****

**Schools VAT Guide**

Issued on behalf of: **Suffolk County Council – VAT Registration 104.1787.91**

[Introduction 5](#_Toc398546909)

[Background and Legal Basis 7](#_Toc398546910)

[Part 1 - When is VAT charged? 8](#_Toc398546911)

[Introduction 8](#_Toc398546912)

[Who is a Taxable Person? 8](#_Toc398546913)

[Supply 9](#_Toc398546914)

[Taxable Supply 9](#_Toc398546915)

[Was it made in the UK? 10](#_Toc398546916)

[Consideration 10](#_Toc398546917)

[In the course of business 10](#_Toc398546918)

[Part 2 - Basic Principles of charging and recovering VAT 12](#_Toc398546919)

[Introduction 12](#_Toc398546920)

[Different Rates of VAT 13](#_Toc398546921)

[Invoicing Requirements/Evidence for VAT recovery 14](#_Toc398546922)

[When to account for VAT 15](#_Toc398546923)

[Value of supplies (Barter Transactions) 15](#_Toc398546924)

[Goods and Services where VAT cannot be recovered 16](#_Toc398546925)

[***Cars*** 16](#_Toc398546926)

[***Business Entertainment*** 16](#_Toc398546927)

[Bad Debts 16](#_Toc398546928)

[Discounts 17](#_Toc398546929)

[Part 3 - Land and Buildings (including leasing and letting) 18](#_Toc398546930)

[Introduction: 18](#_Toc398546931)

[Specific Transactions 18](#_Toc398546932)

[***Parking (inc. Mooring Fees)*** 18](#_Toc398546933)

[***Camping*** 18](#_Toc398546934)

[***Entrance fees / Admission Charges*** 18](#_Toc398546935)

[***Use of facilities rather than use of a classroom*** 19](#_Toc398546936)

[***Sporting Facilities*** 19](#_Toc398546937)

[***Recharges to Tenants*** 20](#_Toc398546938)

[The Option to Tax 21](#_Toc398546939)

[Part 4 - General Areas of Interest 22](#_Toc398546940)

[Introduction 22](#_Toc398546941)

[***Admission Charges*** 22](#_Toc398546942)

[***Adult Education*** 22](#_Toc398546943)

[***Advertising*** 22](#_Toc398546944)

[***After School clubs/Breakfast clubs etc.*** 22](#_Toc398546945)

[***Assisted Instrument Purchase Scheme*** 22](#_Toc398546946)

[***Books*** 23](#_Toc398546947)

[***Catering and food (inc. Vending Machines)*** 23](#_Toc398546948)

[***Charities*** 24](#_Toc398546949)

[***Children’s Clothing*** 24](#_Toc398546950)

[***Compensation Payments / Recovery of out of pocket costs*** 24](#_Toc398546951)

[***Competition Entry Fees*** 25](#_Toc398546952)

[***Donations and Sponsorship*** 25](#_Toc398546953)

[***Entertainment and Hospitality (inc. Staff Parties)*** 26](#_Toc398546954)

[***Examination Fees*** 26](#_Toc398546955)

[***Food*** 26](#_Toc398546956)

[***Fuel and Power*** 27](#_Toc398546957)

[***Gifts*** 27](#_Toc398546958)

[***Home to school transport*** 27](#_Toc398546959)

[***Hotel Conference / Function Facilities*** 27](#_Toc398546960)

[***Insurance Premiums / Claims*** 28](#_Toc398546961)

[***Interest on bankings / investment*** 28](#_Toc398546962)

[***Leases/ Letting/ Hire of Classrooms, Halls etc.*** 28](#_Toc398546963)

[***Lotteries, Raffles, and Gaming (inc. machines)*** 29](#_Toc398546964)

[***Mobile Phone Vouchers/Cards*** 29](#_Toc398546965)

[***Part Exchange*** 31](#_Toc398546966)

[***Postage*** 31](#_Toc398546967)

[***Printed Matter, Printing, and Stationery*** 32](#_Toc398546968)

[***Recharge of Costs/ Disbursements to other Local Authority Schools*** 33](#_Toc398546969)

[***Recharge of Costs/ Disbursements to external customers*** 33](#_Toc398546970)

[***Recycling Income*** 33](#_Toc398546971)

[***Repayment of costs incurred by staff members*** 34](#_Toc398546972)

[***Sales of pupils work*** 35](#_Toc398546973)

[***School Photographs*** 35](#_Toc398546974)

[***School Plays/Concerts/Dances/Discos*** 36](#_Toc398546975)

[***School Plays/Concerts- Sale of recordings*** 36](#_Toc398546976)

[***School Trips*** 37](#_Toc398546977)

[***School Uniforms*** 38](#_Toc398546978)

[***Second Hand goods*** 38](#_Toc398546979)

[***Secondments of Staff*** 38](#_Toc398546980)

[***Telephones*** 40](#_Toc398546981)

[***Third Party Reimbursements*** 40](#_Toc398546982)

[***Training / Adult Education*** 41](#_Toc398546983)

[***Transport*** 41](#_Toc398546984)

[***VAT Only Invoices*** 41](#_Toc398546985)

[Part 5 – Private Funds 42](#_Toc398546986)

[Introduction 42](#_Toc398546987)

[Registration for VAT 42](#_Toc398546988)

[Supplies by or to the private fund 42](#_Toc398546989)

[Specific Considerations 42](#_Toc398546990)

[***School Trips*** 42](#_Toc398546991)

[***School plays*** 43](#_Toc398546992)

[Part 6 – VA Schools – Special Considerations 44](#_Toc398546993)

[Capital Works at VA Schools - Introduction 44](#_Toc398546994)

[Capital Works at VA Schools – Is the expenditure Capital in nature? 45](#_Toc398546997)

[Capital Works at VA Schools – Deciding who has responsibility 50](#_Toc398546998)

[Capital Works at VA Schools – Flowchart 51](#_Toc398546999)

[Zero rating on Capital Works – New Buildings/Annexes 52](#_Toc398547001)

[Part 7 – Extended School services 54](#_Toc398547002)

[Introduction 54](#_Toc398547003)

[Third Party Providers 55](#_Toc398547004)

[Governing Body/Private Fund Provision 55](#_Toc398547005)

[SCC provided activities 56](#_Toc398547006)

[Part 8 - Transactions outside the UK 57](#_Toc398547007)

[Introduction 57](#_Toc398547008)

[Territory of the European Union 57](#_Toc398547009)

[Purchases of Goods: 58](#_Toc398547010)

[Purchases of services: 59](#_Toc398547011)

[VAT charged by foreign traders. 59](#_Toc398547012)

**Introduction**

Value Added Tax (VAT) was introduced to the UK from 1st April 1973, and was described by Anthony Barber, the then Chancellor, as “a simple tax”. That was then, this is now, and things have moved on a bit from this premise.

This manual would need considerably more pages to deal fully with UK tax legislation. Even if it were much bigger VAT law is constantly tested by tribunals and court cases, it is constantly evolving in response to decisions from these, with new legislation formulated by the government in response to perceived risks and new benefits.

This manual will cover the basics of the tax, as well as dealing with some areas that are either commonly found within Local Authority Schools or that may have a large impact upon their financial status.

If you find yourself with any query that isn’t addressed by the manual then please contact the Tax Specialist within SCC.

Tax Specialist:

David Saunders

Finance Strategy and Accounts

Constantine House

5 Constantine Road

Ipswich

IP1 2DH

david.saunders@suffolk.gov.uk

Tel: 01473 260815

Fax: 01473 265330

This manual does not deal with the entry of items onto the various financial systems in use nor does it deal specifically with coding issues, guidance on these areas can be found elsewhere on School surf. There is some coding advice in the section on ‘VAT only invoices’ in part 4 of this manual

The manual is split into various sections some of which will no doubt prove more useful than others;

Part 1 – When is VAT Charged? – This is a fairly technical section that provides a background to the principles of VAT and deals with the difference between supplies made in the course of running a business and non-business activities.

Part 2 – Basic Principles of Charging and Recovering VAT – A moderately technical section dealing with why things have different VAT liabilities and the importance to the council of correctly identifying them. It also deals with the evidence you need to recover VAT, and what supplies you cannot recover VAT on.

Part 3 – Land and Buildings (including leasing and letting) – This section deals with the liability of supplies of leasing and hire of school property. It has its own section as it is one of the most extensive sources of exempt supplies, and also sometimes one of the most difficult to get right.

Part 4 – General Areas of Interest – This is the section likely to be visited most often, it lists the common activities and purchases of schools alphabetically, giving details on the correct VAT treatment of each one.

Part 5 – Private Funds – Is relevant to schools running their own private funds and deals with the pros, cons, and pitfalls of running various activities through the private fund.

Part 6 – VA and Schools – Special Considerations – Is as the title suggests only relevant to Voluntary Aided schools, and deals with the problems of capital works including new buildings.

Part 7 – Extended Schools – Deals with the methods of delivering extended schools services and the VAT liability associated with these methods

Part 8 – Transactions outside the UK – Deals with those instances where you may encounter foreign VAT regulations i.e. whilst on a school trip, or whilst ordering from foreign businesses, and what can be done with VAT in these circumstances.

**Background and Legal Basis**

VAT was introduced as a replacement for Selective Employment Tax and Purchase Tax, as a condition of the UK’s entry to the Common Market. Those becoming member states agreed to replace any existing turnover taxes with VAT. Thus any domestic VAT laws are based on principles laid out in European Legislation, currently found under the 2006 EC VAT Directive, which replaced the 1st (1967), 3rd (1969), and 6th (1977) EC directives.

