

# VAT

## SUMMARY GUIDANCE

**CONTACT INFORMATION FOR HELP &  
ENQUIRES:**

**IBC PORTAL: CREATE ENQUIRY**

**TELEPHONE: 01962 847404**

Please note that this is only a quick reference guide. Please refer to the Tax Manual for full VAT & Tax guidance, see below link. Or please contact the Tax Team via one of the above methods.

<http://documents.hants.gov.uk/finance/TaxManual.pdf>

## **VAT Registration**

*Ref. Section 2.1.2 Tax Manual*

All partners are VAT registered and the numbers for each organisation are as follows:

### **Hampshire County Council: GB 189 4068 22**

- Includes all HCC LEA Schools
- Includes Hampshire Fire & Rescue Service

### **Oxfordshire County Council: GB 195 4786 09**

- Includes all OCC LEA Schools
- Includes Oxfordshire Fire & Rescue Service

### **Police Crime & Commissioner for Hampshire: GB 186 2120 19**

- Includes PCC
- Includes Hampshire Constabulary

## VAT Input & Output

*Ref. Section 2.1.3 Tax Manual*

VAT is often referred to as Input and Output VAT:

Input VAT is the VAT we pay on the purchases of supplies and services, i.e. – the VAT on the invoices we pay *from* our vendors.

Output VAT is the VAT we charge on our sales of supplies and services, i.e. – the VAT on the sales invoices we send *to* our customers.

## VAT Rates & SAP Codes

*Ref. Section 2.7.2 Tax Manual*

Rate Description	Rate (%)	Expenditure Transaction*	Income Transaction**
<u>Taxable:</u>			
Standard Rate	20%	V9	A9
Reduced Rate	5%	V6	A6
Zero Rate	0%	V8	A8
Exempt	-	V0	A0
Outside of Scope, AKA Non-Business	-	V7	A7

**Important!** It is essential that the 'V' codes are used for expenditure and 'A' codes are used for income transactions.

*\* Expenditure Transactions*

This is where you are incurring a cost. For example, if you are paying an invoice for the supply of goods and/or services you have received, the appropriate 'V' prefix code should be used.

*\*\* Income Transactions*

This is where you are receiving money. For example, if you are raising a sales invoice for the supply of goods and/or services you have provided, the appropriate 'A' prefix code should be used.

## **Credit notes and refunds** *Ref. Section 2.7.3 Tax Manual*

When processing a credit note received from a vendor, you should use the appropriate 'V' code, even though it appears as though you are receiving income. A credit note is simply a refund of expenditure and therefore, you should use the same VAT code as used on the original payment to the vendor.

Similarly, if you are processing a refund of income received from a customer, you should use the appropriate 'A' code.

## **Retrospective rebates** *Ref. Section 2.7.4 Tax Manual*

### Expenditure

If you are VAT registered and you receive cashback (rebate), it reduces the taxable value of your purchase and so you must reduce your input VAT accordingly and entries should be posted using the 'V' codes.

### Income

Similarly, when you offer cashback to your customer, this reduces the value of your income and so you must reduce your output VAT accordingly and use the 'A' codes.

## Taxable Rates *Ref. Section 2.3.2 Tax Manual*

Most goods and services are **standard rate** 20%, unless the goods or services are classed as **reduced** (5%) or **zero-rated** (0%).

**Zero rated** items are where 0% VAT is applicable to an item. A zero rated item is still considered a taxable item and where an item currently is 0%, government can review this at any point and the percentage may change.

**Remember!** Therefore, this is why a **zero rated** item must not be confused with **exempt** or **outside of scope**. In all three cases, VAT is not added to the selling price, but zero rated goods or services are taxable for VAT - at 0% and there is potential for this to change.

### **Exempt**

Some goods and services are exempt from VAT, which means you can't charge, or be charged VAT on exempt item.

### **Outside of Scope, AKA Non-Business**

Some goods and services are outside the VAT tax system, which again means you can't charge, or be charged VAT on exempt item. But this rate is for items that fall outside of Zero Rated and Exempt.

## Examples!

Taxable at **Standard Rate** (currently 20%):

It is not possible to list all standard rated supplies. A supply will be standard rated if it fails to meet the criteria for any of the other VAT rates.

