

London Borough of Waltham Forest

VAT Guidance

Taken from: http://forestnet.lbwf.gov.uk/index/fin-finance/finance-vat_page/finance-vat-guidance.htm

General explanation of Value Added Tax

1. What is VAT?

VAT is a tax on goods and services provided. It is charged on business transactions and imports. Everyone pays VAT on various purchases all the time **even Local Authorities**.

Organisations which supply taxable goods and services have to register for VAT if their annual taxable turnover exceeds the registration threshold, which is set by the government. Each Local Authority which makes a taxable supply has to become VAT registered whatever the value of their annual taxable turnover.

Being VAT registered requires the organisation to complete a periodical return to HM Revenue and Customs to pay VAT on taxable income and reclaim VAT on expenditure.

The Council submits monthly VAT returns to HM Revenue and Customs and as the Council has more expenditure than income, we reclaim the net VAT - which is VAT on expenditure less VAT on income. On average this amounts to approximately £2 – 3 million per month.

2. Types of VAT

Currently there are five categories into which the supplies of goods and services are grouped:

Standard rated

From 4 January 2011 the standard rate of VAT increased to 20%, which is applied to most retail goods and services. A VAT registered trader is required to add VAT at 20% to the selling price of goods or services and will have to account to HM Revenue and Customs on a periodical basis for the difference between the tax charged and that paid on supplies to them.

Lower rated

From 1 September 1997 a lower rate of 5% VAT was introduced.

Examples of goods and services charged at the lower rate are:

- Domestic supplies of fuel and power (including any quarterly standing charge)

- Low commercial usage of fuel and power
- Supplies of energy saving materials funded through certain grant schemes
- Sanitary hygiene products
- Children's car seats

Zero rated

Some goods and services are Zero rated which means that they're taxable items but at Zero percent. A registered trader can reclaim the VAT charged on expenditure incurred to make these zero rated supplies.

Examples of Zero rated goods and services are:

- Food and drink (excludes hot takeaway or catering food, crisps/savoury snacks, sweets, Ice cream, alcoholic drinks, soft drinks and Mineral water)
- Water charges
- Books, brochures, leaflets, newspapers, maps
- Child size clothes and footwear

Exempt

Some goods and services are exempt from VAT which means they are not taxable supplies. However in supplying these types of services, a registered trader cannot reclaim any VAT that is charged on expenditure to make these supplies. As an exception Local Authorities are able to reclaim a certain amount of VAT on such expenditure providing it does not breach HM Revenue and Customs thresholds.

Examples of exempt goods and services are:

- Insurance
- Postal services
- Hiring of land/space etc

Non-Business

Also known as 'Outside the Scope' is another area where no VAT is charged. These services would normally be supplied under a statutory duty. Local Authorities are in the main, suppliers of such services. A registered trader would not be able to reclaim VAT on expenditure incurred, however a Local Authority and similar bodies are in a **special position** regarding their non-business activities to be able to reclaim VAT on expenditure (see paragraph 7).

Examples of non-business goods and services are:

- Local Authority housing
- Supply of primary and secondary education
- Certain library services
- Domestic refuse collection
- Donations (freely given with nothing in return)

3. Input Tax

Input tax is VAT on expenditure and is payable on standard rated and lower rated supplies of goods and services incurred in the day to day business activities of a registered trader. The input tax can only be reclaimed if certain conditions are met.

We can only reclaim VAT on expenditure incurred if a VAT invoice is received.

For a VAT invoice for goods over £100 the following must be shown:

- Name and Address of Council/Council service/school
- Name and address of supplier
- Suppliers VAT registration number
- Invoice date
- Invoice number
- Type/description of goods or services
- Quantity of goods or services
- Net amount payable before VAT
- Rate and amount of VAT
- If items are zero rated or exempt this must be stated

For goods/services under £100 a less detailed VAT invoice can be used to reclaim VAT however it must contain the following information:

- Name and Address of Council/Council service/school
- Name and address of supplier
- Vendors/suppliers VAT registration number
- Invoice date
- Type/description of goods or services

- Rate and amount of VAT
- Total amount payable including VAT

With some small purchases you may only get a till receipt, this is OK providing the receipt contains the **vendors/suppliers name** and the vendors/suppliers **VAT registration number**

Where a VAT invoice/receipt is not available or the vendor/supplier is not VAT registered then the expenditure will be treated as non-business. This applies even if the type of supply would normally be VATable.

If you do not have a VAT invoice then VAT cannot be reclaimed. The whole cost will be charged to the school's/service's budget.

4. Output Tax

Output tax is VAT on income. VAT must be charged on all VATable income.

When raising customer (debtor) invoices the same VAT invoice rules as above apply to income. Invoices issued by SAP are VAT invoices. They have been set up to contain all the relevant information required.

However whether a customer invoice is issued or not VAT must be accounted for on income. The onus is on the Council, and hence each individual service, department and school to get it right. HM Revenue and Customs will take the VAT from us even if we have forgotten to charge our customer and could also impose a penalty.

5. Identifying and coding rates of VAT

Legally a VAT registered organisation is required to separately identify and account for standard rated, lower rated, zero rated, exempt and non-business expenditure and income. The Council complies with this by the use of ciphers within the SAP system.