The initial UK legislation was the VAT Act 1973, the current revision of this is The VAT Act 1994, which is the primary UK legislation relating to VAT. There are a number of pieces of secondary legislation (called Statutory Instruments) which either clarify or adapt certain parts of the act in certain situations.

Responsibility for the administration of VAT lies with Her Majesty’s Revenue and Customs (HMRC), which was formed in 2005 from the merger of HM Customs and Excise (HMCE), and the Inland Revenue (IR). Prior to 2005 the tax was administered by HMCE.

HMRC publish a number of guides and leaflets relating to VAT most of which merely seek to provide a summary of their *interpretation* of VAT Law. A very limited number of these however contain tertiary legislation, mostly relating to record keeping requirements and accounting arrangements.

HMRC’s interpretation of VAT Law is not always correct and if a tax payer is in disagreement it can be tested through the VAT Tribunal service and in some cases through the High Court, The Court of Appeal, and even the European Court of Justice. Indeed if a tax payer feels that HMRC’s interpretation of UK law *is* correct but that it clashes with the EC VAT Directive this can be referred to the courts for testing as well.

**Part 1 - When is VAT charged?**

**Introduction**

The first rule of VAT is this:

*VAT is charged on any supply of goods or services, where it is a taxable supply, made in the UK, for a consideration, by a taxable person in the course of business.*

The above statement is, whilst seeming a simple premise, the basis for all other VAT legislation, and provides a six point checklist for deciding whether to charge, or whether you should be charged, VAT.

Has a supply been made?

Was it a taxable supply?

Was it made in the UK?

Was there a consideration?

Was it made by a taxable person?

Was it in the course of business?

If the answer to all of these is yes then VAT needs to be accounted for!

We shall deal with these slightly out of order;

**Who is a Taxable Person?**

Firstly we shall consider taxable persons. A taxable person is anyone who is, or is required to be, registered for VAT under the VAT Act 1994.

A person is required to be registered for VAT where the value of their taxable supplies in any rolling 12 month period exceeds a certain limit, or the turnover they expect in the next 30 days alone will exceed the given limit (for dates after 1st April 2014 this is £81,000, it usually changes with each successive budget so will probably rise again in April 2015). If a UK trader makes supplies below this limit then they may still voluntarily apply to register for VAT, so long as they are in business and making supplies that would be taxable in the UK. When registering for VAT each trader is given a unique VAT registration number.

As Suffolk County Council (SCC) is registered for VAT, this registration also covers all the schools under its control. Its VAT registration number is **104.1787.91**

The registration applies to all supplies made or received by the school whilst acting as agent of SCC. It does not cover the activities of any Parent Teacher Associations or similar independent committees, nor does it cover activities that the governing body enter into in their own right i.e. activities which go through a separately maintained and banked private school fund.

As all SCC schools fall under a single VAT registration this means that any supplies made between two SCC schools are not subject to VAT.

**Supply**

A supply is comprised of any goods or services that are provided to another party, a supply can also consist of agreeing not to do something.

**Taxable Supply**

A taxable supply is any supply which is not specifically exempt from VAT.

Taxable supplies fall under 3 different rates:

Zero-Rate: VAT is charged at 0% (The implications of this will be dealt with later)

Reduced Rate: VAT is charged at 5%

Standard rate: VAT is charged at 20%.

Exempt supplies fall under the following categories (although there are other types of exempt supply they are not likely to be relevant to schools e.g. Betting and Gaming, or Burial and Cremation):

Leasing/Renting/Hiring of land, buildings, rooms, sports facilities etc. (See Part 3 for more details and the exceptions to this).

Education provided for a charge.

Services related to sport, including competition entries and membership of non-profit making sports clubs.

Fund raising events by charities

Cultural services i.e. admission by a charity, Local Authority and other public bodies to galleries, theatrical performances, art exhibitions, zoos, and museums.

Supplies of goods where the vendor had no right to recover the VAT charged to them when they were purchased. [Blocked Goods] (See ‘Goods and Services where VAT cannot be recovered’ in Part 2 [pg16])

**Was it made in the UK?**

The rules relating to this are commonly referred to as ‘place of supply rules’. Most supplies made or received by a school will take place in the UK, however there are rules that affect certain services undertaken for people outside the UK, such as;

 Advertising

 Consultancy

 Supply of Staff

If you are dealing with people or bodies situated outside the UK please see ‘Part 8 – Transactions outside the UK’ in this guide or contact the CSD VAT specialist for further advice.

**Consideration**

In most circumstances consideration will mean monetary payment. However consideration is also involved in quid-pro-quo relationships, and barter transactions.

Where we receive a service or goods in exchange for doing something then we have received consideration. If someone agrees not to do something i.e. they agree not to build a car park, in exchange for some goods then both parties have received consideration and made a supply.

Consideration will mean everything received for a supply so if we receive both some money and some goods, then the aggregate value of these will form the consideration we have received.

**In the course of business**

This test is perhaps one of the most important from a school and SCC point of view, and we’ll look at some of the reasons why.

In most cases if a person is not in ‘business’ they cannot be registered for VAT, as non-business supplies fall outside the scope of VAT. If an activity falls outside the scope of VAT it means that it is an activity upon which VAT law has no bearing, and consequently VAT is not chargeable on it. It also means that VAT cannot be recovered by those making non-business supplies, except in certain cases Local Authorities. Throughout the guide the phrases ‘outside the scope’ and ‘non-business’ are synonymous.

An example of such an activity would be paid employment, it would obviously be extremely problematical to require every person in paid employment to register and account for VAT, and most people in paid employment would quite rightly not consider themselves to be a business. Other examples would be selling your own house, or selling your car in ‘Exchange and Mart’. There are generally taken to be six indicators that an activity is a business activity:

* It has an amount of continuity, this is balanced against the type of business you are in, i.e. a retailer would trade on a daily or weekly basis, but a property developer would only make one or two sales a year.
* It has a certain amount of value, so if your turnover is £2,000 per annum you’re less likely to be in business than someone who receives £2,000,000 per annum.
* It’s primarily involved in making supplies in return for a consideration, usually money.
* It’s earnestly pursued rather than just a hobby.
* It’s undertaken on sound and recognised business principles.
* It’s concerned in making the same kind of supplies as those who would seek to profit by them. So if you make a loss this doesn’t stop you being in business.

A Local Authority has a duty to fulfil various statutory obligations, including the provision of education to children up to the age of 19, as well as having the ability to trade in its own right to make best use of its resources and skills. Where a Local Authority is fulfilling its legal obligations then any supplies it makes to do this are not seen as in the course of business i.e. the provision of education, as they do not usually meet the 3rd and 6th criteria above.

Were the normal VAT rules relating to non-business activity to apply then schools would not be able to recover any VAT they incur in providing education. To prevent VAT being a burden to Local Authorities and LA schools VAT law allows them to recover VAT they incur on their non-business activities, without requiring them to charge VAT on any of the income from them.

It is worth noting that this can be overridden where it could cause a serious distortion of competition, so even though an activity may be covered by a legal regime specific to a Local Authority then if that activity is in competition with others then they may need to treat it as a business activity. For example where a school provides adult education as well as statutory education, their supplies of adult education are in competition with other training providers and would be seen as a business supply. In the case of education the supply would be exempt from VAT, but although the customer would not be charged VAT, this could still have a negative effect on SCCs and hence school finances. We’ll deal with this briefly in section 2.

**Part 2 - Basic Principles of charging and recovering VAT**

**Introduction**

Once registered for VAT a taxable person is required to submit regular returns to HMRC showing the taxable supplies they have made in the UK and they are allowed, on this return, to recover any VAT they have been charged that relates to the making of these supplies. The VAT they have charged their customers is known as Output Tax and the VAT they have incurred from their suppliers in relation to this is known as Input Tax.

As the VAT recovered (Input Tax) must normally relate to the taxable supplies that they make, most traders cannot recover those costs they incur in making either exempt or non-business/outside of the scope supplies.

Local Authorities however operate within a special area of VAT Law found under Section 33 of the VAT Act (and are sometimes known as Section 33 bodies), which allows them to recover the VAT they incur in undertaking their non-business/outside of the scope activities. This allows much greater recovery of VAT than would normally be the case, as the majority of local authorities’ supplies are non-business/outside of the scope.

This does not mean that all the VAT incurred by a local authority is recoverable from HMRC, there are still the amounts that relate to exempt supplies made by the Authority, such as the VAT incurred in setting up adult education courses, costs of letting out classrooms, sports fields etc.

It is obviously in the Local Authority’s interest to try to minimise the amount of VAT they incur in making exempt business supplies so that this does not become an irrecoverable cost, placing a strain on future budgets.

If these costs can be minimised then there is a further clause within Section 33 that will allow a Local Authority to recover the VAT attributable to its exempt supplies where it is considered to be an insignificant amount. Currently HMRC consider that anything less that 5% of the total VAT incurred by the Authority in a tax year is insignificant.

If the amount spent on making exempt supplies exceeds this amount then the entire amount will not be recoverable. The following table shows some examples:



You can see that although the amount of VAT spent making exempt supplies is the same, in one example the Local Authority gets to recover all of it, in the other they lose all of it thereby increasing the cost of the supplies they received. (With VAT recovery it is often useful to think of it as the difference between the local authority meeting all of its bills and it being able to split a portion of those bills with HMRC)

[This 5% limit is known as the ‘de minimis limit’ taken from the Latin phrase ‘de minimis non curat lex’ meaning that the law need not be interested in trivial matters]

**Different Rates of VAT**

As mentioned before VAT falls under 3 different rates; Zero, Reduced, and Standard.

