

VAT SYSTEMS FOR SCHOOLS

**Produced by Corporate Finance Team
Bath Guildhall**

Revised February 2011

Who supplies what to whom? Is there a VAT Invoice?

VAT SYSTEMS FOR SCHOOLS

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Disclaimer

This document is solely intended for LEA schools in Bath and North East Somerset. Other parties should seek help from their own tax advisors.

1 Introduction

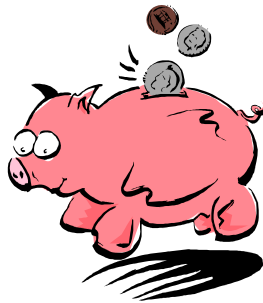
Here's some guidance for those of you in schools who are interested in the fascinating and illuminating world of VAT. This edition contains revisions up to January 2011. I would appreciate your assistance in further improving it.

Section 2 is a set of quick reference tables. Section 3 gives a brief outline of VAT as it applies to local authority schools, and includes definitions of key terms. The remainder of this document is intended to be a detailed guide.

These guidelines apply to all schools whether they purchase financial services from the Council or elsewhere.

Failure to take account of tax may result in serious financial consequences. Ignorance of the law is no defence in the event of non-compliance.

This guidance has benefited from your queries. I also acknowledge the support of colleagues in Children's Services Finance, Internal Audit and my own section. Please send any comments about this guidance to John Miller (01225-396482) or write to the Corporate Finance team at Bath Guildhall.



Clearly it is not possible to cover all possible circumstances in a guide of this type. If you have a query, please contact me. If necessary I can obtain assistance from colleagues elsewhere or from specialist consultants. It will assist your enquiry if you can identify:

- The payer;
- The payee;
- The precise goods or services supplied;
- Whether or not they are directly related to the statutory education service;
- Any arrangement already made with your customer or supplier.

Please contact before a payment is agreed, not afterwards. It is rarely possible to “undo” transactions.

2 Key Tables

2.1 VAT Rates –Types of Transaction

Type of supply	Taxable?	Customer	Supplier	Examples
Standard Rate (normally 20%)	Yes	Pays VAT	Recovers VAT on costs subject to usual conditions	Office equipment, petrol, exercise books
Lower Rate (currently 5%)	Yes	Pays VAT	Recovers VAT on costs subject to usual conditions	Fuel for VA,VC and Foundation Schools
Zero Rate	Yes	No VAT Payable	Recovers VAT on costs subject to usual conditions	Children's clothes printed books
Exempt	No	No VAT Payable	Council can recover all VAT on costs if it meets usual conditions, and 'exempt' VAT is less than 5% of all VAT paid (other suppliers generally cannot recover VAT)	Most room hire; Course fees paid to the Council and non-profit making bodies
Non-Business, Outside the scope	No	No VAT Payable	Council can recover all VAT on costs if it meets usual conditions (other suppliers cannot recover VAT)	Catering for pupils; grants, donations

The usual conditions are:

To enable any organisation to claim VAT on its costs it must:

- 1) Place the order and receive the supply;**
- 2) Possess a valid VAT invoice, addressed to it;**
- 3) Make a payment out of its' own funds.**

2.2 Common Items of Expenditure

As a very general guide the table below shows the VAT treatment which you should find on various items of expenditure

Supply	Tax Paid?
Clothing (for children up to 13 years)	No
Clothing (larger sizes)	Yes
Coach Hire (with driver)	No
Equipment	Yes
Food & Drink	see section 5.5
Insurance	No (IPT is irrecoverable)
Interview expenses of candidates	Any VAT irrecoverable
Materials	Yes
Minibus Hire (self drive)	Yes
MOT fees and Road tax	No
Newspapers and magazines	No
Off-street parking	Yes
Office supplies	Yes
On-street parking	No
Postage stamps	No
Printed Books and Maps	No
Public transport	No
School Trips	See section 5.6
Stationery & Exercise books	Yes
Taxis	Yes, if VAT-registered
Telephone calls	Yes
Vehicle Repair Costs	Yes

2.3 Apportionment of a Retailer's Invoice

Example: A bill for £10 including VAT should be split into:

$$\text{Cost before VAT} = \frac{100}{120} \times £10 = £8.33 \text{ (rounded to the nearest 1p)}$$

and $\text{VAT} = \frac{20}{120} \times £10 = £1.67$

2.4 Food and Drink Items

Standard Rated Food Items.

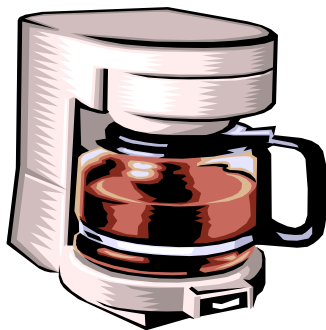
-
- Any heated food or drink
- Confectionery and cereal bars, but not cakes which are zero-rated.
- Biscuits wholly or partly covered with chocolate, though non chocolate biscuits are zero-rated.
- Ice cream, ice-lollies, frozen yoghurt, water ices and similar frozen products.
- Beverages such as fruit juices, squashes and bottled waters.
- Spirits, beer, wine.
- Potato based snacks such as crisps, potato sticks and Pringles.
- Salted or roasted peanuts.

Zero Rated Food Items

Cold food is generally zero rated (but note the exceptions listed as standard rated above). Examples of zero rated items are:

- Biscuits with no chocolate
- Cakes
- Sandwiches
- Fruit
- Tea bags, coffee powder and milk
- Cold meat (including cooked)

See also section 7.2: Catering Income



2.5 Major Items of income

For full details see the relevant section of the guide. Key:

N: Non-business

S Standard Rated

E: Exempt

Z Zero rated

Income	VAT Treatment	Section
Charges to Bath & North East Somerset Council schools and services	N	6.1
Charges to other local authorities	Goods: S, Z or E Services: may be S, E or N	6.1
Admission to school events	N if paid into unregistered school fund; S if paid into Council fund	7.9
Childcare	N if under childcare strategy or pupil-focussed otherwise E	7.4
Clothing	Z if they meet criteria for children under 14; S otherwise	7.5
Exam Fees	N subject to conditions	7.7
Hall Lettings	E if a simple letting of a hall and “usual” facilities	7.10
Musical Instruments & Other Equipment: sales and hire	N if criteria met; otherwise S	7.13
Music Tuition (optional lessons)	N	7.7
Photographs	N if paid into Governor’s fund; else S	7.16
Sales to staff and other adults (including ex-school equipment)	S	7.20
School meals	N for pupils; S for staff	7.2
School trips and other curricular activities	N if school does not make a profit; otherwise S	7.15, 7.18
Sponsorship	S	7.6
Sports Facilities and dance studios let by LA fund	E if for non-sports event, for over 24 hours or on the “ten lets” rule; otherwise S	7.10
Transport from home to school	B	7.21
Vending Machine Income	N or S according to contract and customers	7.3

2.6 Treatment of Letting Income

The table below summarises the VAT treatment of lettings and related activities:

General Principles	VAT Rule
All lettings in the name of Governors of voluntary aided, voluntary controlled and foundation schools: see note 1	No VAT if fund unregistered
All lettings to other Bath & North East Somerset Council schools and Services, regardless of the activity	Outside the scope of VAT
All lettings in connection with the national childcare strategy	Non-Business
Catering supplied by the school to the hirer	See section 7.2
Hire of additional LA equipment	Standard Rate
Lettings in the name of the LA to other users:	
Hire of halls and rooms	Exempt
Tables, chairs, flipcharts, projector, light refreshments and other “usual facilities” included in charge	Exempt
Kitchen facilities and equipment for the hirer’s use	Exempt
Sports facilities or a dance studio (see note 2 below) let for 10 or more sessions under <u>all</u> the conditions listed in note 3	Exempt
Sports facilities or dance studio: a single continuous letting for over 24 hours	Exempt
Sports facilities etc. let for non –sporting activities	Exempt
Sports facilities etc: all other lettings	Standard Rate
Car parking charges	Standard Rate
Land used as a car park	Standard Rate
Caravan and tent pitches and site fees	Standard Rate
Market stalls, car boot sales and other concessions	Exempt

Notes:

(1) Governors’ income can be donated to the LA fund to spend the money and recover the VAT in the normal way. Letting of new facilities at Foundation Schools may have to be treated as if by the LA. *This note is all liable to review.*

(2) A general purpose hall with no facilities other than floor markings is **not** a sports facility. The hire of such a hall even to say a badminton club is exempt from VAT.