The current ciphers set up in SAP are as follows:

UE - Standard rated expenditure (20%)

UI - Standard rated income (20%)

This is the current standard rate effective from 4 January 2011

SE - Standard rated expenditure (17.5%)

SI - Standard rated income (17.5%)

This was the previous standard rate up to 31 December 2010 - **Do not use**

TE - Standard rated expenditure (15%)

TI - Standard rated income (15%)

This was a reduced rate effective between 1 December 2008 and 31 December 2009 - **Do not use**

FE - Lower rated expenditure (5%)

FI - Lower rated income (5%)

ZE - Zero rated expenditure

ZI - Zero rated income

XE - Exempt expenditure

XI - Exempt income

NE - Non-business expenditure

NI - Non-business income

Some cost elements on SAP are already set up to default to a VAT cipher, others may prompt you to put the correct one against it when doing a transaction.

Please note that it is extremely important that the current ciphers are used. Errors identified by HM Revenue and Customs may result in penalty charges being incurred by the originating department/service.

6. Internal transactions

Because the Council as a whole is VAT registered, every service/department is included under the same VAT number. In order to avoid double counting on the VAT return, no VAT is applied on charges between Council services/departments. This includes goods and services supplied to our schools by Council departments. All these internal charges/transactions are coded as Non-business, NE for expenditure and NI for income.

However please note that any supplies made to Colleges, Ascham Homes and Babcock are not internal as these organisations are not part of the Council. VAT is chargeable at the lower or standard rate on taxable transactions to these organisations.

7. Special position of Local Authorities

When supplying non-business goods and services, normally a registered trader cannot recover any VAT incurred on purchases made for these supplies. However since the introduction of VAT in 1973, special arrangements were made under Section 15 (now Section 33 of the VAT Act 1994) for Local Authorities and similar bodies to recover their input VAT from HM Revenue and Customs on their statutory and non-business activities so as not to put a burden on the Council Tax and subsequently any supporting government grants.

Local Authorities are in a more favourable position in that they can recover almost all of the VAT charged to them by suppliers on goods and services.

The supply of services between Local Authorities, are predominantly deemed by HM Revenue and Customs to be non-business transactions if they are not in competition with the private sector. However these may be taxed if both parties agree.

8. School funds

School funds are not part of the LEA funds and so VAT cannot be reclaimed on Expenditure or payable on Income. These are the schools own private funds that do not form part of their allocated budget share.

Care should always be taken by the schools not to muddle up transactions between the school funds and their budget account. Expenditure incurred by school fund monies should be financed from such and any related income should also be put into the fund. The same would apply for the budget account.

Where purchases are made by the school from the school fund monies VAT cannot be reclaimed. If the school finds this to be too costly for the fund then the **correct** way to deal with this situation is to purchase items from the LEA budget, putting the expenditure through the Council's (school's) accounts and reclaiming VAT. The fund can then **donate** an amount towards the purchase. No output tax is applied to the receipt of the donated funds as this income is treated as non-business.

9. Foundation schools

These were the former Grant Maintained schools which are now again part of the LEA and are included in the Council's VAT return. However, the ownership of the assets (property and buildings) has not passed to the LEA. For these schools VAT cannot be recovered on works to the outside of the buildings as these are the responsibility of the governors.

However VAT can be recovered on internal repairs and maintenance works which fall within the LEA's liability.

10. VAT on Car Allowances

All employees who are casual or essential car users must provide a fuel receipt(s)/invoice(s) with their car mileage claim in respect of the mileage claimed. It is appreciated that individual fuel receipt(s)/invoice(s) cannot be directly linked to the mileage claimed so as long as the receipt(s) is sufficient to cover the mileage claimed it will be accepted as valid proof.

If no such evidence is provided, the VAT recovery will be disallowed and the cost will fall on the service. If checking by HM Revenue and Customs reveals we are consistently failing to provide supporting evidence then the facility to claim the VAT will be removed.

The authorising officer must ensure that VAT receipt(s)/invoice(s) are provided to support mileage claims before payment is allowed.

11. VAT Inspectors

The Authority is assigned a VAT inspector by HM Revenue and Customs. A main part of their duties is to ensure that VAT is being accounted for correctly and to provide advice and guidance when

necessary. From time to time the VAT inspector will visit the Council. These visits, with prior notice, can include an audit of a service departments financial records. In these circumstances they do have a statutory right to enter our premises and ask to see any financial records which are kept there.

Any assessments on errors made that may be raised by HM Revenue and Customs during an audit of a section (for example not charging VAT on income or wrongly reclaiming VAT on expenditure) will also include interest charges. These charges will fall on the department/section where the errors were found.

12. Information

All information on VAT matters, procedures, guidance, training and advice can be obtained from the Corporate Finance section. Please do not hesitate to contact us if you are unsure of a VAT treatment on an item of expenditure or income. It is better to call us then to attempt a guess and get it wrong. Remember VAT assessments are charged to the originating department.

If you have any queries on VAT or need VAT advice please contact either Brian Miller x4477 or Matthew Court x4232, or direct lines 8496 4477 and 8496 4232, or e-mail:

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