Zero Rate

The zero-rate has VAT charged at 0%. On the face of it this appears similar to it being VAT exempt, but it must be remembered that VAT incurred in making exempt supplies cannot normally be recovered whilst VAT incurred in making zero-rated supplies can be. For instance, a publisher may incur VAT on purchasing ink and paper, which they can recover, although their eventual sale will be of a zero-rated book.

Supplies that are zero rated include;

Books

Young Children’s Clothing

Aids for the handicapped

Food (excludes confectionary, many beverages, and anything described as catering)

Water and Sewerage services (but not bottled drinking water)

Passenger Transport (in vehicles carrying 10 or more people)

Construction of buildings intended for non-business use by a charity (this may be particularly applicable to VA schools).

Reduced rate

The reduced rate is charged at 5% of the value of the supply. If you receive an invoice for a reduced rate supply which does not itemise the VAT element then it can be found by dividing the amount by 21 i.e. £105 ÷ 21 = £5

Reduced rate supplies include;

Supplies of domestic levels of fuel and power

Women’s sanitary products

Children’s car seats

Standard rate

This covers all business supplies that do not fall under the above categories of zero, reduced, or exempt. The standard rate is normally 20% and if you receive an invoice for a VAT inclusive amount the value of the VAT charge can be ascertained by dividing the total by 6, i.e. £120 / 6 = £20 VAT

There is one further way in which VAT may apply to an invoice and this is where you are purchasing or selling second-hand goods or where a tour operator supplies a tour package. Where these situations apply it is possible that VAT will only be paid on the difference between the value of the supplier’s purchases and the value of their sale. It is unlikely that a Local Authority will be overly involved in making these supplies, and if you are in receipt of such a supply then VAT is not shown separately on any invoice and cannot be recovered as Input Tax, so there is little need to dwell on this particular aspect.

**Invoicing Requirements/Evidence for VAT recovery**

A taxable person is only required to raise a proper VAT invoice when making a taxable supply to another taxable person. In practice however many traders will raise an invoice for all transactions they undertake whether taxable, or exempt, whether to a business, or a private individual.

There are two types of VAT invoice; full and simplified. Simplified VAT invoices tend to be used by retailers and are usually found in the form of till receipts. ***In order to recover VAT a proper tax invoice must be held by the school***, including those for road fuel paid by way of mileage claims to employees.

*Full VAT Invoice:*

A full VAT invoice needs to be obtained for all purchases exceeding £250 where you intend to recover the VAT charged. A full VAT invoice is also required where the council make a taxable supply exceeding £250 to a VAT registered customer. The following details should appear on a full VAT invoice;

Suppliers name, address, and VAT registration number

Customers name and address

A sequential identifying number

The date of issue of the invoice

The date the supply took place

A description of the supply including quantity where appropriate

The value excluding VAT of each supply

The VAT rate applicable to the supply

The Gross amount payable excluding VAT

The VAT charge

The rates / amount of any discounts offered.

*Simplified (Retailers) Invoice*

A simplified invoice can be issued by retailers for any supply valued under £250, and need only contain the following details;

Name, address, and VAT registration of the supplier

The date the supply takes place

A description of the goods or services

Total amount payable including VAT

For each rate of VAT chargeable the total amount payable including VAT and the VAT rate applicable

For many retailers such as Sainsbury’s and Tesco’s the last condition tends to be met by an asterisk (\*) on the till slips which denotes which items are taxable, although some advanced till systems do provide a summary of the VAT split at the bottom of the slip.

If you are in receipt of a simplified invoice, which does not itemise the VAT element then the VAT element can be extracted for each rate of VAT using the calculations at 2.1 above. Where an invoice does not contain a VAT number then there is no VAT that can be recovered on the supply using such an invoice as evidence

**When to account for VAT**

VAT is a transaction based tax, and the basic point at which VAT is accountable is whenever the earliest transaction takes place i.e. whichever is first of the issue of an invoice, the provision of the goods/ service, or the payment of a consideration.

However if invoicing occurs up to 14 days after the provision of the goods / services, then the point at which the tax is due will shift to the date of the invoice (For supplies made *by* Local Authorities this 14 day rule is normally extended). Where receipt of payment is the first thing to happen then this will be the time VAT is due no matter what happens after.

If part payment is received early then only VAT on the received amount will be due, with the remainder falling due subject to the conditions above.

**Value of supplies (Barter Transactions)**

In most cases the value of a supply will simply be the amount that is paid for it or the amount received for it. However there are a few cases where this can change, the most likely one for a school to come across would be barter transactions.

With barter transactions no money changes hands, the value to account for will therefore be the value that the relevant parties place upon the transaction. This will normally be either the open market value of the supply or the cost to the party of making the supply.

**Goods and Services where VAT cannot be recovered**

Although schools can recover the VAT they incur in making their taxable supplies and their supplies of statutory education, there are a number of items where recovery is specifically precluded.

***Cars***

VAT can only be recovered on the purchase of true pool cars, this means that the vehicle is never kept at a domestic address, it is not allocated to a specific person, basically that it is not made available for any private use. If there are specific legal bars on private usage such as a ‘hire’ document signed by employees using it, specific clauses in terms of employment with penalties that may be applied, then recovery may be allowed, if you think this may apply then please contact the Tax Specialist for further advice.

Private use includes journeys from home to work, although allowance may be made for situations where the user of the vehicle is required to be ‘on-call’ or in similar circumstances.

Where a car is on a long term lease, then normally 50% of the VAT incurred can be recovered. If the car is subject to business use only, as detailed above, again VAT may be fully recoverable. In both cases however HMRC are noted for their strict view of what available for private use means.

See Section on Motoring Expenses under ‘Part 4 – General Areas of Interest’

***Business Entertainment***

See Section on Entertainment and Hospitality under ‘Part 4 – General Areas of Interest’

**Bad Debts**

Where an invoice is written off due to non-payment by a client then any VAT previously declared on it may be recovered, subject to certain time limits. When recovering Bad Debts for VAT purposes the VAT previously charged is treated as Input Tax on the return in which the write off is made.

The time limits for making a claim are as follows:

No claim can be made until the debt is at least 6 months old plus any standard terms;

 e.g. If an invoice is on 14 day terms the time limit starts at 6 months and 14 days (6.5 months)

 If an invoice has 60 day terms then the time limit is 6 months plus 60 days (8 months)

Once the time limit for making the claim has started the claim must be made within 4 years;

 e.g. From the examples above a claim would need to be made within 4 years, 6 months and 14 days of the issue of the first invoice, and 4 years, 8 months of the second.

It should be noted that where an official dispute procedure allows for the invoice to be held over until the dispute is settled then the time limits will not commence until the dispute is settled and the debt is reinstated.

It is also worth noting that when a debt becomes old enough for the VAT to be recovered as a bad debt, it means that the recipient of the supply is no longer entitled to their recovery of the VAT they have been charged i.e. if a school had an invoice which it had recovered VAT on but had then failed to pay the supplier for the duration of the time limit above they would need to repay the VAT claimed.

If payment is made following a VAT bad debt adjustment, then at this point the VAT should be repaid or reclaimed as appropriate.

**Discounts**

It is not uncommon in certain trades to find ‘prompt payment discounts’ where the price is reduced if the invoice is paid say within 7 days instead of on standard terms (such as 30 days).

Up to 2014 the VAT charged on the invoice would be the VAT on the discounted price. This is the amount of VAT that can be claimed; even if the discount terms aren’t taken up and the higher price is paid the VAT recovery can only be based on the VAT charge listed on the invoice i.e.

Normal Invoice;

 Goods £100, VAT £20.00

Discount Invoice

 Goods £100: Deduct 10% if paid within 7 days, VAT £18.00

 If paid within 7 days the charge is £108.00 (£90 plus £18.00 VAT)

 If paid later than 7 days the charge is £118.00 (£100 plus £18.00 VAT)

This does not mean that this mechanism can be used to artificially lower VAT liability, the terms of any discount must be fair and reasonable on accepted commercial terms i.e. a 90% discount for payment within 5 minutes, apart from being plain silly, will not be accepted by HMRC and they would still expect VAT on the full value of the supply.

With the 2014 Budget it was announced that this mechanism would no longer be allowed, and VAT would be due on whatever consideration was received, so it is expected that suppliers will now issue invoices at the full value, and where a prompt payment discount is available a credit note will be issued to reflect any discount taken.

**Part 3 - Land and Buildings (including leasing and letting)**

**Introduction:**

As we’ve already stated the majority of land transactions are exempt from VAT. This means that any significant costs incurred in making these transactions, such as construction costs, materials, and planning fees will increase the amount of exempt VAT SCC incurs, possibly placing them over the 5% de minimis limit.

The law relating to land transactions allows for some important exceptions to the general exemption as well as the possibility of choosing to make supplies of non-residential land and/or buildings taxable.

As standard the following supplies would be exempt from VAT; hire of a classroom, hire of a school hall for a meeting or other non-sporting use, hire of a school field for a non-sporting use, hire of car boot pitches.

**Specific Transactions**

***Parking (inc. Mooring Fees)***

Facilities for parking a vehicle will be taxable supplies at the standard rate. If you allow the public to use the school car park, or other school land for parking and charge a fee then this supply will be standard rated for VAT. This applies whether it is during school hours or in the evenings i.e. if you happen to be near a football ground or theatre and allow parking during games/performances. The same applies to any riverside schools that may provide moorings.

***Camping***

Allowing people to camp on school fields is a standard rated supply

***Entrance fees / Admission Charges***

Entrance fees do not normally represent a right over land and are therefore normally taxable at the standard rate depending on what you are gaining entry to or allowing entry to (i.e. entrance to *certain* cultural performances or charity fund raising events may not attract standard rate VAT).