(3) A series of lettings of sports facilities etc. is exempt if **all** of the following hold:

- the series consists of ten or more sessions;
- each session is for the same sport or activity at the same place;
- the interval between the end of one session and the start of the next session is at least 24 hours and not more than 14 days;
- there is written evidence of a fixed price for the whole series, (although this does not preclude payment by instalment);
- there is no refund provision, unless the facility is unavailable to the hirer;
- the letting is to a school, club, association or an organisation representing affiliated clubs or constituent associations (i.e. not a sports or other company);
- the persons to whom the facilities are let have exclusive use .

3 The VAT System

This section gives a brief general introduction to the VAT system, and summarises the position of different school funds within the system.

The amount of finance available to a school may be directly or indirectly affected by the impact of VAT on transactions. Effective tax planning may reduce the burden of VAT on school expenditure and the liability for VAT arising from school income.

3.1 Outline of VAT

VAT is a tax on the supplies of all goods and services in the UK by any organisation or person which are made “in the course of business”, and which are not specifically zero-rated or exempted.

The “supply of goods” entails the passing of exclusive ownership of goods to another person. The “supply of services” covers any other transaction. The supply does not have to be in exchange for money. For example if a builder does some work for a school and the school pays him by giving him a spare computer, there are two distinct taxable supplies and the VAT must be charged based on the open market value of each supply. The essential thing therefore is to try to identify whether a taxable supply has been made.

A “taxable person” is one who is registered for VAT. Persons must be registered if they make “taxable supplies” worth more than the registration threshold, currently £70,000 per year. A “taxable supply” is any transaction that is subject to VAT, or deemed to be zero-rated. An LA school is treated as part of the parent authority (see 3.3 below).

“In the course of business” means that taxable supplies are made which represent some sort of continuing activity for gain. If you provide goods and services in parallel with the private sector the tax paid by customers is normally identical in order to maintain fair competition.

VAT regulations distinguish five types of transactions, listed over, according to whether

- Tax is charged to the customer; and
- Customs will refund VAT on costs subject to their general conditions for VAT recovery. Section 4 gives details of these conditions.

Types of Transaction

Type of supply	Taxable?	Customer	Supplier	Examples
Standard Rate (normally 20%)	Yes	Pays VAT	Recovers VAT on costs subject to usual conditions	Office equipment, petrol, exercise books
Lower Rate (currently 5%)	Yes	Pays VAT	Recovers VAT on costs subject to usual conditions	Fuel for VA, VC and Foundation Schools
Zero Rate	Yes	No VAT Payable	Recovers VAT on costs subject to usual conditions	Children's clothes printed books
Exempt	No	No VAT Payable	Council can recover all VAT on costs if it meets usual conditions, and 'exempt' VAT is less than 5% of all VAT paid (other suppliers generally cannot recover VAT)	Most room hire; Course fees paid to the Council and non-profit making bodies
Non-Business, Outside the scope	No	No VAT Payable	Council can recover all VAT on costs if it meets usual conditions (other suppliers cannot recover)	Catering for pupils; grants, donations

Note the difference between “zero-rated”, “exempt” and “non-business” supplies. From the viewpoint of the purchaser they are the **same** - no VAT is added to the bill. However the distinction usually affects the ability of the supplier to recover from Customs any VAT incurred on producing these supplies.

Any VAT on supplies made by the school is called “output VAT”. VAT charged to the school by suppliers is called “input VAT”.

3.2 Refunds of VAT

At the end of each month the total output tax is set off against the total input tax of the authority and the balance is claimed from Customs. Subject to certain procedures (section 4) and limitations (sections 5 and 9) local authorities are able to reclaim all input tax incurred in making expenditure.

3.3 Customs and Excise see Schools as Part of the Council

A school spends its delegated budget (including donations and fees that are credited to that budget) as ‘an agent of the LA’. Even if the school purchases its own financial advice and administration it cannot register separately with Customs and submit its own claims for refunds of VAT.

A school should liaise with the VAT advisor at Bath Guildhall if:

- It is unsure whether its charges carry VAT
- There is an error on a past refund claim (see section 8.4);
- There are ‘extended school’ activities on site (section 9).

3.4 School Funds and Parent Teachers Associations

If an activity is not operated through the school’s official (LA) fund it is not covered by the Council’s VAT registration. Examples include:

- VA schools capital funds (see section 5.8)
- Unofficial School funds
- Parent Teacher Associations
- Independent After-School Clubs (see section 9)
- Governors’ community-focussed activities (also see section 9)

Such funds are separate bodies for VAT purposes. They need only register for VAT if they make “taxable supplies” above the registration threshold (currently £70,000 per annum). Normally they are below this threshold and do not register. There is no need to charge VAT on business activities or funding raising events but no refund of VAT on costs. Any profits to be used for state education should be donated to the LA fund (see section 7.9).

Schools must **take care** to ensure that income and payments go to and from the correct fund. If payment is made to or from the wrong fund in error, it **may not be possible** to correct this later and adjust the VAT.

3.5 Non-LA Funds: What if supplies exceed £70,000 p.a.?

If, exceptionally, taxable supplies exceed £70,000 a year, the Governors’ or school fund must register and charge VAT when required to do so by the law. It also needs to provide a separate VAT return direct to Customs. It will be able to reclaim VAT on costs incurred while making taxable supplies to its customers.

Note that “taxable supplies” are anything that is standard or zero rated when supplied by a registered body. However they exclude any exempt lettings or instruction and anything provided free of charge. A non-LA fund cannot recover any VAT paid on the cost of these activities.

4 Expenditure

4.1 Introduction

This section is intended to assist coding of payments. Though not intended as a comprehensive guide, it does attempt to answer the more common questions relating to the claiming of VAT on expenses.



THE BASIC RULE FOR CLAIMING VAT ON COSTS

Though VAT is governed by a complex set of rules, the basic rule for claiming VAT is simple.

IF WE CAN'T PROVE THAT WE HAVE BEEN CHARGED VAT, WE CAN'T CLAIM IT.

To enable any organisation to claim VAT on its costs it must:

- 1) Place the order and receive the supply;**
- 2) Possess a valid VAT invoice, addressed to it;**
- 3) Make a payment out of its own funds.**

The following pages expand on the above basic rule. Keep this basic rule in mind and you won't go far wrong.

4.2 Claiming VAT on costs

To be able to claim VAT on costs **3 basic requirements** must be met:

Requirement 1: There must be a valid VAT invoice addressed to the School or Council

VAT should not normally be claimed without a valid VAT invoice that is addressed to the School or the Council. The invoice should be the original, not a photocopy. If you pay for the goods before you receive a VAT invoice you must charge the gross amount to the school. The supplier is legally obliged to provide a VAT invoice on request. When he does you may then transfer the VAT to the appropriate code. .

Please refer to section 4.5 on for more complete details of the requirements for a VAT invoice. In certain circumstances the requirements for an invoice have been relaxed: please refer to sections 4.6 and 4.7 below for further details. Section 4.8 advises on invoices sent electronically. If, in spite of your requests, a supplier does not send a VAT invoice you should refer to section 4.13.

Any recoverable VAT that is not claimed is an increased cost to the School. It is therefore important to claim all the VAT that can be recovered. However, the value of the VAT recovered must be balanced against the administrative costs of identifying and claiming that VAT, so don't waste too much of your time for a few pence.

Please also note that VAT claimed erroneously could cost the school interest and penalties if discovered by Customs. The correction of such errors is also time-consuming.

Requirement 2: The Council must place the order and be the beneficial recipient of the goods or services supplied

VAT on costs can only be claimed by the organisation to which the supply was made. Thus the Council cannot claim VAT on purchases that are not made by the LEA fund. Sections 5.1, 5.2, 5.4, 5.8 and 9.2 cover other occasions when VAT cannot be reclaimed.

If you are working with another organisation, you must prove that you are the beneficiary of the supply in order to claim VAT.

Requirement 3: The Council must pay for the goods

A school must pay from its own LA account, either direct to the supplier or via the central Council account.

4.3 Reimbursements to Employees

The requirements for claiming VAT for petty cash payments are the same as for other payments. To be able to claim VAT you must almost always have a valid VAT invoice or retailer's receipt. For more details and where no invoice is required, please refer to sections 4.5 to 4.7 below. Advice on specific items is given in section 5.

Failure to obtain a VAT receipt, or to separate out VAT charged, will mean that cash is lost to your school. When dealing with very small sums you should weigh any additional administration against the extra funds recovered from Customs.

If an employee orders goods and uses a payment card, the invoice may be in their name instead of the school. The school can still pay and recover the VAT provided that it can show that the purchase was for the purposes of the school and it has a VAT invoice.