Taxable at **Reduced Rate** (currently 5%):

- Certain supplies of fuel (excluding road fuels) and energy, mainly supplies for domestic or charitable use
- Some materials used in energy efficiency projects.

Taxable at **Zero Rate**:

- Certain basic food items
- Books and magazines
- Children's clothing up to set size limits
- Certain supplies to charitable organisations / the disabled.

**Remember: the VAT liability of these items can easily be changed to either the standard or reduced rate and therefore must not be confused with Exempt and Outside the Scope.**

## Exempt from VAT

- Certain land and property transactions
- Certain health-related supplies
- Certain supplies to or by charitable organisations
- Certain financial services and insurance premiums. ***Note: insurance premiums are subject to Insurance Premium Tax (IPT) - this should not be confused with VAT and must not be reclaimed as VAT.***

## Outside the Scope of VAT (AKA Non-Business)

- Supplies made by an organisation that is not registered for VAT
- Grants
- Statutory fees and charges

## Calculation of VAT *Ref. Section 2.4.1 Tax Manual*

If you are provided with a gross amount (includes VAT) and you would like to work out the VAT on this amount, the attached calculator can be used. This can also be used for calculating VAT on a net amount (by removing the tick in the 'Inclusive of VAT' box).



VAT Calculator.xls

You can also work out the VAT quickly as follows:

Gross Amount £100

This amount includes VAT at the standard rate of 20%.

£100 divided by 120

Multiply the result by 100 = this will give you the Net Amount

Multiply the result by 20 = this will give you the VAT Amount

Or, if £100 is the Net Amount:

£100 x 20% = this will give you the VAT Amount

The 2 figures added together will give you the Gross Amount

*The same method can be used for working out the VAT for reduced rate VAT of 5%. Simply use 105 instead of 120 in the first example, then 5% instead of 20% in the second example.*

### **Rounding** *Ref. Section 2.4.3 Tax Manual*

When calculating VAT, amounts below 0.5p must be rounded down and amounts of 0.5p and above must be rounded up. For example, 49.50p becomes 50p, but 49.49p becomes 49p.

You may find that, due to rounding, the total VAT on a vendor's invoice is a few pence different to any amount calculated by the finance system. Also, some vendors may have an agreement with HMRC for an alternative basis for rounding. In such cases, you should not return the invoice to the vendor for correction, but must use the VAT amount shown on the invoice.

### **Mixed rates** *Ref. Section 2.7.5 Tax Manual*

Sometimes you will find on an invoice a VAT rate which is not mentioned in the above table. Most often this occurs with the purchase of packages containing zero rated books and standard rated CDs or DVDs. Vendors of such items have usually agreed in advance with HMRC a composite VAT rate reflecting the actual cost of each component being sold.

If possible, these should be input into SAP as multiple lines – one for each VAT rate, with the appropriate tax code.

## Discounts

*Ref. Section 2.4.4 Tax Manual*

Where a supplier offers an unconditional discount, and the discounted amount is paid, VAT should be calculated based on the discounted amount.

Where a supplier offers a prompt payment discount:-

- prior to 1<sup>st</sup> April 2015, VAT should be calculated based on the discounted amount whether or not the customer pays promptly enough to earn the discount
- from 1<sup>st</sup> April 2015, VAT should be calculated based on the amount paid by the customer.

## **Invoices, Receipts and Record Keeping**

### *Ref. Section 2.8 Tax Manual*

A VAT invoice (or a receipt containing the same information) in order for us to be able to account and make a claim for VAT.

### **A Full Invoice**

This would typically be an invoice paid through SAP.

A full VAT invoice should show **all** of the following information:

- Invoice number.
- Date of supply and issue of invoice.
- Name, address and VAT registration number of the vendor.
- Name and address of the recipient.
- Description sufficient to identify goods/services supplied.
- For each description, the quantity of goods, the unit price, the amount excluding VAT and the rate of VAT applicable.
- Total amount excluding VAT.
- Total amount of VAT.
- Rate of any discount offered.