***Use of facilities rather than use of a classroom***

Although renting out a classroom would normally be an exempt supply for VAT, if the use of the classroom is clearly ancillary to the use of the facilities it contains then the charge will be for the use of those facilities and taxable at the standard rate.

The best example is probably of a computer club hiring the schools computer lab every Thursday and being allowed to use the schools computers. In this case the computer club is looking to use the computers, and it is merely a necessary part of that usage that they have access to the computer lab. In this case the charge would be a standard rated charge.

If the use of equipment is incidental to the hire of the room i.e. as standard you have a video and TV in rooms, then it's still exempt room hire. If you actually make a separate charge i.e. room £30, video equipment £5 then it's two supplies; an exempt rent and a taxable equipment hire at the relevant values.

***Sporting Facilities***

**What are sporting facilities?**

Sporting facilities are any area designed, or provided adapted, for the playing of sport. So a purpose designed sports hall will be a sporting facility, as it has features such as reinforced flooring, high windows etc to facilitate the playing of sport. A general purpose school hall with court markings and basketball nets or wall bars, will in some cases be a sports facility and in some cases not, depending on how it is used when it is let to someone to use for sport. It will only be a sporting facility where the hirer has use of the equipment within it e.g. a hall designed with basketball nets and no other equipment will be a sports facility when used for Basketball but if provided without use of that equipment to a yoga club will not be being let as a sports facility. At any point if sports equipment is provided for use in such a hall then the hall is being used as a sports facility, so letting to a Judo club and providing floor mats for their use would be a sporting facility. However if a general purpose hall was let to a Judo Club who were bringing their own mats and equipment then it would not be seen as a sports facility and would instead just be the normal letting of a building/room.

So in brief a building is a sports facility where it is purpose designed for sports use, or where it is equipped with equipment that the hirer will actually use for the playing of sport.

The right to use sporting facilities is normally standard rated for VAT, but under certain conditions it reverts to being exempt:

*Period of Hire exceeding 24hours*

Where a single let of the facilities is for a period exceeding 24hours and the person(s) hiring them has exclusive use of the area then its supply will be exempt.

*Series of hire sessions*

The taxable status of sports facilities can also be overridden and made exempt if the following criteria are met:

* The hirer is a school, club, or association of clubs or players
* The hire is for a set of 10 or more sessions taking place between 1 to 14 days apart (the sessions should be for the same sport played in more or less the same place i.e. if you've got two football pitches it doesn't matter which they use, but they can't do football outside one week, and indoor cricket the next).
* The price is set by reference to the whole series i.e. it's not charges of £16 per session, but £160 for 10 sessions or a season etc. (However payment can be made to whatever schedule you wish)
* Only cancellations by the school for unforeseen circumstances will be allowed, if the hirer cancels a session which leaves a three week gap then the whole hire becomes taxable again.

For schools the main problem in meeting these criteria is normally the 14 day maximum, where you have a club playing home and away matches etc. school terms are not really structured so as to allow 10 fortnightly sessions easily, before a half term forces a three week break in the hire, or something similar. Obviously a half term does not count as unforeseen circumstances, although flooding or extreme inclement weather will.

*Hire for other than sporting use*

If, for example, a football pitch is hired to stage a concert, or fireworks display, then it will not be seen as a supply of a sporting facility for the purposes of that let, and it will be exempt (subject to an Option not being in place (see below)).

***Recharges to Tenants***

Many leases or rental agreements allow for recharges of costs from the school to the occupier, sometimes these are dealt with within a rental agreement and sometimes outside it. Often these charges are issued as a single charge and billed as ‘service charges’.

Generally a service charge will be seen as further payment for the main supply of rent and will be treated as having the same liability. This is usually due to the fact that the charges aren’t optional and are therefore not part of a separate supply to the tenant. Where a tenant has been able to choose who will carry out repairs or cleaning of common areas or any other element of a service charge, and have merely chosen to utilise the facilities on offer from SCC/the school then they have received a separate supply and VAT should be charged at the standard rate. Where the service charge has been imposed as part of the rental agreement then the charge will be treated the same as the main supply of rent i.e. normally exempt from VAT.

Some common areas of confusion on this are listed below:

*Insurance*

Where insurance is recharged to a tenant then the liability will normally be treated as above, however where the school has arranged insurance in the tenants own name then the supply will always be exempt from VAT. It is however fairly uncommon for insurance to be arranged in a tenants name and we would not expect this to occur very often, if at all.

*Fuel and power*

Recharges of fuel and power will normally be part of the rental where the school merely apportions its own bills and charges a percentage to the occupier. However where the supply is a separately metered supply received only by the tenant then it will be subject to VAT at the standard or reduced rate.

If they are on a separately metered supply then if they use below 1000Kw hrs per month of electricity, and/or 5 therms (4397Kw hrs) per month of piped gas you would only need to charge 5% VAT on the relevant utility. If usage is above this level then the charge is at the standard rate of VAT.

**The Option to Tax**

**General Principles**

The option to tax is a mechanism whereby a person may choose to make their supplies of land and property taxable at the standard rate, instead of exempt. As the exempt status of a supply of property means that VAT charged to SCC may potentially either be not fully recoverable or not recoverable at all, it can be quite advantageous to opt to tax a property, this is also known as ‘waiving exemption’.

The option to tax is specific to the business that makes the option and does not affect the supplies made by other businesses (except to the degree that occupants or users of the land will now be paying VAT on their bills where they weren’t before). Once an option is exercised it can only initially be withdrawn in limited circumstances, those being where no supply has been made of the land, no VAT has been incurred on the land, and less than three months has elapsed since the option was notified. Other than this initial period an option may be revoked after 20 years with written consent from HMRC.

Theoretically anyone can opt any piece of land, this of course will only be effective where they have a beneficial right over the land i.e. ownership, a lease, or a right to receive profits in relation to it. There are also some types of land that the option will not apply to and the main one that may affect schools is set out below.

* Buildings for Charitable use

Where a building is to be used for a relevant charitable purpose, other than as an office, then the supply will continue to be exempt. A relevant charitable purpose will mean for the non-business use of a charity including such as a free drop in centre, a soup kitchen or refuge where no charges are made for any of the services.

Although an option to tax can simplify VAT accounting in that it makes any hire or let of a classroom, playing field, school building etc., taxable at the standard rate, it will make the cost of hiring more expensive to customers and this may affect the level of income you could receive.

As the option is irrevocable for a considerable period, and affects any future disposal of school sites, it is not an option to be considered lightly, and SCC currently has no school buildings which have exercised an option.

If you wish to discuss the option to tax then please contact the CSD VAT specialist.

**Part 4 - General Areas of Interest**

**Introduction**

This section looks at supplies commonly received or made by schools and deals with their treatment and liability. It is not an exhaustive list of every type of product on the market, nor of every type of service available.

If you commonly deal with items that are not in this, or other relevant sections, please contact the VAT specialist in CSD so that it can be included in future editions.

***Admission Charges***

Admission to events, exhibitions, jumble sales, fetes etc. will generally be standard rated, when provided by the school. Likewise admission charges paid by the school on trips such as for museums, exhibitions etc will also be standard rated where the supplier is registered for VAT.

***Adult Education***

See ‘Training / Adult Education’.

***Advertising***

Supplies of advertising are standard rated for VAT, except when provided to charities. If you advertise on behalf of a charity they should provide a declaration as to their charitable status for you to retain with your records.

If you are approached by a charity for a supply of advertising please contact the Tax Specialist in CSD for the relevant declarations and further advice.

See also ‘Donations and Sponsorship’

***After School clubs/Breakfast clubs etc.***

See Part 7 – Extended Schools Services

***Assisted Instrument Purchase Scheme***

See ‘Supplies closely related to Education’

***Books***

See ‘Printed Matter’

***Catering and food (inc. Vending Machines)***

Generally speaking most food items are zero-rated for VAT, however certain items will attract VAT at the standard rate, as will many supplies of catering. Catering is any food sold specifically for consumption on the premises on which it is sold i.e. anything sold in the cafeteria to be eaten in the cafeteria; it is also any supply of hot food or drink. Certain items like cold sandwiches to be taken away from the cafeteria may still be zero rated.

The following items will normally have VAT on them with the exception of items in the second column:



However where a supply of catering is closely linked to a supply of education it will take on the liability of that supply, this obviously relates to canteens/dining halls in schools. The supply of school meals to pupils will be non-business and therefore outside of the scope of VAT, supplies to staff and visitors will remain taxable business supplies and will need accounting for. Where vending machines are provided their income will also need splitting on a fair and reasonable basis.

In most cases statements or invoices from catering contractors should clearly identify any VAT declarable by a school on meals/vending supplied on its behalf,.

Other areas concerned with catering will include those providing conference/meeting facilities. Minimal refreshments i.e. tea, coffee, and biscuits, provided during a day or half day hire won’t be seen as a supply of catering if provided as a standard part of the hire, if a separate agreement for refreshments is entered into then this will be catering.

Where you provide lunches during a day’s conference then you will always need to account for VAT on the value of these, if it is not separately identified then a split will need to be made on a reasonable basis. Where you have different tariffs such as a half day rate and a half day including lunch rate then the difference between these will be the meal value and this can be applied to full day rates where meals are not separately identified.

***Charities***

Whilst a number of supplies made to charities do not carry VAT, the scope of the relief is actually quite narrow and not as wide ranging as many charities and members of the public may believe.