If you pay expenses via the Council payroll system you are responsible for the VAT information on the claim form. Payroll staff are not responsible for correcting VAT errors. Advice on subsistence expenses is given in section 5.4.

(Please see next page for detail of what a VAT invoice must show.)



4.4 An Example of a VAT Invoice

<p><u>Office Equipment and Supplies Ltd.</u> High Street BATH BA1 UQT VAT Reg. No. 987 6543 21</p>		<p>Sales Invoice No.: 0010174 Invoice Date: 19/08/11</p>	
<p>To: CORPORATE FINANCE BATH & NORTH EAST SOMERSET COUNCIL GUILDHALL HIGH STREET BATH</p>			
<p>Sale: Time of Supply 16/08/09</p>			
Quantity	Description and Unit Price	Amount excluding VAT	VAT *
1	"Life After the Storm" by Gordon Brown @ £30.00	30.00	0.00
1	Big Mac Y2015 PC @ £612.50	612.50	* 116.38
40	Spirofiles @ £1.00	40.00	* 7.60
		----- 682.50	
	DELIVERY (STRICTLY NET **)	9.00	1.80
<p>Terms: Cash discount of 5% if paid within 14 days</p>		691.50	125.78
<p>VAT</p>		125.78	
<p>AMOUNT DUE</p>		817.28	

* VAT calculated on the discount price (please see section 4.14 for details on discounts).
 ** "Strictly Net" means no discount is given for early payment on this item.

4.5 What Must a VAT Invoice Show?

To allow the Council to claim VAT, the invoice / receipt must detail the following (please refer to the hypothetical example on the previous page):

- an identifying number (i.e. sequential invoice number)
- the suppliers name, address and VAT Registration Number
- date of supply
- date of issue (if different)
- the School's (or Council's) name and address (as customer)
(or a petrol retailer may show the vehicle registration number)
- type of supply (e.g. sale or rental, etc.)
- a description which identifies the goods or services supplied

The following must be shown, if necessary for each item's description:

- quantity of goods or extent of the service
- unit price (for 'countable' goods and services)
- charge made, excluding VAT
- amount of VAT

The following should also be shown:

- total charge made, excluding VAT
- rate of any cash discount offered
- total VAT payable

Please see sections 4.6 & 4.7 for the requirements for lower value transactions.

4.6 Retailers Invoices for less than £250

VAT paid to a retailer may be claimed on a less detailed invoice provided that the total charge including VAT is less than £250 and the invoice shows the following information:

- the name, address and VAT registration number of the supplier.
- the date of supply.
- a description that identifies the goods / service provided.
- the charge made including VAT, i.e. the total amount.

The retailer need not show separately the amount of VAT paid. In such cases you must calculate VAT as 20p out of every £1.20 spent. For example a bill for £10 including VAT should be split into:

$$\text{Cost before VAT} = \frac{100}{120} \times £10 = £8.33 \text{ (rounded to the nearest 1p)}$$

and $\text{VAT} = \frac{20}{120} \times £10 = £1.67$

This relaxation allows you to use shop and petrol station receipts that bear the above details as evidence for a VAT refund. Items on the till receipt that are standard rated are sometimes identified by a mark, often “*” or “v”.

It is important that the goods on which VAT is being claimed can be identified from the receipt. If not, VAT cannot be claimed.

It is worth noting that a till receipt may be **insufficient** for claiming VAT. Some may not carry a VAT number. Others do not identify the goods sold so you have no evidence that VAT has been charged.

4.7 Items where no Invoice is Required

When using a corporate purchasing card to buy goods from a ‘VAT-capable’ supplier the bank statement is evidence of entitlement to a refund of VAT.

You do not need a VAT invoice for some types of supply if your total expenditure for each taxable supply was £25 or less (including VAT). This applies to:

- telephone calls from public or private telephones;
- purchases through coin-operated machines;
- car park charges (on-street parking is not subject to VAT); and
- single or return tolls for bridges operated by a private body (these include the Bathampton toll bridge and both Severn crossings).

In no other case can VAT be claimed without an invoice.

4.8 Electronic Invoices

Customs now permit the transmission of invoices by fax or e-mail. Subject to notification to Customs a supplier may also send invoices by other electronic means. If you receive an invoice by fax, e-mail or other electronic means you should:

- Print the document and check that the details are clearly legible. If a fax is not clear you may need to contact the supplier.
- Take particular care to ensure that you do not pay the bill twice. You should sign the paper copy and certify that checks have been carried out to verify that it has not been paid already. This statement will provide the necessary assurance to your colleague authorising the payment.
- Store the paper copy until arrangements for electronic storage have been agreed by Internal Audit.

4.9 Proforma Invoices

A proforma invoice (sometimes called an Application for Payment) is not a valid VAT invoice. **Under no circumstance should VAT be claimed on a proforma invoice.** The proforma should note that it is not a VAT invoice.

If you choose to accept a proforma invoice and raise a payment on it, then you should code the payment slip 'B'. The VAT becomes an **additional cost** of the item purchased for your school. Only when the supplier sends a proper VAT invoice, can you adjust your accounts and reclaim any VAT. However be careful not to make a **duplicate payment** to the supplier.

If possible therefore, **do not accept a proforma invoice**; insist on a proper VAT invoice. The supplier has the right to issue a proforma invoice and the customer has the right to refuse to pay on a proforma and insist on a proper VAT invoice prior to arranging payment. Proforma invoices are issued by suppliers to aid their cash flow. They therefore benefit the suppliers but cause you extra work or costs.

If you attempt to claim VAT on a proforma invoice you risk an assessment and penalty from Customs (see section 8). **This will be charged to your school budget.**

4.10 Periodic Payments

Periodic payments have caused some confusion in the past; however **the VAT rules are no different from those governing other payments.** If your system generates periodic payments automatically you must check that you have a VAT invoice before you include the VAT in your monthly refund claim.

4.11 Errors on Invoices

In no circumstances can an invoice be altered. Thus, if the invoice is not addressed to the Council or the School, or if the VAT calculation is wrong by more than a trivial amount, the invoice must be returned to the supplier to produce a correct invoice.

4.12 VAT Coding For Payments

There are two important factors when coding an invoice:

- VAT can only be reclaimed with a valid VAT invoice that shows VAT has been charged to the Council;
- VAT should be reclaimed wherever this is possible.

If VAT has been incurred it is important to obtain a VAT invoice. Without a VAT invoice the VAT cannot be reclaimed and will become an additional cost to the school. Please refer to sections 4.3 to 4.7 above for the requirements of a VAT invoice in various circumstances. You should not attempt to claim VAT when using a **request for payment** or similar document. Such a form should only be used if you do not have an invoice, and as you now know you cannot reclaim VAT without a valid VAT invoice.

Payment systems carry several VAT classification codes. The table below outlines the codes on SIMS.

CODE	RATE	EXPLANATION
W	New Standard Rate	VAT @ 20% can be claimed. You must have a valid VAT invoice showing that VAT has been charged on the item.
S	Old Standard Rate	VAT @ 17½% can be claimed. You must have a valid VAT invoice showing that VAT has been charged on the item.
T	Temporary Standard Rate	VAT @ 15% can be claimed. You must have a valid VAT invoice showing that VAT has been charged on the item.
F	Lower rate	The lower rate of VAT, currently 5%, applies chiefly to fuel used by VA, VC and foundation schools and in small amounts. You must hold a valid VAT invoice.
B E or Z	Non-Business Exempt Zero-rated	No VAT has been charged. Each of these codes is technically very distinct. This distinction is crucial in coding income. However it is not critical in coding payments. If you know the correct classification, please use it. The critical issue is that you do not attempt to reclaim VAT that has not been charged.

4.13 Help! I Cannot Get a Proper VAT Invoice

The following is based on Customs internal guidance, now on their web site. A document should be accepted by Customs as a VAT invoice if it meets the legal requirements for a VAT invoice except that:

- There is no identifying sequential number or
- The name and address is missing or
- There is a date but no separate identification of the tax point

If the paperwork is less complete an inspector may use *discretion* to accept it as satisfactory evidence of the right to recover VAT. In using this discretion he or she must be fair and reasonable. Factors to be considered are:

- Is it reasonable for you to obtain a proper tax invoice or a duplicate?
- Compliance record – is this an isolated issue?
- Answers to the test questions below

If you only get a **pro forma** invoice (see section 4.9) or other document that is not an invoice an inspector will expect you to ask for a VAT receipt. In rare cases where a supplier does not provide a receipt, Customs advise:

1. Taxpayers **must** try to obtain VAT invoices, sending written requests and keeping **copies of letters or e-mails**.
2. If you are unable to obtain the correct document you **may** normally recover VAT if you hold alternative evidence to answer most of the tests listed below.
3. Customs fear tax abuse and fraud in certain markets: computer parts, accessories and software; telephones; telecoms equipment, parts and accessories; alcoholic drinks and road fuel. For such purchases you must be able to answer to almost all of the test questions and show care in checking the supplier and goods are 'bona fide'.