## **Less Detailed VAT Invoice**

Where the total value of the goods/services supplied (including VAT) does not exceed £250, only the following information is required:

- Name, address and VAT registration number of the vendor.
- Date of supply (tax point).
- Description sufficient to identify goods/services supplied.
- For each VAT rate applicable, the rate and total amount payable including VAT.

This would typically include basic till receipts where you have the supplier name and address, VAT registration number, purchase date and description of goods so you can work out what item is standard rated.

## **Important! VAT receipt which contains personal items:**

A whole receipt becomes invalid for VAT purposes, if there are personal items included on there.

In order for a VAT to be reclaimed, the receipt must only contain business items.

## **Record keeping requirements**

All VAT documents must be retained for 4 full financial years. HMRC can request documentation as backup to a VAT claim at any point.

## VAT Errors

*Ref. Section 2.9 Tax Manual*

If an error has been discovered, most errors can be corrected. This would include:

- VAT has been accounted for , but you do not have a valid VAT receipt
- VAT has been accounted for at the incorrect rate
- VAT has not been accounted for, but you do have a valid VAT receipt (this may well have been obtained later)

These errors can apply to both expenditure and income transactions.

In order to correct the error, please inform the Tax Team via an Enquiry through the IBC Portal.

The following information must be included:

- An explanation of the error found
- Document Number of the transaction
- Details of the cost centre, GL & SIO code
- Copy of the VAT invoice/receipt, should you want to account for VAT on any previous expenditure.

**Important!** This correction process does not apply entirely on P-Card transactions...

If you are not in receipt of a VAT invoice at the point you complete you p-card RBS monthly log (5<sup>th</sup> of every month), you cannot account for the VAT and there is not an option to do retrospective corrections for VAT claims.

This is a P-Card cardholder agreement and the Tax Team are not permitted to process these corrections.

**However.....** Please note that if you have incorrectly stated that you are in receipt of a VAT invoice for a p-card transaction – we MUST do the adjustment for this.

If you discover this has happened, it means we have incorrectly made a claim to HMRC for VAT and we are required to correct these entries.

**Therefore – please remember the importance of obtaining the relevant VAT invoice / receipt for p-card transactions.**

**Also – please remember to not let your monthly RBS p-card log system autocomplete – If you have VAT receipts, you need to state this on your system return. If not, your cost centre is getting the gross cost of an item, rather than only having to bear the net cost – And we are not correctly accounting and recovering VAT!**

## Lettings

*Ref. Section 5.7 Tax Manual*

### **General:**

General lettings of an open space such as a field, hall or room are Exempt even if you provide tables and/or chairs.

### **Sports:**

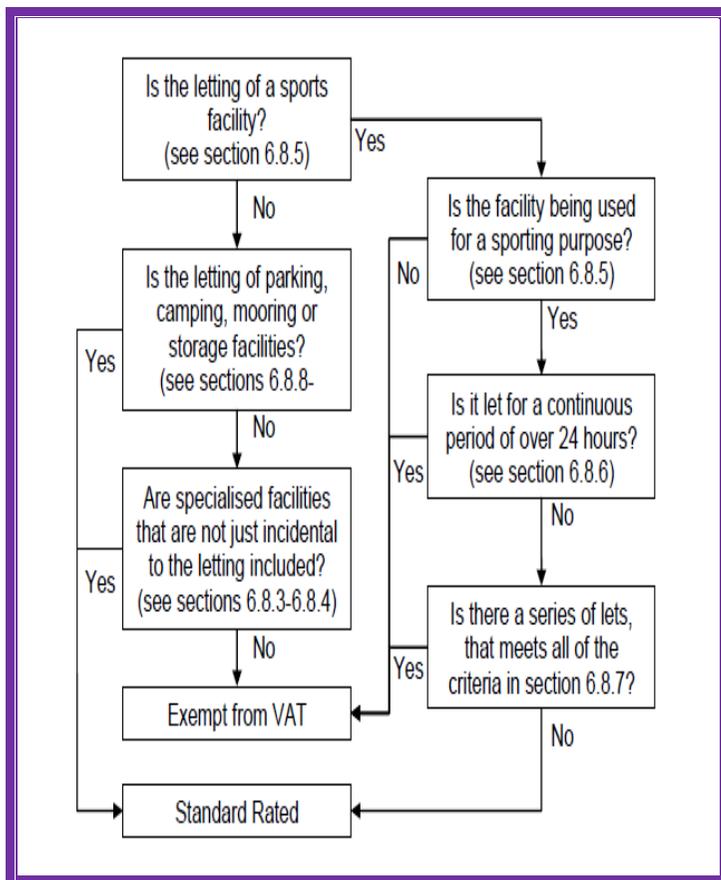
Where a space is adapted for physical activity and a physical activity is undertaken in it (for example, football, badminton, dance, yoga etc.), the let of that space is a sporting let and normally standard rated, tax code A9.