Certain zero-rating reliefs available on items for disabled persons (see ‘Goods and Services for the benefit of disabled persons’ below) may be extended to charities purchasing them for a disabled persons use. There are also reliefs for works to facilitate disabled access to buildings paid for by charities, and some relief on the provision of disabled toilet facilities in buildings mainly used for a charitable purpose. If you come across any of these situations then it is suggested you contact the Tax Specialist to advise on the required declarations and scope of the relief.

Other reliefs available to charities include the zero-rated services of producing or placing an advertisement on their behalf, this however does not extend to website design, or to direct mailing supplies.

***Children’s Clothing***

See ‘School Uniforms’

***Compensation Payments / Recovery of out of pocket costs***

Occasionally it is necessary to recover costs from a third party in situations where the school has incurred out of pocket expenses, such as where someone has damaged school property, or we need to recover legal costs incurred in pursuing a claim against a person.

In most cases these charges will not be liable to tax as they do not represent a supply made by the school to the person paying the charge. For example if someone has knocked down a wall outside a school, we are the ones who receive the repair service, if we then make an onward charge to the person who damaged the structure they haven’t contracted for any repair services, they are merely compensating us for costs we have incurred. It is the same with legal costs, if a third party agrees or is instructed to meet our costs then we are still the recipients of the supply from our lawyers etc. they are merely compensating us for costs we shouldn’t have needed to incur save for their actions.

See also ‘Third Party Reimbursements’

***Competition Entry Fees***

Competition entry fees will normally be standard rated, when provided by the school rather than any private fund.

However entry to sporting competitions will be VAT exempt where the total entry fees are used to provide prize money for the successful competitors.

***Donations and Sponsorship***

Where money is received by way of donation this is outside the scope of VAT. In order to be a true donation the person(s) making the donation should receive nothing in return, although it is permissible to acknowledge the donation by way of items such as lapel stickers etc.

You are allowed to suggest minimum donations but it must be clear that such items are voluntary contributions, if a minimum donation is required to receive something i.e. to gain entry to a building or exhibition then this ‘donation’ will be consideration for the supply and taxable at the appropriate rate, any receipt in excess of this ‘minimum’ amount can still be treated as a donation in it’s own right.

One area where there is often confusion with donations is in the area of sponsorship. Whilst some ‘sponsorship’ may be a donation, many items described as ‘sponsorship’ will actually result in a supply of advertising.

If you seek commercial sponsorship of an event and then call the event the ‘Xyz Ltd Event’ then you have made a taxable supply, if you allow free entry to an event in return for sponsorship you have made a taxable supply. However providing a list of sponsors in a programme will not amount to advertising so long as no names are more prominent than others i.e. you do not include company logos etc.

If sponsoring an event gives them a right to advertise in a programme or the names listing shows the logos of the relevant sponsor, then any receipts will be for a supply of advertising and should have VAT charged at the standard rate.

Where goods or services are purchased with donated money this is no different to using school money, and VAT is recoverable as normal. This does not apply if the donation has been made with the expectation of the donor receiving something in return i.e. a PTA cannot ‘donate’ money to the school to purchase equipment which the school then ‘donates’ to the PTA. This however does not stop funds being donated for a specific purpose; so long as it does not benefit the donor i.e. money can be donated specifically for the purpose of providing a new sound system for the hall with the proviso that it is used for no other purpose, in this case the purchase is still VAT recoverable.

***Entertainment and Hospitality (inc. Staff Parties)***

You should be careful when recovering costs associated with the provision of hospitality or entertainment as its treatment can be quite different to costs you incur in the normal course of running the school.

In the normal course of trade a school can recover any taxable costs that it incurs in making its supplies, however items which fall under business entertainment are specifically excluded from this recovery.

If you provide someone with entertainment or hospitality relating to business supplies, i.e. host a lunch for some prospective tenants/hirers etc. then this cost is incurred in the course of business and cannot be recovered and should be entered as a gross cost to the financial system.

However if the event/party is purely for staff, and non-business guests (such as spouses) then this is not viewed as business entertainment, and in common with other non-business supplies can be recovered in full.

***Examination Fees***

See also ‘Training and Adult Education’

Examination fees recharged at cost to adult education pupils are disbursements outside the scope of VAT.

Examination fees charged to state pupils are non-business and hence outside the scope of VAT.

Fees charged by external bodies to a school for examination services are exempt from VAT, likewise if you were to charge a non-SCC school for the provision of examination services this would be exempt from VAT.

***Food***

See ‘Catering and Food’

***Fuel and Power***

There are certain limits below which any supply of fuel and power is seen to be domestic and therefore eligible for the reduced 5% rate of VAT. Some schools may exceed these limits and incur VAT at 20%. However this will not be the case for all buildings, you should therefore be careful when processing Fuel and Power invoices not to claim more VAT than is shown on the invoice. *(See also ‘Fuel and Power’, under ‘Recharges to Tenants’ in ‘Part 3 - Land and Buildings’)*

***Gifts***

Where a school incurs VAT on gifts to be given away either to members of the public or for recognition of staff service etc then these are seen as a non-business supply and you are entitled to recover the VAT.

This must however be VAT that the school incurs, if it is the case that you contribute (even in full) to an item that a member of staff has already bought for themselves then you are just making a monetary contribution, the supply has still been to the member of staff and VAT is therefore not recoverable.

***Home to school transport***

Where charges are made for the home to school transport of pupils, which is required as a statutory provision, then these charges are outside the scope of VAT.

***Hotel Conference / Function Facilities***

See main ‘Land and Property’ Section and ‘Catering and Food’ above

***Insurance Premiums / Claims***

The provision of insurance is exempt. There is a tax on certain insurance premiums at either 6% or 20% this is not to be confused with VAT and should not be entered as VAT under any circumstances.

Where an amount is received from an insurance company in respect of a claim this receipt is outside the scope of VAT. Many insurance contracts will only cover the net cost of replacement, repairs, making good, or whatever else the premium may cover, as the VAT element will normally be recoverable by the school. However as VA schools are not able to recover VAT on capital works they will need to be insured for the gross value of reinstatement or capital works.

***Interest on bankings / investment***

Receipt of interest is exempt for VAT purposes, unless the interest is compensatory i.e. for late payment of an invoice etc. in which case it would be outside the scope of VAT.

***Leases/ Letting/ Hire of Classrooms, Halls etc.***

Information and further detail on the leasing, letting, or renting of school rooms/buildings/fields can be found in Part 3 ‘Land and Property’.

The basic position of any right over land is that it is exempt from VAT, and therefore when renting out a school room no VAT is charged. However there are exceptions to this which are discussed within Part 3. If the supply goes beyond the letting of a room with basic facilities then VAT may apply.

The following are situations where you will need to refer to the additional guidance;

* Letting/Renting sports facilities i.e. gyms, pitches, pools, or halls that are adapted for sporting use e.g. a school hall with floor lines and equipment such as basketball nets, goals etc.
* Letting/Renting classrooms to allow access to specific equipment e.g. computer labs, Audio/Video suites, science rooms with equipment etc.
* Allowing school fields to be used for camping
* Car Parks

***Lotteries, Raffles, and Gaming (inc. machines)***

Where run through delegated budget the running of a lottery or raffle is an exempt supply for VAT purposes. The purchase of prizes will count towards the Councils level of exempt Input Tax for Partial Exemption purposes, and sales of tickets will be an exempt supply to the purchaser.

If income for a raffle is received by a private fund then the VAT on any prizes will not be recoverable by the school.

***Mobile Phone Vouchers/Cards***

Although payments for mobile phone vouchers / top ups are consideration for a future supply their purchase from a retailer is not a transaction to which VAT applies. Instead the VAT included within the voucher is incurred when it is spent; therefore VAT should only be recovered upon the value of the actual phone bill or statement received from the mobile phone company at the time it is received.

***Motoring Expenses: Petrol, Cars, Commercial Vehicles, Travel Costs including those charged as an expense by suppliers***

*Petrol:* Where a council either pays directly for fuel or pays a mileage rate at or below the ‘standard’ revenue rate (currently 40p) they are entitled to recover the VAT element of the petrol cost. When dealing with mileage allowances tables can be obtained from HMRC or the RAC showing how much petrol costs per mile dependant on engine size and it is the VAT element of this cost that may be recovered.

In all cases a receipt for fuel prior to the date of the claim will need to be obtained and retained to provide evidence to support the recovery of the VAT. In most cases recovery will not be available in relation to anyone who is not a council employee at the time the journey is made i.e. interview expenses paid by the council are not recoverable. In certain circumstances where a third party, such as a volunteer, has agreed to carry out duties that the council has an obligation to undertake then upon agreement with HMRC these expenses may be recoverable. A common example of this may be where a parent provides transport to school for a child where this transport should be by rights council provided.

*Cars:* VAT legislation specifically blocks the recovery of VAT on non-commercial vehicles, except those that are for resale, letting on hire, use as taxis, or for an exclusively business purpose. An exclusively business purpose would mean that the car was never made available for private motoring, i.e. there should be a contractual or physical bar on the vehicles use for anything other than official business. Private use normally includes journeys from home to work or home to meetings, so the cars should never be taken home overnight.

If it can be demonstrated that there is a necessity for the car to be taken home then recovery may still be permitted, but the test is a strict one. Circumstances where retention at an employee’s home may be permissible might be where there is a need for a fast response on-call service, it will never be permissible in circumstances where it is merely more convenient or cost effective for the vehicle to be taken home.

If you have had VAT recovery blocked on the purchase of a vehicle then when the vehicle is disposed of by the council it will be an exempt supply.

*Commercial vehicles:* A vehicle will be seen as non-commercial where it is principally designed for the carriage of passengers, and has roofed/windowed accommodation behind the front seats. In cases of double cab vehicles then it is accepted that those with a payload exceeding 1 tonne may be treated as commercial vehicles.