If a large supplier regularly fails to provide invoices please contact Corporate Finance to discuss. Finally, please balance the cost of your time and that of the supplier in chasing documentation. Do not spend time chasing VAT invoices for small amounts.

Test Questions* to determine if there is a right to recover VAT without a VAT invoice

1. Do you have alternative documentary evidence (e.g. supplier statement)?
2. Do you have evidence of receipt of a taxable supply on which VAT has been charged?
3. Do you have evidence of payment?
4. Do you have evidence of how the goods/services have been used in your school?
5. How did you know that the supplier existed?
6. How was your relationship with the supplier established? For example:
 - How was contact made?
 - Do you know where the supplier operates from (have you been there)?
 - How do you contact them?
 - How do you know they can supply the goods or services?
 - If goods, how do you know the goods are not stolen?
 - How do you return faulty supplies?

*This list is not exhaustive and additional questions may be asked in individual circumstances

4.14 Discounts

There are three main types of discount. In all cases you should enter the VAT shown on the invoice into your accounting records. The rationale behind the figures is given below.

Trade Discounts

VAT is always 20% of the discounted selling price. This is because it is known with certainty that the customer will be paying the discounted amount.

Settlement Discounts

If the supplier offers a discount for early payment, the VAT is based on the discounted sum, even if the discount is not taken. This is to avoid the supplier having to re-calculate and amend the VAT for each transaction. This can lead to a VAT figure that is not 20% of the pre-VAT amount: regardless of what is paid, the VAT remains the same.

Example: if A, B and C are offered a discount of up to 2% for early payment:

	A	B	C
	<u>£</u>	<u>£</u>	<u>£</u>
Discount Rate	NIL	1%	2%
Goods Price	10,000	10,000	10,000
Less Early Payment Discount	0	100	200
Net Selling Price	10,000	9,900	9,800
VAT @ 20% on £9,800	<u>1,960</u>	<u>1,960</u>	<u>1,960</u>
Invoice Total & Total Due	11,960	11,860	11,760

The VAT amount stays the same regardless of whether the discount is taken or not. In examples A and B you may need to enter the payment in two lines: first put in £9,800 plus VAT, then the balance without VAT.

The invoice example in section 4.4 shows an invoice carrying a settlement or payment discount.

Contingent Discounts

If a discount is offered on the condition that something happens at a later date (such as a placing future orders), then the VAT value is based on the full amount paid on the initial transaction. Any subsequent discount will have to be made by the issue of a credit note.

5 School Expenditure: Special Cases

The tables in 5.1 give examples of the VAT charges that a school should expect to pay. The rest of this section looks at various special cases. Remember the basic rule and you will not go far wrong:

To enable any organisation to claim VAT on its costs it must:

- 1) Place the order and receive the supply;**
- 2) Possess a valid VAT invoice, addressed to it;**
- 3) Make a payment out of its own funds.**

5.1 Summary

As a very general guide the table below shows the VAT treatment which you should find on various items of expenditure

Supply	Tax Paid?
Clothing (for children up to 13 years)	No
Clothing (larger sizes)	Yes
Coach Hire (with driver)	No
Equipment	Yes
Food & Drink	see section 5.5
Insurance	No (IPT irrecoverable)
Interview expenses of candidates	Any VAT irrecoverable
Materials	Yes
Minibus Hire (self drive)	Yes
MOT and Road Tax	No
Newspapers and magazines	No
Off-street parking	Yes
Office supplies	Yes
On-street parking	No
Postage stamps	No
Printed Books and Maps	No
Public transport	No
School Trips	See section 5.6
Stationery & Exercise books	Yes
Taxis	Yes, if VAT-registered
Telephone calls	Yes
TV Licence	No
Vehicle Repair Costs	Yes

The table and sections below consider various areas of difficulty:

Type of supply	Can Council recover VAT?
Council staff refreshments	Yes
Employee expenses (excludes special rules for mileage allowances)	Yes for actual expenses, but not for flat rate allowances
Hospitality to visitors	Yes if related to the provision of free education; otherwise no
Long service awards	Yes
Purchases for fundraising and social events	No
Purchases for other organisations	No
School prizes	If related to the supply of education

5.2 Purchases for Individuals and Other Organisations

A school may recover VAT on:

- Purchases of goods and services funded from LA resources that are given away to individuals or other organisations. This includes prizes for educational or other achievements by pupils.
- Purchases of goods and services for statutory educational purposes that are funded by donations from charities, the PTA, unofficial school funds etc. A PTA should operate school fairs and similar fund raising events through a separate bank account, then donate the profits to the official school fund which alone can recover VAT on purchases for the school.

A school **cannot** recover VAT on:

- Purchases for fund-raising activities and social events that are administered through a private fund. See also section 7.8.
- Purchases for community-focussed activities. See section 9.
- Purchases for separate bodies (such as after-school clubs and playgroups) which also provide the funding. They must make purchases direct from their own bank account.
- Most capital work at voluntary aided schools. See section 5.8.

5.3 Long Service Awards

The Council is entitled to recover VAT on the cost of goods purchased as long service awards. It must place the order and receive a VAT invoice or retailer's invoice in accordance with the normal rules.

An employee eligible for an award of say £250 may ask the Council to purchase goods to the value of £250 before VAT, or (normally) a shop price of £300 inclusive of VAT.

5.4 Reimbursement of Employees Expenses

Payment of a Fixed or Flat-Rate Allowance

If a fixed rate or flat rate allowance is paid, any VAT incurred by the employee cannot be claimed, even if supporting invoices are produced.

Reimbursement of Actual Expenses

Where the Council accepts responsibility for the expenses incurred by one of its employees for subsistence or removal costs, and reimburses the actual amounts, then VAT can be claimed, subject to the normal rules relating to claiming VAT.

Reimbursement of Actual Expenses Subject to a Maximum

Provided the Council holds valid invoices, VAT may be claimed on amounts up to the amount actually reimbursed.

Whilst invoices should be addressed to the authority, Customs should accept invoices made out to the employee. A retailer's invoice (section 4.6) will normally be sufficient for a payment of under £250.

Notes:

- For smaller items of expenditure, Customs may accept valid VAT invoices made out to the employee. However, this should be the exception not the rule.
- You may not recover VAT on the hotel and subsistence costs of job candidates even if they later take up a post.

Mileage Allowances

If you pay a mileage rate then part of that is deemed to be for the cost of fuel.

If you pay expenses by a system other than the Council payroll, you may recover the VAT in the fuel element of the mileage allowance, provided you hold a receipt for the fuel supplied to the employee. The refund is about 2p per mile depending on engine size and recent fuel prices. Current rates are on www.hmrc.gov.uk (search on advisory fuel rates) or check with Corporate Finance.

Currently there is no recovery of VAT on any part of mileage payments via the Council payroll. Please await further advice.

5.5 Entertaining and Refreshments

VAT on entertainment or refreshments can be reclaimed if they are solely for Council staff and/or deal with statutory education and other “non-business” activities. These include refreshments at Governors’ meetings and free meals for staff on duty at lunchtime. You must of course hold a VAT invoice or retailer’s receipt.

However VAT on entertainment costs CANNOT be reclaimed if they benefit non-Council staff and relate to “business” activities (such as a proposal to open sports facilities to the public).

As a general rule, payments for hot food and catering services will be standard rated, while most cold food will be zero-rated. The table below summarises the VAT treatment of food and drinks.

Standard Rated Food Items.

- Any heated food or drink
- Confectionery and cereal bars, but not cakes which are zero-rated.
- Biscuits wholly or partly covered with chocolate, though non chocolate biscuits are zero-rated.
- Ice cream, ice-lollies, frozen yoghurt, water ices and similar frozen products.
- Beverages such as fruit juices, squashes and bottled waters.
- Spirits, beer, wine.
- Potato based snacks such as crisps, potato sticks and Pringles.
- Salted or roasted peanuts.

