWNERS

Declaration to be signed by a partner (on behalf of the racing partnership/joint ownership) intending to be a V.A.T. registered racehorse entity under "The Scheme" set out in the Memorandum of Understanding between the British Horseracing Board and H.M. Customs & Excise.

Before completing this declaration please read the notes and instructions overleaf. Please complete in block capitals.

- 1 We are registered as a racing partnership/joint ownership under the Orders and Rules of Racing
- 2 a) We have a current sponsorship agreement registered with the BHB, or our racehorse/s are covered by a trainer's sponsorship agreement
- b) We confirm that we have received business income (details attached)

WEATHERBYS DECLARATION	For Use by Weatherbys Only	INITIAL/STAMP DATE
We:		
- confirm that the applicant is registered as a racing partnership/joint ownership, under the Orders and Rules of Racing		<input type="checkbox"/>
- confirm that the partnership/joint ownership has a current registered sponsorship agreement		<input type="checkbox"/>

- 3 We have read the Memorandum of Understanding and we intend to generate income from sponsorship and/or appearance money in addition to prize money in accordance with the requirements of "The Scheme"
- 4 We accept that the V.A.T. treatment of our racing activities will be governed by "The Scheme"
- 5 This racing partnership/joint ownership is not registered for V.A.T. in the United Kingdom
- This racing partnership/joint ownership is registered for V.A.T. in the United Kingdom and we wish to extend our registration to cover racing activities under "The Scheme" and our V.A.T. registration No. is
- 6 We attach a list of all partners involved in the partnership/joint ownership and the horses owned.

This section needs to be completed by one of the partners if a joint ownership or one of the nominated partners if a Racing Partnership

I,

(Full name in BLOCK LETTERS of any partner)

ADDRESS

POSTCODE **TELEPHONE NO.**

declare that the above statements are correct and complete

SIGNATURE of above partner **DATE**

*Tick one box only