*Other Travel Costs:* Transport of passengers in vehicles designed to hold 10 or more passengers (including a driver) is zero-rated for VAT purposes. Therefore bus, train, coach, and aircraft travel is normally zero-rated and there is no VAT to recover. However hire of a self drive vehicle is not passenger transport, and the zero rating only applies to normal public transport or hire of a vehicle with a driver.

Taxi travel is taxable, but depending on the setup of the firm it may either be the company or the individual drivers that make the supply. If it is structured so that individual drivers make the supply then they are unlikely to be registered for VAT. Where travelling by taxi be sure to enquire whether they are able to issue a VAT receipt and if they are obtain one.

*Travel costs recharged by suppliers:* See: Recharge of Costs / Disbursements to external customers

***Part Exchange***

Any part exchange transactions will actually comprise two separate transactions for VAT purposes. One from the school to the supplier, and one from the supplier to the school, e.g. a garage allows £500 on part exchange of an old minibus when supplying a new minibus for £10000 inc. VAT (after exchange value). In this example there is a supply of a £10500 minibus from the supplier on which VAT should be charged by the supplier and recovered by the school, and also a supply of £500 from the school on which VAT should be accounted.

These two transactions can be coded as a relevant debit and a credit on a single coding slip.

***Postage***

Standard postage supplied by the Post Office i.e. the sale of stamps, is exempt from VAT.

Where postage is recharged by a supplier to a customer, then the liability to VAT will vary depending on the contract with the customer and the nature of the goods sold.

The contract will either be a contract for delivered goods, or a contract for two supplies; goods and delivery. The first case is the case with most mail order houses or internet suppliers such as Amazon, in this case as there is no option to get the goods yourself the contract is for delivered goods with the delivery being ancillary to the goods themselves. Where this is the case the VAT on the postage will follow the VAT on the goods i.e. if you order books from Amazon (zero rated for VAT), then the postage charge will also be zero rated.

If you order goods from a supplier where you are able to collect them but instead choose to have them delivered then the delivery is a separate supply to the goods themselves, and will always be standard rated

***Printed Matter, Printing, and Stationery***

Some items of printed matter are zero-rated for VAT; these include books, newspapers, magazines, booklets, and leaflets. The zero-rating applies to both the retail sale and also the production of the item so long as the item provided to the customer still falls within a zero-rated description i.e. if you ask someone to research and produce a leaflet then the supply is zero-rated if you receive a box of leaflets at the end of the process, if you ask some one to write a leaflet for you and you then take this to a separate printer then the writing of the leaflet will be standard rated as you haven’t actually received a leaflet from the initial producer.

This does not however mean that any process which culminates in an item of printed matter will be zero-rated, you will always need to look at the supply that the customer is looking to receive. For instance if you hire a consultant for £1000 and they produce a bound report summarising their findings this does not mean that you have hired the consultant to produce printed matter, they have provided you with research services for which the final printed report is merely the medium of delivery rather than an aim in itself. If you asked for extra copies of the report to then be produced these would however be a supply of printed matter.

In order to be regarded as zero-rated printed matter a book or booklet must contain a significant amount of text, and be designed to convey information, for this reason items such as blank diaries, accounting books, and exercise books will be standard rated, as will other stationery items.

The overall headings for zero-rated printed matter are as follow;

Books and Booklets Brochures and Pamphlets

Leaflets Newspapers, Journals and periodicals

Children’s Picture and painting books Music (printed or manuscript)

Maps, Charts, and Plans

Additionally covers and cases for the above may be zero-rated where supplied with the above and not charged or accounted for separately.

One of the areas that can cause most problems with supplies of printed matter is where the printed matter is provided for a single price with other items i.e. a book with accompanying CD or DVD. In these situations a single supply will take place where one element of the package is the principal supply and the other elements are all secondary or integral parts of that supply. This covers items such as instruction booklets which are clearly ancillary to the item they accompany and the whole package will carry the liability of the main item. Where neither item is ancillary to the other then it will be necessary to apportion the cost between the zero-rated and standard rated elements. If you are in receipt of such a product then the invoice should show the relevant split to allow recovery of VAT.

***Recharge of Costs/ Disbursements to other Local Authority Schools***

As all schools administered by SCC fall under the same VAT registration number any recharges of costs between 2 SCC schools falls outside the scope of VAT, and no VAT needs to be accounted for.

***Recharge of Costs/ Disbursements to external customers***

Where expenses are recharged by someone such as a consultant it is not uncommon to find inconsistent VAT treatment. It is important to distinguish between ‘disbursements’ and expenses in these cases.

It is common for many professions to use the term disbursement to cover a wide range of expenses they incur whilst making a supply, however in VAT terms the phrase only covers a fairly narrow definition. If a cost has been incurred to the direct benefit of a customer, at the customer’s liability, and is charged across at cost then it may be treated as a disbursement and its liability will carry across.

The best example of this is perhaps an MOT charge; where you take your car to a garage for its MOT but the MOT is actually carried out at a third garage, then the charge is treated as a disbursement and its tax free status carries across to your final bill. This is due to the fact that the MOT is to the direct benefit and at the direct request of the end user rather than the garage, they have merely paid the test centres fee as an administrative convenience.

An example of where a charge is not a disbursement is travel costs; where a council hires a reporting consultant and they travel to various centres they will recharge these costs to the council. This is not a disbursement as no member or officer of the council has undertaken any journey, and the consultant was hired to produce a report rather than to procure train or car journeys for the council. In this case the charges are just part of the final cost of the report and not a separate supply; hence they will take the liability of the actual supply, i.e. the consultancy, and be standard rated.

***Recycling Income***

Where you receive income from a recycling point such as printer cartridge recycling or a paper bin then this income is taxable when banked through the delegated budget.

***Repayment of costs incurred by staff members***

It is not uncommon for some types of staff to make purchases for the school from their own money/on their own credit card etc. for items to be used within the classroom. There is often confusion as to whether the VAT on these costs can then be recovered by the school if they repay the teacher/member of staff for this cost.

The key to this is whether the staff member is acting as the agent of the school when making these purchases. Generally you would only be able to recover VAT on money paid to a third party for goods they own where that third party is a VAT registered business charging VAT, which most staff will not be.

However where a member of staff has been asked to procure goods/services, or would be reasonably expected to procure goods/services on the schools behalf, then they will be acting as the agent of the school in making the purchase. If suitable evidence is held to show that the staff member acted on the schools behalf then a claim for repayment, with the original purchase invoice attached, can be used as evidence to recover the VAT charged.

A request to act as an agent is not a retrospective affair; a staff member cannot make the purchase and then afterwards ask for permission to make the purchase. Permission to purchase must be granted in advance and is best evidenced by either a written request from the headteacher, or minutes of meetings where the purchase was authorised etc.

If low value purchases may be made within your school as a matter of course then it would be wise to adopt a formal statement into your financial policies authorising certain staff or types of staff to make purchases on the schools behalf such as:

“Staff may act as agent of the school in the procurement of small value goods or services to be used in the provision of education to pupils, or for the efficient administration of school business, and can expect reimbursement of expenses, reasonably incurred as part of their duties, up to the value of £XX”

You should set reasonable limits on this, or perhaps have various limits based on the subjects or people involved i.e. different limits for English Teachers, or Science Teachers, or department heads etc.

You should not use a statement within your financial policies to avoid administration in relation to staff purchases i.e. a limit of £1000 would not be viewed as reasonable, and any significant purchases below this limit would still require written or minuted permission. What is a reasonable limit will of course depend on the size of the school, the staff involved, and the types of purchase.

***Sales of pupils work***

Where you sell pupils, or their parents, work the pupil has completed in CDT, Art etc. then this is a supply closely related to education and will normally be outside the scope of VAT, provided the price does not exceed cost i.e. it should only cover materials costs, an perhaps some nominal overheads. Sales of pupils works to third parties will be taxable, unless the work itself is zero rated i.e. a book, food, or children’s clothing. (please see the relevant sections for these supplies).

See ‘Supplies closely related to Education’, ‘School Plays/Concerts- Sale of recordings’

***School Photographs***

Accounting for VAT in relation to school photographs depends on the circumstances of the supply, and there are several variant situations. Although some situations mention a supply of facilities to the photographer this supply is normally represented by a ‘discount’ to the school, one of the queries to address is whether this discount represents a supply made by the school, or local authority, or whether it is a discount on the school purchase of photographs for resale.

The situations may be summarised as follows:

1. The photographer supplies direct to pupils/parent, and the school governing body supplies facilities to the photographer.

In this situation the school has a governing body which has control over its own funds i.e. the school maintains a private fund. As the governing body is not registered for VAT then the supply of facilities to the photographer does not have any VAT accounted for on it.

The supply by the photographer to the pupil/parents will be taxable depending on whether the photographer is VAT registered, but it will be up to the photographer to declare the appropriate VAT to HMRC. As the supply is from the photographer to the pupil/parents there is no VAT that the school can recover.

This is one possible situation for VA schools.

b) The photographer supplies direct to pupils/parents, and SCC makes a supply of facilities to the photographer.

In this situation the school only uses delegated funds, and is therefore acting as agent of the county council. VAT would need declaring on supplies to the photographer (i.e. the ‘discount’ received is VAT inclusive).

The supply by the photographer to the pupil/parents will be taxable depending on whether the photographer is VAT registered, but it will be up to the photographer to declare the appropriate VAT to HMRC. As the supply is from the photographer to the pupil/parents there is no VAT that the school can recover.