Zero Rated Food Items

Cold food is generally zero rated (but note the exceptions listed as standard rated above). Examples of zero rated items are:

- Biscuits with no chocolate
- Cakes
- Sandwiches
- Fruit
- Tea bags, coffee powder and milk
- Cold meat (including cooked)

See also section 7.2: catering income

5.6 School Visits

General: If a school can state that a trip has any **educational benefit** the trip may be treated as a supply **in connection with education**. It should run the trip through the LA fund and reclaim UK VAT subject to the rules in section 4. Provided that the school does not make a profit on the trip, any charge is **outside the scope of VAT** (section 7.18). These rules apply to both day visits and longer trips.

If you are considering the use of a travel agent, note that from 1 January 2010 their special VAT rules will not allow them to issue a VAT invoice to you. As such there is no means for you to recover any VAT incurred on the costs of a trip. It will be cheaper to buy direct from service providers.

Trips within the UK: The hire of a coach with driver is zero-rated. Hotels and some visitor attractions charge VAT and must provide a full VAT invoice on request.

Trips elsewhere in the EC: It is not normally possible to recover the VAT that is directly or indirectly incurred in another EC country, or on agents' margin.

Trips outside the EC: There is no VAT outside the EC, while UK travel agents do not pay VAT out of their margins.



5.7 Fuel Bills

Customs have agreed that the supply of fuel to a foundation or voluntary school is made to a charity for its 'non-business' purposes. As such they pay and recover VAT at the lower rate of 5%, and save by being exempt from climate change levy (CCL). The school should check that the Council's Energy Management Team or their own suppliers are aware of their status.

The supply of fuel to a community school is to the LA, and will normally carry standard rate VAT and CCL. If consumption is below a threshold, a school pays and recovers VAT at 5% and is exempt from CCL.

5.8 Capital Works

Voluntary aided schools: Search on "Blue Book" at www.teachernet.gov.uk for detailed guidance on responsibilities and funding rules. The Governors have responsibility for capital expenditure on their buildings and IT equipment costing over £2,000. Normally they contract for the work, there is a VAT-inclusive grant from the DCSF for 90% of the VAT-inclusive cost, and the VAT **cannot** be recovered from Customs. Capital repairs funded by an insurance claim are still the Governors responsibility, even if the insurance was arranged via the LA.

If Governors order capital works from a Council Service they should state they are acting in their own name and are willing to pay VAT.

Governors can arrange for the construction of new buildings or self-contained annexes (not simple extensions) to be zero-rated if at least 95% of the intended use is for state education or other "relevant charitable" purposes. Detailed advice **must** always be obtained.

The Council can only recover VAT paid if the central LA signs the contract and pays for the work. It must charge VAT to the Governors on any contributions to such a contract.

The local authority has responsibility for playing fields and their buildings, capital spending under £2,000, minor repairs and maintenance and all other revenue costs. These are funded via the LA capital programme and the delegated revenue budget. Any VAT incurred on such work can be reclaimed.

VC and Foundation schools: the Governors own the buildings. However the funding for capital works normally comes from the LA. Customs have agreed that the authority can recover VAT on such spending, even if the Governors donate funds to the LA. However you **must** seek advice if work is part-funded by contributions from any other potential users of the site.

Community Schools: The LA owns the land and buildings. You must seek advice about any works to be funded by potential users of the site for community-focussed activities.

6 Income:

6.1 General Rules

When making charges to pupils, staff or other “customers” that are paid into the LA fund, the School **must**:

- Charge the correct amount of VAT in accordance with its **statutory obligations**. Advice on common areas is given in sections 7 and 9 below. However this cannot cover all activities, especially those which fall on the border between two classes of VAT treatment. If there is any doubt a school should not guess but obtain specialist information. This is available from the VAT advisor who, if necessary, has access to professional advisers specialising in education and other local authority VAT issues.
- Issue a proper or less detailed VAT invoice to other VAT-registered organisations in accordance with the regulations described in section 4. Care must be taken to ensure that the correct details are included. For information the Council's own VAT registration number is 639 6779 71.

If your invoice to a tax-registered organisation shows too high a VAT rate, you may send a credit note and new invoice, provided they agree to adjust their VAT return accordingly. If the VAT rate is too low it is advisable to seek confirmation that they will pay any supplementary invoice for the VAT.

A school fund is not normally required to register for VAT (section 3.5). Therefore no VAT is levied on charges paid into the school fund.

6.2 Other Schools, Local Authorities and Public Bodies

A payment from another school or service of Bath and North East Somerset Council into LA funds is an **internal transfer**. Such transactions are always outside the scope of VAT, regardless of the type of supply.

If a school supplies goods to another local authority the supply is subject to the **normal VAT rules** for those goods. A supply of services to another local authority without private sector competition may be treated as **non-business**. A supply of services in competition with the private sector or including goods is subject to the **normal VAT rules**.

Charges to colleges, academy schools, other public bodies and charities are usually subject to **normal VAT rules**. In each case the VAT is likely to be an extra cost to your customer, but you must make the charge.

6.3 Can my Customer reclaim VAT?

It may be helpful to understand the impact of VAT on your customer. As a general rule:

- If an organisation is registered for VAT and makes taxable supplies it will be able to recover the VAT on your charges. This applies to the majority of businesses. Effectively they will pay the charge before VAT.
- If an organisation is not registered for VAT or does not make taxable supplies, it cannot recover VAT from Customs. This applies to colleges, academies, most charities and voluntary bodies. They will pay the full charge including VAT, just like private individuals.
- Other local authorities are able to recover VAT, but other public bodies may not share this privilege.

6.4 Credit Notes

If a school makes a genuine mistake on an invoice or the cost of the supply is reduced, it should issue a credit note to the customer within one month of the change being identified. The credit note reduces output tax declared and paid to Customs on the next return. It must show:

- | |
|--|
| <ul style="list-style-type: none">• An identifying number and date of issue;• The name of the supplier (i.e. the school or Bath & North East Somerset Council), address and VAT registration number;• The name and address of the customer;• The reason for its issue, e.g. returned goods;• A description which identifies the goods or services for which credit has been claimed or is allowed;• The quantity and amount credited for each description;• The total amount credited excluding VAT;• The amount of VAT credited;• The number and date of the original tax invoice |
|--|

6.5 Bad debts

If a debt is unpaid six months after the later of the due date and the date of supply, the school may reclaim the VAT already paid over to Customs, provided that:

- It moves the debt into a separate “bad debt” account within its records;
- VAT is declared and paid to Customs out of any subsequent payment, using the VAT rate on the original invoice.

Claims should be made within four years and six months of the later of when payment is due or the date of supply.

This adjustment of output tax may be in advance of a formal decision to create a provision or write off the debt in the school’s accounts.

7.2 Catering - Meals



“Catering” includes all sales of food and drink including canteen sales, breakfast clubs, tuck shops and vending machines.

Sales by the school or LA to its **own pupils** are seen as essential to education. They carry no VAT if total receipts are at or below “cost”. “Cost” includes wages, food, equipment, premises and depreciation, and expenditure on free meals. It is expected that, allowing for these factors, schools will normally meet the below-cost criterion.

Sales to **adults** follow normal VAT rules for catering:

- Hot food, drinks and other standard rated items carry VAT
- Sandwiches, fruit or other zero rated items are free of VAT if taken from the canteen for consumption elsewhere, but carry VAT if eaten in the canteen

Schools must apply these rules at the point of sale or, if this is not possible, use a fair and reasonable apportionment of income.

If the school or LA provides catering to another educational body, nursery or playgroup, it is often possible to treat charges for pupil meals as exempt from VAT. If the school banks money collected for the LA it should code money from other bodies separately. Charges to other external customers will carry VAT.

If the Governors run school catering and sell to **outside bodies** or for purely social events, they have a community-focussed activity (section 9.1). If the Governors are not VAT-registered, their charges are free of VAT, but they cannot recover any VAT on their costs. If the LA fund charges the Governors for the use of the kitchen this is exempt from VAT. Specific charges for consumables are however standard or zero rated according to normal VAT rules.

If a school arranges for an external contractor to supply catering it should exercise care. The terms of the contract should specify that in the preparation of meals the caterer acts as an **agent of the school** in return for a commission. In this case the charges to customers are treated **as if the school itself** provided the meals. The caterer will levy VAT on the commission and certain costs paid on behalf of the school. However this can be recovered in the normal way.

Schools may refer to the Memorandum of Understanding for Catering for more details, a copy of which is available from Corporate Finance. They should ask a preferred contractor to explain proposed invoicing arrangements, as these have caused confusion.