If they qualify as an **eligible body**, then we can apply the **series of lets rules** which may change this to an exempt sports let. There is a set of conditions and all must be met for this exemption to apply.

### **General Purpose Hall:**

If a general purpose school hall (which may contain fitted wall bars or stored PE equipment), is let to an external organisation for a sporting activity, this can be treated as **exempt** unless the fixed equipment is used, or we provide additional sporting equipment.

The below simplified flowchart can be used to assist in determining the VAT liability of general lettings income – however it must be used in conjunction with the other guidance in this section.



Where ‘see sections’ are noted, these can be found in the Tax Manual.

The following are examples of **eligible bodies**:

***Ref. Section 6.6.2 Tax Manual***

- Schools, within the meaning of the Education Acts,
- UK universities, and any college, institution, school or hall of such a university,
- Further and higher education institutions,
- Government departments, local authorities and similar bodies,
- Any other body which is precluded from distributing and does not distribute any profit it makes; and applies any profits made from supplies of a description within this Group to the continuance or improvement of such supplies,
- Any other body which provides the Teaching of English as a Foreign Language (TEFL). Note that these bodies are only eligible bodies in respect of their TEFL activities.

## Series of Lets Rules

*Ref. Section 6.8.7 Tax Manual*

In order for the series of lets rules to be applied, the below set of conditions have to be met.

Please note *All* conditions have to be met for the let to be exempt under these rules:

- The series of lets must be to either:
  - o a school,
  - o a club,
  - o an association, or
  - o an organisation representing affiliated clubs/constituent associations (e.g. a league).
- The series of lets must not be to a commercial organisation
- The series must be at least 10 lets booked in advance.
- Each let in the series must be for the same type of activity at the same location, although different pitches, courts, etc. at the site are allowable.
- The interval between each let must be at least one day and no more than 14 days for an interval to be at least 1 day, 24 hours must elapse between the start of each session). The dates should be set at the time of booking. The 14 day interval cannot be extended to take account of school holidays.

- Payment must be made by reference to the whole series and this must be evidenced by a written agreement.
- Payment does not have to be made in advance, but all sessions must be paid for, regardless of whether the facility is actually used. The only exception to this is where the facility is unavailable due to unforeseeable circumstances. This includes adverse weather or vandalism, but excludes use for meetings, etc.
- The hirer has exclusive use of the facilities during the periods of hire.

If any of the criteria for the series of lets are not met, then the entire series becomes taxable.

## **Donation, grants, voluntary contributions and sponsorship**

*Ref. Section 2.2.2 Tax Manual*

Where a donation is received and no more than a simple acknowledgement is provided in return, the donation should be treated as outside the scope of VAT.

If instead the donor receives some benefit (for example free tickets, preferential booking rights, free advertising space in an event programme, etc.) that they would not otherwise be entitled to, the VAT liability of that type of supply will apply.

If however, the donor receives a benefit that they would have been entitled to anyway and they are making a voluntary contribution, this would be outside the scope of VAT.

Grants are outside the scope, where no goods or services are provided in return. This doesn't stop the grant provider attaching conditions simply to ensure that the funds are spent for the purpose originally intended.

**The term sponsorship can be used in two ways. Amounts collected by individuals for participating in a sponsored charity event are outside the scope of VAT. But sponsorship income provided by commercial organisations in return for advertising benefits is standard rated.**

## General Guidance!

### VAT Liability Index

#### *Ref. Section 7.3 Tax Manual*

Please refer to section 7.3 of the Tax Manual. This will provide a list of the commonly used income and expenditure items and their appropriate VAT rate and code.