As SCC does not own the facilities of a VA school, this situation will not apply for such schools.

c) The photographer makes supplies direct to the school; the school resells the photographs to pupils/parents. The school uses a private fund for this activity.

The photographer will charge the school VAT, this VAT will not be recoverable, and the school will not need to account for VAT on income received.

d) The photographer makes supplies direct to the school; the school resells the photographs to pupils/parents. The school uses the delegated budget.

The photographer will charge the school VAT, this VAT will be recoverable, but the school will need to account for VAT on income received.

***School Plays/Concerts/Dances/Discos***

It is important when staging a play etc. that the income and expenditure both utilise the same fund, and hence the same VAT treatment.

The putting on of such an event is not a supply closely related to education for VAT purposes. You will need to account for VAT on ticket income when you use the delegated budget to pay for the staging of the performance/event and recover the VAT on these costs.

If you provide for the performance from private funds then the income can be received to the private fund without accounting for VAT, but as the private fund is not VAT registered it will be unable to recover any VAT on the costs of staging the event.

Even though the staging of a play may be an educational exercise for the performers and stagers, i.e. part of GCSE Drama, this does not allow the sale of tickets to be treated as closely related to the supply of education. Even where a performance is restricted to family members of pupils, the supply of education is still to the pupils taking part, and not to the people viewing the play, and ticket sales will be taxable at the standard rate, when going through delegated budget.

***School Plays/Concerts- Sale of recordings***

It is important if selling a recording of an event i.e. concert CD, Play DVD that the income and expenditure both utilise the same fund, and hence the same VAT treatment.

As the putting on of such an event is not a supply closely related to education for VAT purposes, then also the sale of any recording is not a sale of pupils work and you will need to account for VAT on the proceeds of CD/DVD sales whether a profit is made or not, unless both the income and expenditure are through the private fund.

***School Trips***

There are various issues regarding school trips, some of which are dealt with in part 5 concerning schools private funds.

*General:*

Where a school trip is run through the delegated budget then VAT is recoverable on costs, without VAT needing to be accounted for on income, so long as the following criteria are met:

* The trip is being undertaken for an educational purpose, although this is currently a fairly wide definition and can include areas such as ski trips where these have classroom preparation and are undertaken for an educational purpose.
* The trip will not make a profit i.e. it will be provided to pupils at or below cost.

At or below cost can include an element of overheads as well as direct costs, but these should be calculated carefully to avoid the possibility of profit.

*Leisure Trips:*

The criterion requiring the provision of the trip for education purposes means that any trips undertaken purely for a leisure purpose will be seen as business and may need VAT accounting for on them. The calculations needed to account for VAT on trips and tours can be very complex, and it is suggested that any planned leisure trips are run through a private or PTA fund rather than using SCC funds. However given the fairly wide application of the term educational in relation to trips, it is unlikely that many schools will be organising leisure trips for pupils.

*Trip Costs – Packages vs. Individual supplies:*

Where a tour operator or travel agent makes a supply of a package rather than individual components of a trip being procured independently (i.e. you use a travel agent to get a flight and hotel package rather than booking with an airline and the hotel company separately) their supply falls under what is known as the Tour Operators Margin Scheme (TOMS).

Under TOMS the tour operator only accounts for VAT on their profit margin, and they are unable to issue a normal tax invoice as the VAT charged may be unknown at the time the invoice is issued. This means that any tour packages will not have any recoverable VAT where it falls under this scheme.

There has been an opt-out for suppliers to schools to allow them to breakdown their supplies into individual elements where they supply schools. This opt-out is withdrawn from 1st January 2010, and so from this date any package supplies bought in will no longer have any recoverable VAT included with them and this will increase the net cost to the school of providing trips through tour operators.

***School Uniforms***

Although there is no specific VAT relief for supplies of school uniforms generally, young children’s clothing and footwear can be zero rated for VAT purposes. The definition of young children and the maximum clothing sizes involved are set around the average body type of a 13 year old.

HM Revenue and Customs publish a leaflet [Notice 714 – Young Children’s Clothing] which lists the maximum sizes up to which supplies of clothing items can be zero rated. It is available through the library section of their website [www.HMRC.gov.uk](http://www.HMRC.gov.uk). As the tables are quite extensive we have not sought to reproduce the information here.

If a school caters exclusively to pupils under the age of 14 then provided uniform items are prominently badged, or have a prominent logo identifying the school, they can be zero rated for sale to pupils regardless of size. (Excepting, obviously, any ordered in adult sizes for staff or adult assistants).

Often the best guide to the liability of items of children’s clothing is to check the invoice from your supplier, if they are VAT registered and have zero rated the provision of the clothing then you will normally be safe to do the same.

Some suppliers may charge you VAT on ‘optional’ services such as embroidering a badge or crest to plain clothes, this however does not affect the liability of your onward supply to pupils. If you are supplying an item of clothing that meets the criteria for zero rating then it should still be zero rated even if you’ve incurred VAT in having a crest added.

***Second Hand goods***

There is a special scheme whereby a seller of second hand goods does not need to account for VAT on the full selling price of the goods. If you purchase second hand goods from such a trader then the invoice should state this and no separate VAT amount will be shown on the invoice. In these circumstances there is no VAT that can be recovered by the school.

When you sell used goods or used equipment however you will need to account for VAT on the full sale price. This is due to the fact that the scheme only relates to goods that are purchased second hand or from members of the public who were not in business. Where you have had VAT recovery on goods or equipment you will need to account for VAT when you then sell these goods onward.

***Secondments of Staff***

Most secondments of staff are taxable at the standard rate of VAT. However secondment of educational staff i.e. teachers, to other education providers who are not part of SCC are exempt from VAT. This only applies where the member of staff is seconded into a teaching role.***Supplies closely related to Education (inc. Assisted Instrument Purchase)***

Supplies of goods closely related to education can be treated as outside the scope of VAT in certain circumstances, a common example is the Assisted Instrument Purchase Scheme, other examples may include lab coats or aprons.

If the following criteria are met then the supply of an item can be made VAT free (for coding purposes – outside the scope of VAT)

* The goods or services must be closely related to the education provided i.e. for the direct use of the student and necessary for delivering the education to them.
* The pupil must receive education from the Suffolk County Council i.e. through an SCC school, or the music service, or other educational activity.
* The goods or services must be purchased originally by SCC or the school i.e. we must receive an invoice addressed to us and take title to the goods, rather than merely act as agent between the pupil/parent and the supplier. This also precludes the scheme running through any school shops that are funded by the private fund.
* Payment for the goods must be paid to SCC or the Schools delegated budget; again this means that supplies cannot be made through the private fund.
* The price charged to the pupil/parent must be at or below cost, although this does include any necessary overheads.

For clarification; ‘necessary for delivering the education’ would mean that the pupil would regularly use, and be required to use, the goods in school during lessons. For example you cannot purchase a guitar through the instrument scheme if the pupil is only receiving saxophone lessons, and/or only plays saxophone in the school orchestra and no other instruments, and does not use a guitar in class (or orchestra). In the preceding example you could of course provide a saxophone VAT free to the pupil.

Computers and Laptops cannot be sold under the above provisions, as it would not be accepted that a laptop is necessary for the provision of education, except perhaps in a computing class, but it would of course not be acceptable to require pupils to use their own equipment in a computer lab, for fiscal, insurance, and security reasons. Other computers are of course not easily portable and so you could not ask a pupil to bring it into school to receive education using it. Likewise items such as full drum kits couldn’t be sold through the instrument scheme due to portability issues.

***Telephones***

In general telephones cause very few VAT problems as any income from payphones is taxable and call charges / line rental on phones situated on council premises will normally be recovered. However problems may arise where private calls are made and where private calls are recharged by the school.

Normally VAT can only be claimed on items where it has 100% business use (or in the case of a council statutory non-business use), in practice customs accept that there will be an insignificant volume of private calls made using council landline equipment and do not expect any adjustments to be made.

However where the equipment is a mobile phone the costs and volume can be significantly higher, HMRC will accept that where there are policies in place prohibiting private calls then all mobile costs may be recovered. Where the policy is to allow private calls with no charges made then the call costs should be apportioned in a fair and reasonable way, possibly by analysing a reasonable sample of bills and applying this proportion across the board.

HMRC are happy to accept that where there is a genuine business reason for providing a mobile phone then equipment and connection costs are fully recoverable even where an element of private use is allowed.

***Third Party Reimbursements***

Where a local authority reimburses a third party for cost they have incurred (such as legal fees, awarded costs etc.) then they are unable to recover the VAT included in any invoices that the third party has received. This is due to the fact that they are not the recipient of the supply of services. This does not include items such as travel and subsistence for employees where the employee is seen to be acting as part of the school rather than a third party.

In a similar situation where a local authority has been awarded costs and needs to prepare a ‘bill’ for the unsuccessful litigant these charges are seen as being by way of compensation, and so do not carry VAT. When formulating these charges it should be borne in mind that where the council is in a position to recover VAT on those costs that they will only bear, and hence should only charge, the net amount of the costs. It should also be remembered that the reverse applies and if we are obliged to pay the costs of a third party then where they are in a position to recover the VAT they should only request the net charges they have incurred.

A similar situation occurs where the school seeks to recover costs from third parties who have damaged their property, these will be compensatory payments and outside the scope of VAT.

***Training / Adult Education***

Supplies of training/adult education including lectures, seminars and symposia are exempt for VAT purposes when provided by a local authority school. If you are merely arranging facilities for a third party to provide a supply of education then that supply will remain one of a right over land (see part 3).