7.3 Catering - Shops and Vending Machines

The treatment of sales from vending machines depends on whether the school

- (i) hires and operates the machine, keeping income from actual sales, or
- (ii) receives a commission from an outside organisation to install and operate a machine on the premises.

Income from tuck shops and vending machines run by the school is:

- Non-business (free of VAT) on sales to **pupils**, if **total** sales of food and drink by the school to its pupils are at or below **total cost**. As noted in section 7.2, it should normally be possible to show that this is the case.
- Subject to normal VAT rules on sales to **staff**. If all items are standard rated, 20p out of every £1.20 is paid over to Customs.

If used by both staff and pupils there must a suitable apportionment of the income.

The school should manage pupil vending machines and tuck shops through the LA account. It can recover all VAT on the cost of soft drinks and confectionery, and keep the entire sales proceeds.

Commissions from the siting and operation of vending machines by outside organisations which are not acting as your 'agent' are standard rated.

7.4 Childcare

Breakfast clubs, after-school clubs, nurseries and similar activities should be run through the LA fund if they are "pupil focussed" or if they help meet Government targets for pre-school care and welfare. Charges are free of VAT.

Activities that do not meet the above criteria should normally be run outside the LA VAT registration. For advice on charges to independent children's centres, nurseries and groups on your site please see section 9.2.

7.5 Clothing and Footwear

Necessary protective clothing such as overalls, shin pads and helmets (but not footwear) can be treated as “essential” equipment. See rules in section 7.13.

Otherwise the rules below apply to all school uniform, sportswear and casual clothing. There is no distinction among these for VAT purposes.

Items designed as clothing for children up to and including thirteen years old, and not suitable for older persons, are zero-rated. For tax purposes it does not matter whether these are traded through the LA or the private fund. There are maximum size criteria for clothing and footwear that can be zero rated without specific approval. Your supplier’s invoice should show the correct VAT treatment.

Clothes designed for older children are standard rated and should normally be traded through the private fund.

7.6 Donations Advertising and Sponsorship

Donations: If nothing is given in return for the gift, it is outside the scope of VAT. The donation must be wholly unconditional and confer no benefit to the donor, although this does not prevent there being an agreement on how the donation may be used and an acknowledgement.

Advertising is standard rated, unless it is for a charity or other voluntary group, in which case it is zero rated.

Sponsorship: If something is supplied in return for funding, there is likely to be a *taxable supply*. The supply may be advertising the sponsor’s name, granting ‘free’ tickets to an event, or other ‘free’ gifts or services. VAT is due on anything given in return that is taxable.

A simple acknowledgement of a donation in a programme or annual report is not advertising and therefore the donation is outside the scope of VAT. However Customs have taken the view that the use of a donor’s logo or mention of the donor’s products is in fact advertising, not a donation.

Combined donations/sponsorship. If it is clear from any agreement that there is a donation separate to the actual sponsorship and the amount of the sponsorship is realistic in relation to the benefits, the donation may be treated as outside the scope of VAT. If the sponsorship is conditional on the donation being given, the whole amount is considered to be sponsorship and VAT is due on this amount.

Another area to watch out for is the “hidden” sponsorship deal. Suppose a school wished to produce a magazine and a company offered to pay the printing costs in return for the company logo being on the back page. There would be a supply by the company to the school of a leaflet (zero-rated) and the supply of advertising by the school to the company (standard rated). The school would have to raise a VAT-only invoice to the sponsoring company based on the open market value of the advertising.

7.7 Education and Examination Services

“Education services” means any course, class, lesson or instruction, whether or not the subject is usually taught in schools. All charges are free of VAT. Adult education is normally ‘community focussed’. As such it is outside the LA VAT registration (see section 9.2)

All musical instrument tuition for under 21’s is treated as non-business, whether or not it takes place in school time, as it is provided under a statutory framework.

If the school recharges Examination Board fees to pupils then such fees are outside the scope of VAT. Charges for the release of teachers to examination boards are non-business. Other examination services income is exempt.

7.8 Enterprise Income

Income resulting from business type activities performed by students is subject to the normal liability for those activities. If an activity is standard rated it may be better to manage it through an unofficial fund.

7.9 Events

If a school were to run such a social or fund-raising event through the official fund then all income from admissions and sales would be subject to VAT. This means that out of every £120 charged to the public, you would have to pay £20 to the VAT man. True, you will be able to recover any VAT incurred on your costs, but the net effect will almost certainly be a drop in your profits from the event.



If you plan to make any profit then you should run such an event through an unofficial fund. You may then keep all of the income, although you will be unable to recover VAT on costs.

If the event raises funds for your educational activities, the profit may be donated to the official fund. It may then purchase equipment or pay for trips and recover all of the VAT charged by the supplier.

7.10 Lettings

The table below summarises the proper VAT treatment of lettings and related activities:

General Principles	VAT Rule
All lettings in the name of Governors of voluntary aided, voluntary controlled and foundation schools (see note 1)	No VAT if Fund unregistered
All lettings to other Bath & North East Somerset Council schools and Services, regardless of the activity	Outside the scope of VAT
All lettings in connection with the national childcare strategy	Non-Business
Catering supplied by the school to the hirer	See section 7.2
Hire of additional equipment	Standard Rate
Lettings in the name of the LA to other users:	
Hire of halls and rooms	Exempt
Tables, chairs, flipcharts, projector, light refreshments and other “usual facilities” included in charge	Exempt
Kitchen facilities and equipment for the hirer’s use	Exempt
Sports facilities and dance studios (see note 2) let for 10 or more sessions under <u>all</u> the conditions listed in note 3	Exempt
Sports facilities and dance studios: a single continuous letting for more than 24 hours	Exempt
Sports facilities and dance studios let for non-sporting activities	Exempt
Sports facilities and dance studios: all other lettings	Standard Rate
Car parking charges	Standard Rate
Land used as a car park	Standard Rate
Caravan and tent pitches and site fees	Standard Rate
Market stalls, car boot sales and other concessions	Exempt



(See notes on next page)

Notes on the letting of sports facilities:

(1) Governors' income can be donated to the LA fund to spend the money and recover the VAT in the normal way. Letting of new facilities at Foundation Schools may need to be treated as if by the LA. *This note is all liable to review.*

(2) A general purpose hall with no facilities other than floor markings is **not** a sports or dance facility. The hire of such a hall even to say a badminton club is always exempt from VAT.

(3) A series of lettings of sports facilities etc. is exempt if **all** of the following hold:

- the series consists of ten or more sessions;
- each session is for the same sport or activity at the same place;
- the interval between the end of one session and the start of the next session is at least 24 hours and not more than 14 days;
- there is written evidence of a fixed price for the whole series, (although this does not preclude payment by instalment);
- there is no provision for refunds, unless the facility is not available for the hirer;
- the letting is to a school, club, association or an organisation representing affiliated clubs or constituent associations (not a sports or other company);
- the persons to whom the facilities are let have exclusive use during the sessions.

The letting must adhere strictly to **all** of these conditions; otherwise the school risks an assessment for VAT.

The construction and operation of sports facilities for dual school and community use may raise complex VAT issues. If you are considering such a project please contact Corporate Finance at an early stage .

7.11 Lottery and Other Grants

A lottery grant is seen as a donation provided there is no supply to the funding body. It is therefore outside the scope of VAT. (A difficulty may arise if the conditions of the grant appear to give the funder a possible interest in a building).

If a VA school bids for a grant for the cost of building works it should do so on a VAT-inclusive basis. Customs will view this as a Governors project and not allow the recovery of VAT on project costs.

For other schools the bid should normally be in the name of the LA. Specific advice should be obtained on significant lottery projects before a bid is made (see section 9.1).

7.12 Minibus and School Equipment

The LA fund should buy the minibus in order to recover VAT on purchase costs. Hire charges to individuals or outside organisations are subject to VAT. When the minibus is sold the school should first advise a dealer or auctioneer that it is registered for VAT, and then negotiate a price. The school must issue a VAT invoice to the buyer, unless a dealer provides a 'self-billed' VAT invoice.

The same principles apply to the hire and sale of other school equipment.

7.13 Musical Instruments & Other Essential Equipment

“Essential Equipment” includes musical instruments, laptops, calculators, electronic equipment and sports gear. It also includes protective clothing with a specific safety aspect such as overalls, helmets or shin pads, but not footwear. For all other clothing see section 7.5. “Materials” include pens, ink, exercise books, drawing materials, mathematical instruments and materials used in craft classes. If you are in any doubt please ask.