Please note, this is not an exhausted list. If there are any items not listed, please contact the Tax Team for help and advice.

### Internal transactions

#### *Ref. Section 2.3.5 Tax Manual*

Generally, VAT should not be charged on internal transactions. For example, a charge made by Hampshire County Council to a Hampshire LEA School, would be treated as a non-business transaction, even if the supply of goods/service is vat-able. This is because both are covered by the same VAT registration.

In the case of Schools, note that this **does not** apply to external funds held, for example Governors / Parent Teacher Association private funds, or any unofficial funds.

Academies, Independent and Private Schools are also not covered by the County Council's VAT registration.

## Other Local Authorities

*Ref. Section 2.3.7 Tax Manual*

All supplies by the County Council to other Local Authorities and their schools, to Police Authority, Probation Boards, National Parks and to Magistrates' Boards **must be treated in the same way as supplies to other external customers.**

## VAT only Invoices

*Ref. Section 2.9.2 Tax Manual*

If you receive a VAT-only invoices from a vendor, where they have omitted to charge VAT on an earlier invoice in error- First check that the net element has already been paid, and then send the VAT only invoice along with details (such as document number) of the original Net payment, to the Tax Team via an Enquiry through the IBC Portal. A VAT only payment will then be generated.

## Insurance Premium Tax (IPT)

*Ref. Section 4.5 Tax Manual*

Note that IPT should not be confused with VAT. Higher rates are the same percentage as VAT, so can be mistakenly treated as VAT.

Therefore, please do not charge IPT to any VAT code. The cost of IPT should be met by the cost centre.

## **Proforma Invoice & 'This is not a VAT invoice'**

These are very rare, but if you do receive either, you can not claim the VAT on the invoice – Even if the invoice appears to include all the information applicable to a VAT invoice.

You would typically see a proforma invoice when payment is required in advance of receiving goods/service. An example might be – hotel accommodation or room hire. Vendors may request payment in advance (via a proforma invoice) in order to secure a booking.

If the invoice states it one of these, it is not a valid VAT invoice.

When paying one of these invoices, you must charge the full cost to the budget cost centre and GL code and use tax code V7.

Vendors will usually send a VAT invoice following a payment for a Proforma invoice.

Once you receive the VAT invoice, send this along with the original payment details to the Tax Team via an Enquiry through the IBC Portal and the VAT can be retrospectively accounted for and a credit will be applied to cost centre.

Vendors *should* automatically provide VAT receipts/invoices. However, it maybe necessary to request one should they not automatically provide it.

## **Schools Specific!**

This section is not a complete set of guidance for schools, However it provides guidance that is specifically aimed at schools, covers some of the most frequently asked questions, provides examples where relevant, and links back to guidance in the rest of the manual.

## **Unofficial Funds**

*Ref. Section 5.1.3 Tax Manual*

Any unofficial fund which is in operation, does not form part of the County Council's VAT registration. This means that the school can not claim for VAT on any expenditure through these accounts. The fund will have to suffer the full gross cost of an item – the only exception would be if the unofficial fund is separately registered for VAT.

## Sales to Pupils

*Ref. Section 5.1.5 Tax Manual*

Income received in respect of sales to pupils, should be treated as outside the scope of VAT. This is provided that the items sold are for educational purposes, to be used in the classroom and they must be sold at or below cost\*.

\*In respect of musical instruments – an additional £5 overhead cost can be charged.

**Please note however.....** items such as book bags, water bottles and data sticks do not count as necessary for classroom use and therefore, income from this type of sale does not qualify for outside of scope rate. Instead, you should account for standard rate VAT on this income.

## School Trips

*Ref. Section 5.2.1 Tax Manual*

Income received in respect of pupil trips , should be treated as outside the scope of VAT. This is provided that the trip is for educational purposes and the cost to the pupil is at or below cost.

Note that income received in respect of school proms, is not considered as being provided for educational purposes and therefore, income should be standard rated.

## **Commission**

You should always account for standard rated VAT on income received in respect of commission.

