

Advice from CALC concerning the claiming of VAT on items purchased to benefit other organisations

Hi John,

To confirm CALC advice from the Parkinson Partnership below.

The advice from the 2017 Cllrs Guide is absolutely correct, and we would strongly advise your council to avoid a situation that is essentially an attempt to abuse the special VAT status of councils.

As there is no connection between the village hall and the PC (such as a landlord/tenant relationship), **the council would only be able to reclaim VAT if it was making a genuine gift of works to the village hall.** A gift is a non-business activity, which gives the council the right to recover VAT provided that it **places a purchase order, receives the supplies in question, receives a VAT invoice made out to the council and – crucially – meets the whole cost out of council funds** ([VAT Notice 749 section 6.1](#) and see also section 10).

The council must not receive anything in return. Any attempt to use a 'donation' from the village hall or other mechanism to disguise manipulation of funding will disqualify VAT recovery and expose the council to the risk of fraud investigation and penalties. Not surprisingly, HMRC has come across these cases many times and has very little difficulty identifying it.

If the council is really going to make a gift of works to the building it will need to contract directly with the suppliers exclusively for the works it is prepared to fund. It should avoid a situation where the costs are shared with the village hall (which can contract directly with the supplier for other works that they will fund) – this would jeopardise VAT recovery on the gift element due to the way that section 6.1 is phrased.

With best wishes Mary

From: Mary Gosling <Mary.Gosling@cornwall.gov.uk>
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