Equipment and materials other than books are normally standard rated. However an LA school need not charge VAT if the equipment is necessary for use in lessons, but this does not apply if it is only required for homework. The following detailed guidance is taken from a letter sent by Customs on 4 December 2006:

“An LEA school can treat the goods and services it supplies to its pupils as non-business if they are closely related to the non-business provision of education. In order for this to happen the following principle (*sic*) conditions must be satisfied:

- the specific goods or services purchased are for the direct use of the pupil in lessons during LEA supervised tuition
- in the delivery of education that is part of the school curriculum, and
- are necessary for delivering that education to him or her.”

“For avoidance of doubt, it is not enough that a similar item is used in the LEA tuition, whilst the purchased item is used elsewhere, eg at home, for homework or musical practice. In addition to the principle conditions I have outlined, the following general conditions must also be satisfied to demonstrate a supply by the LEA to its pupil:

- The goods and services required must be purchased from the LEA. By this we mean that the LEA must hold title to the goods, and transfer ownership to the parent, guardian or pupil purchasing them. However, within that, the delivery address and point of distribution of those goods and services is a matter for individual LEAs to determine.
- Payment for the goods must be made either to the LEA or to the school. If paid to the school it must be paid into the school's official funds.
- Some evidence, eg order form, must be kept to show that the recipient of the goods and services has been receiving education from the LEA, and that what has been supplied was essential to that education. The style of the order form can be tailored to the needs of the LEA.
- The price of the goods and services supplied must be at or below cost, there being no intention to make a profit. 'Cost' means the fully overhead-inclusive price of supplying the goods and services to the pupil.....
- In certain cases goods may be leased. In such cases the same rule will apply as for sales."

Customs have subsequently confirmed that the scheme also applies to:

- instruments where tuition is delivered solely by participation in a local authority or school orchestra.
- protective clothing, although for an item to be considered "necessary" for delivering the education the school should provide the item in cases where the pupil/parent cannot/will not buy it themselves.

Note also that:

- The quality of a musical instrument or specification of a laptop should be appropriate to the educational needs of the pupil.
- Customs have accepted a £20 administration fee for musical instruments. A sale at a significant profit is entirely standard rated.
- Parents may collect equipment direct from a shop (but we suggest they sign for to confirm it is in good condition). The shop will invoice the school with VAT added. The school must pay this, and then issue a VAT-free invoice to the parent.
- If in any doubt about eligibility you must ask. In the past Customs have applied the rules very strictly.

Finally this scheme does not apply if instruction is provided directly to a pupil by a private tutor or an outside body, or to sales to teachers.

7.14 Non –Essential Items

A school may also sell book bags, water bottles and other items that Customs do not view as 'essential' for education. Most of these are standard rated. If sold through the LA fund the school would need to charge VAT to parents.

It is better to sell these through a non-LA fund. This means that no VAT is due out of charges to parents. However the school cannot recover any VAT paid to suppliers.

7.15 Office Services and Telephone Income

Charges to staff or outside organisations for office services are normally standard rated. However printing and photocopying of complete documents is usually zero-rated.

If you are required to provide information to the public under the Freedom of Information Act which is not available from other sources or from published documents, your charge is outside the scope of VAT.

If a payphone is rented from British Telecom or another supplier, the school supplies telephone facilities to the users and VAT is due on these supplies. Output tax from payphones is calculated as 20p out of every £1.20 removed.

7.16 Parental Contributions

Contributions to the cost of activities that form part of the school curriculum can be treated as non-business income, provided that the school does not aim to make a profit on the event. This might for example include requests for assistance towards fees charged by visiting arts groups.

7.17 Photographs

The VAT treatment depends on the arrangements for sale.

Sales of photographs directly to parents: (normal route) any commission or discount received by the school is a payment for the use of school facilities and would normally carry VAT. A Tribunal accepted that the head teacher runs the school on behalf of the Governors and therefore the commission may be paid into the unofficial school fund. If this is not registered, there is no VAT. The fund may then make a donation to the official fund.

(If the unofficial fund is registered, or if the contract is with the school as agent of the LA, the school would need to pay over 20p as VAT out of every £1.20 received and issue a VAT invoice to the photographer).

Sales of photographs to the school: if the contractual arrangements provide that the supply of photographs is to the LA for onward sale to the students or parents, the school must account for VAT on the sales to the parents/pupils. Input VAT is recoverable in the usual way. If the sale is by an unregistered fund the VAT cannot be recovered, but is not charged separately to parents.

7.18 School Publications and Advertising

Sales of the following are zero-rated: books, booklets, brochures, pamphlets, leaflets, newspapers, journals and periodicals.

Advertising charges to a charity or other voluntary group are zero-rated. (This may benefit independent after school clubs and similar groups). All other advertising attracts VAT at the standard rate.

7.19 School Trips

School visits may be run through the official LA fund provided they can be linked to the provision of education. In practice Customs should accept the head teacher's word that a trip has some educational benefit.

Contributions from parents for such trips are **outside the scope of VAT** provided that the school does not set out to make a profit. Subject to the normal rules in section 4 schools may reclaim VAT charged to them on the expenses of the visit. Please see section 5.6 for information on charges to the school by travel agents and other suppliers.

7.20 Supply of Staff

The supply of staff to another organisation is normally **standard rated**, except:

- secondment to another part of Bath & North East Somerset Council, or to the Governors of a VC or community school is outside the scope of VAT.
- secondment to another local authority in connection with teaching is non-business.
- secondment of staff to other providers of education is **exempt** from VAT if those staff will teach or assist with the education of students or pupils.
- a supply of jointly employed staff to the partner body is outside the scope of VAT;
- the supply of teachers to examining boards for marking and invigilating examination papers is outside the scope of VAT;
- secondment for "professional development" can be outside the scope of VAT, but only if certain conditions are met: it is important to seek advice on these.

7.21 Teachers and Other Adults

Sales to teachers and other adults should carry the normal VAT treatment. For example if a school purchases a laptop computer and sells it to a teacher, it must apply the standard rate. VAT still needs to be charged on sales of second hand equipment no longer required by the school.

7.22 Transport to and from School

The provision of transport is closely related to education and therefore outside the scope of VAT. (If the school hires a coach/bus and driver from a third party this is also zero-rated).

7.23 Vandalism

Any contribution from parents or insurers for damage to school property is a form of compensation and outside the scope of VAT. This applies even if the school pays VAT on the repairs.

8 Records Refunds and Visits

8.1 Records

For VAT purposes all supporting records must be kept for at least the current and four previous financial years. These include:

- Order and delivery notes
- Purchase invoices and copy sales invoices;
- Records of daily takings (e.g. till rolls)
- Bank statement and paying in slips
- Credit or debit notes issued or received
- Relevant business correspondence, including notifications to the Council

The minimum retention period is also subject to Financial Regulations for Schools.

8.2 Reports and Refunds

Schools should provide a monthly report on VAT incurred and charged to the Corporate Finance team at the Guildhall. A schedule of target dates will be provided. If the usual member of staff is away at that time, a partial or nil VAT return should still be sent. The return is included in the Council's overall VAT claim. A refund of the net amount of VAT paid will normally be credited to a school's bank account by the end of the month following the VAT claim.

After each financial year the Council's VAT staff must usually supply data on our 'exempt' income, other income and spending to Customs. Summary data is taken from the information provided by schools to the Education Finance team. For this purpose please ensure that all business income is coded correctly.

If you have community focussed activities please do not recover input VAT on costs charged directly to those activities. You may wish to speak to Corporate Finance before starting such projects (see section 9.1).

8.3 Late Returns

If a school is late in returning its monthly VAT report, it will be excluded from the Council's VAT return. The VAT will not be repaid to the school (or the Council) until the information has been included in a later month's VAT claim. Customs will not mind this, since they keep the money longer, but the school loses bank interest.

If a delayed VAT return includes output VAT owed to Customs, the school risks penalty charges and interest (see below).

8.4 Errors

These rules apply to all 'errors' where a taxpayer has declared too little output tax or claimed too much input tax on a VAT return. It is strongly recommended that schools check and correct large VAT amounts before submitting the claim.

The new rules are now complex: in brief, an underpayment risks:

- (i) an assessment plus interest for errors up to four years back) and
- (ii) a penalty of up to 30% of any loss to Customs from errors on the returns for March 2009 onwards. A penalty can be reduced or avoided by written disclosure to Customs. No penalty is due if the school can show it has systems in place and took 'reasonable care': however the full definition of this is unclear.

If there is a mistake on an invoice to a tax-registered organisation, the school may be able to cancel it and send a new invoice. Please see section 6.1. Other corrections can be made on the next VAT return, provided they are below a threshold. This avoids an assessment but still risks a penalty, unless the error is also disclosed to Customs. Large errors must be disclosed to customs.