**Book Fares** *Ref. Section 5.2.6 Tax Manual* – Schools often undertake book fares either on site or via booklets distributed by the school. Where the company reward the school with funds, this is also considered commission and standard rated VAT should be accounted for on this income.

One exception to this is... a book company may retain these funds and place a credit on the school's account and this credit can be used for future book purchases. As the credits can only be used for zero rated purchases (books), there is no need to account for any income on this credit amount.

## **School Catering**

*Ref. Section 5.4 Tax Manual*

Catering provided to pupils by the school, or a contractor acting as agent is outside the scope of VAT. This is provided that the charges are at or below cost.

Income from the sales to staff and visitors are subject to VAT unless the items are eligible for zero-rating as cold take-away food.

## School Uniforms

*Ref. Section 5.5 Tax Manual*

Income from the sale of uniforms to pupils **does not** fall into outside the scope treatment. However, some items of uniform will be zero rated as children's clothing anyway.

Schools that are only for pupils under the age of 14 can zero rate the sale of any items that contain permanent, prominent logos or badges that identify them as part of the school's uniform.

Where items are not identifiable in this way, or the school has some pupils that are over the age of 14, it is necessary to determine the VAT liability based on the items size. *See section 6.4.2 in the Tax Manual.*

## Parent Pay

### *Ref. Section 2.9.4 Tax Manual*

If you use Parent Pay you will have noticed there is a VAT on the charges invoice. It is possible to reclaim this VAT. In order to do this, a copy of the VAT invoice and completed income banking spreadsheet to the Tam Team and a journal will be processed to account for the VAT.

Below is an example of the spreadsheet.

If you use Parent Pay and require a copy of this journal template, please request this via an Enquiry through the IBC Portal.

	Cost Centre	GL Code	SIO	Text	Debit Amount (Inc.VAT)	Credit Amount (Incl.VAT)	VAT Code
1	EDXXXXXX	4936		Bank charges		gross amount	
2	EDXXXXXX	4936		Bank charges	net amount		v9
3	to be completed by Tax team			VAt	VAt amount		v9
4							
5							
6							

\*Please note that the text and g/l codes used are just examples.

A copy of the spreadsheet can be obtained by sending an IBC enquiry to the Tax team

## **Not directly VAT but.... CIS for Schools:**

*Ref. Section 4.1 Tax Manual*

Payments for construction works are subject to the Construction Industry Scheme (CIS). The scheme was introduced by HMRC to assist in ensuring tax compliance within the industry. It only applies to labour charges for construction works – labour charges for non-construction related works, plus materials and VAT charges for any works are excluded. The scheme can result in deductions of tax from payments to vendors. This tax must be paid by the County Council direct to HMRC, and the vendors can offset these deductions from any tax that they would be required to pay HMRC.

**However, please note – for schools...**

### **Local education authority maintained schools:**

The scheme **shouldn't** be operated for payments made for construction operations **by the governing body or head teacher of a maintained school** on behalf of the local education authority...

This means that when the school (Governing Body or Head) requests this type of work from a Contractor and its being paid for directly from the schools budget, the CIS Tax deduction should not be made, even if they are a registered CIS Contractor.

The guidance on how to process the invoice without the system making a deduction for CIS, is to enter £0.00 in the 'Labour' field.

**Please note that – This does not apply if a Central Budget orders and pays for works at a school. In this case, the scheme does apply.**

**If you are requesting a Vendor be set up on SAP, who's work covered by CIS:**

They need to be set up as CIS registered – we can't ignore the CIS part – If they state they are not currently registered, means that they (the company) need to call up HMRC to register and get the UTR (unique tax reference).

The IBC Portal will not let you set up a CIS vendor without the CIS details.

Trying to set it up as a non-cis, will get it rejected, as we will expect this type of vendor to have them.

The fact you (the school) is ordering and paying for the work, and CIS rules on the deduction does not apply, this is irrelevant when we are setting up the vendor, as it can be used across the organisation. The school will make the necessary adjustment when the invoice is paid so that the deduction does not happen.

**Please remember – this is a summary guidance  
and should be used in conjunction with the full  
Tax Manual.**

**For help or advice please contact the Tax Team.**