

# Racehorse owners and VAT

## Julie Butler considers the registration requirements

There is one item of good news in the 2006 Budget that appears to have escaped the general and the tax technical press and that is the renewal of the VAT Registration Scheme (the Scheme) for racehorse owners. Do you know if your clients are affected?

Following a periodic review by HM Revenue & Customs and HM Treasury, the Scheme will continue for the lifetime of the current Parliament. The Scheme was first introduced in 1993 and was renewed in 1997, 2002 and now, in 2006, it is being renewed again. Further details of the scheme are available in HMRC Notice 700/67 (January 2002). It is available on HMRC's website (see [www.hmrc.gov.uk](http://www.hmrc.gov.uk)) but has yet to be updated for 2006. The notice details who can register, how to register and how the scheme operates. It appears that the British Horseracing Board's efforts to demonstrate the significant value of the Scheme for Racehorse Owners have been rewarded.

The Scheme allows all owners the chance to run their racehorse interests as a business and thus reclaim their input VAT. Owners must declare their intention to seek income from prize money, appearance money and from sponsorship or advertising (the Sponsorship Framework for Racehorse Owners). To register on the Scheme, owners have to generate business income and/or secure sponsorship before their racing activities can be included within a VAT registration.

### *The sponsorship framework for racehorse owners*

The framework was introduced by the British Horseracing Board (BHB) in June 1994 to enhance the opportunities for owners to generate sponsorship through the provision of attractive logo sites. For example, a logo might go on owners' silks, attendants' clothing, or rugs and blankets. A Code of

Conduct is in place that details the framework designed to facilitate sponsorship incomes for racehorse owners.

### *Impact on the British racing industry*

The Scheme has played an integral role in the current record levels of investment in British racing. The total value of Owner Sponsorship Contracts in 2005 apparently stood at £10.6 million, up from £3.2 million in 2001, while the number of horses in training stands at an all-time high. The effectiveness of the Scheme is also reflected by the rise in the percentage of horses in training covered by Sponsorship Contracts: 77 per cent in 2005 compared with 63 per cent in 2001.

In preparation for the Government's review, BHB set up a Working Group in July 2004 comprised of representatives of many sectors of the sport. British Racing made a detailed submission to HMRC in November 2005, which also highlighted the potential impact on the economy if the Scheme were to be withdrawn. A report by KPMG showed that there would be a loss of between 4,050 and 10,100 jobs and a decrease in tax revenues of between £11.4 million and £86.5 million. While these figures did show a potential large range of differential, there is clear emphasis of the potential loss had the Scheme been withdrawn.

### *VAT registration forms*

In addition to forms VAT1 and 2, there are two types of VAT declaration forms available depending whether the owner is registering a Sole Owner (D1) or a Joint Ownership/Racing Partnership (D2). If the owner is already registered for VAT in the UK and intends to race horses under that VAT number, they do not need to complete a new VAT1 form. In such circumstances, only the completed and verified Declaration form (D1/D2) should be forwarded to HMRC.

### *Action plan for the professional adviser*

So what are the general considerations for the general practitioner and tax adviser? First, as racehorse ownership is often (erroneously) considered to be 'outside the scope of tax' or 'tax free' many racehorse owners overlook informing their professional advisers of their interests. Many trainers organise the sponsorship for the owners and there can be confusion over existing VAT registrations for other business interests.

The renewal of the VAT Scheme can be used as a trigger for advisers to review the complex tax angles of racehorse ownership and to try and unearth what compliance and planning problems clients are possibly failing to highlight, for example:

- Ownership with sponsorship income that needs declaring on the tax return.
- Ownership via EIS scheme (very fashionable!).
- Investment in racing clubs and pinhooking syndicates again with tax relief via the EIS scheme.
- Shares in stallions where the nomination income is taxable 'miscellaneous income' under ITTOIA 2005 (formerly under Schedule D Case VI).

There are also angles of tax planning that the adviser should be involved in, eg the detail of the business sponsorship. Should the sponsorship agreement be reviewed before the VAT1/VAT2 or D1/D2 is submitted?

Action point – enter into client discussions before it is too late.

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