It is therefore recommended that if a school finds an underpayment after submitting a return, it should contact Corporate Finance. Please explain the nature of the error, why it occurred, the amounts involved, the dates and any action to avoid a repetition. Corporate Finance will advise the school and write to Customs if appropriate.

Penalties and assessments will be charged to the school responsible for the error. The VAT officer, not an individual school, will handle all correspondence with Customs.

If a school has paid too much output tax it may be possible to recover this. Customs will not charge penalties but will not credit any interest. Again please seek advice.

8.5 Visits and Enquiries

Schools may receive visits from the Council's Internal Audit service to check the administration of the school's finances, including VAT.

A school may also receive a visit from Customs. They have the power to examine any relevant documents. You may use these visits as an opportunity to ask questions relating to the administration of VAT. Any issues raised by Customs should be reported to the VAT Officer in order to alert other schools as appropriate.

The Council's VAT staff may need to contact a school with queries relating to tax on actual or proposed income and spending. A school should respond promptly to such enquiries in order that the Council can fulfil its obligations to the tax authorities and plan to avoid future liabilities.

Your co-operation on all visits and enquiries is much appreciated.

9 Extended Schools Activities

This section covers all school projects undertaken under sections 27 and 28 of the Education Act 2002. It takes account of guidance from Customs to local authorities between 1998 and September 2009.

Official guidance may not cover all models of service delivery. The following therefore remains subject to revision.

9.1 Key Issues

9.1.1 Is it within the Council's VAT registration?

The then DCSF issued new guidance on consistent financial reporting from 1 April 2006. This envisaged two types of extended school activity:

- Pupil-focussed activities: these are eligible for funding from the delegated school budget. Customs should accept the school runs these 'as an agent' of the LA. They can be included in the LA accounts and the Council's VAT registration.
- Community-focussed activities: these are not eligible for delegated budget funds. These do not come under the Council's VAT registration.

If you are unsure if an activity is pupil or community focussed please speak to Education Finance

The following come within the Council's VAT registration:

- Pupil-focussed activities
- Activities that are funded by a specific grant from the LA
- Children's centres and similar activities for pre-school children that are delivered under the national childcare strategy
- Any other activity that is managed as an agent of (on behalf of) the authority

Other activities are outside the VAT registration:

- Community – focussed activities
- VA Governors capital funds
- Unofficial funds

9.1.2. **Capital funding** : Schools must seek tax advice if they expect contributions from sponsors or site users for construction.

9.1.3 **Governors Funds** - If the expenditure and income is outside the Council's VAT registration the Governors must check that their **taxable** turnover remains below the limit for VAT registration. If this is the case then there will no need to charge VAT to customers but no recovery of VAT on costs. In the unlikely event that taxable supplies are forecast to exceed the registration limit (now £70,000 per annum) Governors should seek advice. For more detail see section 9.2.

9.1.4. **Dual Use** - If a community school plans to let LA premises outside 'school hours', it will act as agent of the LA. Such income and related expenditure will therefore pass through the LA fund. The school will also need to establish from section 7.10 whether its charges to users are likely to be standard rated, 'exempt' or outside the scope of VAT.

For the other schools the letting of premises can normally be in the name of the Governors. An exception is likely to apply where construction at a VC or Foundation school was funded by a grant from the Governors to the LA.

If the Governors fund is unregistered then no VAT is due on sports lettings (*this is potentially subject to review*). It is understood that where the income is to be spent on educational activities it can be donated to the LA fund which spend the money and recovers the VAT in the normal way.

All schools **must** seek advice in connection with new dual use facilities.

9.1.5. **Staff** – Please see section 7.19 if you plan to **second** LA staff to other organisations in return for a contribution to salaries and related costs. VAT may or may not be due on your charge.

Any VAT will increase staffing costs by 20%, and affect project viability. The VAT can be avoided if the organisation directly employs the staff, although this will have other implications. If you are in any doubt about VAT or other issues connected with staffing please seek appropriate advice.

9.1.6. **Tax Planning and Reporting:** If a project does not take early advice there will be more effort and cost in amending plans later, especially if other partners are involved. Please copy requests for advice to the Education Finance team. We will review the information and 'clear' the project or suggest an alternative mechanism to avoid any VAT problems. If necessary we will seek advice from specialist local authority VAT consultants.

Corporate Finance may need to ask you details of planned spending on large capital projects in order to forecast corporate VAT recovery, protect the right to recover VAT on the costs of certain Council activities and assist corporate accounting. In addition HMRC may ask for details of projects.

9.2 Charges and Recharges

Most, but not all, charges to customers are free of VAT. The recovery of VAT on costs depends on whether the activity is pupil or community focussed.

9.2.1. LA Activities

These include all pupil-focussed activities that are within the net delegated budget. Customs also accept nurseries and children's centres as LA activities if provided under the national ten year childcare strategy. The Governors are deemed to be acting as "agents" of the LA and the activity can come within the VAT registration of the authority. This means:

- Charges to parents are non-business and therefore free of VAT.
- The school can recover all VAT on costs in the normal manner.
- There are no problems on recharges of staff or other project costs

9.2.2 Non-LA Activities

These are community-focussed activities run by the Governors and other parties. They are not eligible for funding from the delegated budget because they do not bring an educational benefit to pupils of maintained schools. Examples are non-statutory childcare and adult education. As such the Governors are not acting as agents of the LA, and these activities are outside the Council's legal framework and VAT registration. This means:

- Charges are usually free of VAT, but go to a separate fund.
- It is not normally possible to recover any VAT on costs.
- Exceptionally the provider may need to consider whether to register for VAT.

Governors projects must be separate within the school accounts. Please take care that you do not recover input tax via the Council. However the recurring premises costs are the responsibility of the LA. Even if the building is mainly used by the Governors or other service providers, you can pay bills through the official fund and recover the VAT.

9.2.3 Charges to Governors, Independent Children's Centres and Other Providers

If the LA fund pays for goods or services, the recharges to the Governors or a third party should be treated as follows:

- Rent and shares of fuel or property costs for children's centres and other pre-school providers, who are working under the national childcare strategy: non-business if no profit is made.
- Rent and shares of fuel or property costs for all other service providers: normal VAT rules, i.e. exempt unless a letting of sports premises that does not meet criteria for exemption.
- Meals: non-business if appropriate conditions are met: see section 7.2
- Metered fuel: normal VAT rules
- Staff seconded to Governors of a VC or a community school: non-business
- Secondment of staff to teach or assist with any kind of education and training: exempt from VAT.
- Secondments to roles not related to teaching : normal VAT rules
- Equipment and non-property services: normal VAT rules apply. Independent providers cannot pay funds to an LA school fund and avoid VAT.

Appendix

Transfer to Academy

An academy is independent of the LA and outside the Council's VAT registration.

If you are considering academy status please ask for detailed guidance on transitional arrangements.

The following notes on being an academy are intended as informal comment. Please note that the Council cannot be responsible for advice on post-transfer issues.

The Treasury has announced a new refund scheme for VAT incurred by academies on their 'non-business' activities (state education). It will apply to purchases from 1 April 2011 and will be similar but not identical to the existing schemes local and parish councils. Academies should refer to Customs guidance when this is published.

If an academy has 'business' income, from lettings or other sources, it may need to register for VAT. If it does so it will then need to establish if it can recover VAT attributed to 'exempt' income.

If an academy has little or no standard rate or zero rate income it can probably choose not to register but can still claim refunds. However it appears there may be no refund of VAT that is attributed to standard rated, zero rated or exempt business income.

Please also note that if the Council itself provides services to an academy it must charge VAT where appropriate.

Capital works

In some circumstances the Council may receive funding for capital works at an academy.

If the Council contracts for the work it can recover the VAT in the normal manner. However there should be no contribution from the academy. That is because such a contribution might be viewed as consideration for the lease and therefore part of the exempt business income of the Council. The Council would then risk losing the right to recover the VAT attributed to all of its exempt income.

If the Council pays the funds as a grant to the academy, which contracts for the work, it should consider the special rules on new buildings for charities and guidance on the refund of VAT attributed to non-business and business activities of academies.

List of main changes

Section 5.8 (capital works at VA schools) has been amended for new guidance issued by HMRC on the construction of new charitable building

Section 7.2 (catering) has a revised paragraph on sales to pupils of, nurseries, playgroups etc. This takes account of customs clarification in September 2010

New Appendix on transfer to academy status