Certain supplies of education or training received by a school may also be exempt from VAT. Training provided by an external training provider who is an independent teacher, or part of a partnership of independent teachers will be exempt. Training provided by limited companies will normally be taxable, unless the company is also a charity, or non-profit making body.

Supplies of examination services made by external providers to a school should be exempt from VAT.

***Transport***

See: Motoring Expenses - *Other Travel Costs*

***VAT Only Invoices***

There may be circumstances where you receive invoices for only a VAT amount, i.e. from suppliers who forgot to charge VAT, or charged the wrong amount of VAT. In order to enter these to financial systems it is suggested a taxable and non-taxable contra is used as per the example below:

Oracle example:

Code Amount VAT Code

YZ001-BE228-0-0-S £100 S

YZ001-BE228-0-0-S -£100 O

STD VAT £20

The first line generates a VAT amount as though an invoice for £100 plus VAT had been received, the second line then removes the net value of the invoice but as it is coded as outside of VAT it does not remove the VAT amount, leaving a VAT only amount to be accounted for.

The above codes (YZ001-BE228-0-0-S) should be used for any items going through the Oracle system. For entries to SIMs you should use transaction codes appropriate to the original transaction.

**Part 5 – Private Funds**

**Introduction**

It is the case in some schools that a separate ‘private fund’ is run to deal with transactions outside of the normal run of school activity.

Within Suffolk it is understood to be the case that any schools that do not run a separate bank account for the private fund, and instead bank and retain all income through the delegated budget, are to be seen as not operating a private fund. These schools will therefore be running all activities through the delegated budget and should charge VAT on all activities that would normally attract either the standard or reduced rate of VAT, and recover VAT on any supplies where they are charged VAT.

**Registration for VAT**

If a private fund has a turnover in excess of £77,000 in a rolling 12 month period then it may be required to register for and charge VAT in its own right. Obviously this is unlikely to occur in most schools, but should your fund be close to such as size then please contact the VAT Specialist in CSD to discuss the options available, and pros and cons of exceeding this limit.

**Supplies by or to the private fund**

If the private fund is not VAT registered then any supplies it makes will be outside the scope of VAT. Any supplies it receives will be liable to VAT at the appropriate rate to the supply, and this VAT will not be recoverable.

This means that where a private fund receives income for something like a ski trip then it will be unable to recover any of the VAT it is charged by suppliers.

It is not possible for VAT purposes to have the income and expenditure for an activity being met from different sources, if income goes to the private fund then expenditure is not recoverable for VAT. If VAT is recovered on expenditure then income must go to the delegated budget and VAT accounted for on that income at the appropriate rate.

**Specific Considerations**

***School Trips***

If a school is undertaking a leisure trip that would otherwise be subject to VAT accounting then it may wish to run this through a private fund. This will avoid the need to undertake complex ‘tour operation’ calculations, but as package tour supplies do not have recoverable VAT on them this should avoid impacting on the affordability of the trip.

***School plays***

If a school is able to provide most equipment and expertise ‘in house’ for a play, then staging it through the private fund will avoid the need to account for VAT on the income, whilst having a minimal effect on profitability as there will be little irrecoverable VAT due to the reduced external costs.

***Extended Schools***

See Part 7 – Extended School Services

***Part 6 – VA Schools – Special Considerations***

**Capital Works at VA Schools - Introduction**

There are fundamental differences between Voluntary Aided (VA) and maintained schools. The School Standards Framework Act states that the Governing Bodies of maintained school incur all their expenditure as agent of the Education Authority; this allows the Education Authority (Council) to recover VAT that the Governing Body has incurred on its behalf. However Governing Bodies of VA Schools only incur revenue expenditure as agent of the Council. As the Council does not own the buildings of a VA school the governing body has responsibility for capital expenditure in relation to them, and their playgrounds. Thus where a VA school incurs Capital expenditure the supply is actually direct to the Governing Body rather than the Council.

This leads to different treatments for VAT, as VAT is only recoverable by the body which properly received the supply that the VAT was on. In the case of SCC expenditure the authority is able to recover VAT it incurs from HMRC. Governing bodies are generally however not registered for VAT and are unable to recover the VAT they are charged.

Even if the governing body is registered for VAT then these schools provide education as part of the statutory requirements of SCC, and this is a non-business activity. As the schools are mainly involved in a non-business activity, even if VAT registered in their own right, they are unable to recover VAT relating to this activity (i.e. VAT on capital works).

As you are aware when a VA School incurs capital expenditure a proportion of that cost is met by Devolved Formula Capital from the Department for Children Schools and Families, this funding is typically calculated to cover irrecoverable VAT charges, the remainder is funded by ‘governors contributions’ (normally around 10% although this can vary).

It is important to note that Voluntary Controlled (VC) schools differ from VA Schools, as in VC Schools full responsibility for the premises is taken over by SCC.

So to decide whether VAT is recoverable on expenditure relating to works at a VA school there are a number of criteria to review:

1. Are the works capital in nature? – Even if the Council would not normally be responsible for works to a building, or playground, if the works do not meet the criteria to be treated as Capital i.e. if they can be treated as revenue expenditure, then the school will be entitled to recover VAT where it spends Council funds.
2. Whose responsibility are the works? – If the works are the responsibility of the Council then even if Capital in nature the school will be able to recover VAT where it spends Council funds.

If the criteria are not properly met i.e. if the money spent is Governing Body money, or the works are of a Capital Nature and Governor responsibility then VAT recovery will not be available to the school.

It should be noted that where works are commissioned centrally by the Council, i.e. the Council enters into a contract directly with a supplier and spends its own money, then any VAT issues will be dealt with centrally, and in these cases VAT will normally be recoverable by the Council.

A flow chart is provided at the end of this section to help guide you as to whether VAT recovery may be appropriate.

**Capital Works at VA Schools – Is the expenditure Capital in nature?**

It is necessary to determine whether expenditure is of a capital nature in accordance with proper accounting practices, as expenditure of a revenue nature will always be the LA’s responsibility and VAT would therefore be recoverable.

Capital expenditure is generally expenditure on the purchase, improvement, or replacement of an asset which will be made use of for more than a year (fixed assets). Most organisations however have a level below which they will not treat expenditure as being capital. This prevents them having to declare small value items such as staplers, waste bins etc. as fixed assets on their accounts.

In the case of the Council, the capitalisation limits are £20,000 for new buildings (which in many cases for VA Schools can be zero rated so that VAT is not incurred), and £6,000 for other new assets. The Council does not set a limit for improvement works, which would include extensions, or ICT works or equipment, and so VA schools should use the general limit from within the VA Schools Blue Book ([www.teachernet.gov.uk/vabluebook](http://www.teachernet.gov.uk/vabluebook).) of £2,000.

In practice this will mean that any item of expenditure under £2,000 can automatically be treated as a revenue cost and VAT recovered upon the cost.

It is important to note that this de minimis limit should not be used to artificially disaggregate capital expenditure to recover VAT. For example construction works should not be split so that if invoiced separately, this could be treated as revenue expenditure as individually below the de minimis limit.

This does not mean that all expenditure above £2,000 is automatically Capital, for example repair works costing £5,000 may still be revenue costs if they do not extend the original life of the asset, and a table is included at the end of this section to help differentiate common Capital and Revenue Costs.

**Capital Works at VA Schools – Is the expenditure Capital in nature: Examples**

The following indicative table is provided to assist in determining how some examples of commonly incurred premises expenditure might be treated. Where expenditure is shown as capital, the remainder of the guidance will still need to be considered in order to determine the responsibility.

|  |  |
| --- | --- |
| **Capital** | **Revenue** |
| **Roofs** |
| Structure. New (not replacement) structure. | Repair/replacement of small parts of an existing structure |
| Structure. Replacement of all or substantial part of an existing structure to prevent imminent or correct actual major failure of the structure. | Replace small areas of rotten or defective timber, make good minor areas of spalling concrete where reinforcing bars are exposed.Replace/repair small areas of rotten/defective joists, rafters, purlins, etc.Not complete trusses. |
| Screed/insulation in a new building/extension | Repair/replacement of screed/insulation where defective. |
| Screed/insulation. Replacement/repair of substantially all. Improve effectiveness of insulation. | Work to improve insulation standards, during work to repair/replace small areas of roof.Repair/replacement/increasing thickness of insulation in an existing roof. |
| Finish on new build. Replacement of all/substantially all on existing roof. | Replacement of roof finish on existing building. Re-coating chippings to improve life expectancy.Replace missing/damaged small parts. |
| Bargeboard/edge trim/fascia on new build | Repairs/replacement/repainting. |
| Bargeboard/edge trim/fascia, replacement of all/substantially all on existing roof. | Repairs/replacement/repainting. |
| Drainage on new build/extension.Replacement of all/substantially all on existing roof. | Clearing out gutters and downpipes. Replacement/repair of individual gutters/pipes.Repainting gutters/pipes. |
| Other items e.g. flashings, rooflights/windows on new build/extension. Replacement of all/substantially all items on existing roof. | Repair/replacement/cleaning of individual items |
| Provide new covered link etc. between existing buildings | Minor repairs, maintenance to existing covered link. |
| Rebuild or substantially repair structure of existing covered link. Add porch etc to existing building | Minor repairs, maintenance to existing structure. |
| Rebuild or substantially repair structure of existing porch. |  |

|  |  |
| --- | --- |
| **Capital** | **Revenue** |
| **Floors** |
| Structure and damp proof course (dpc) in new building | Repair/replacement of small parts of an existing structure |
| Structure and dpc – replacement of all or substantial part of an existing structure to prevent imminent or correct actual major failure of the structure |  |
| Screed and finish in new build, replacement of all/substantially all on existing floor – e.g. replacement of most carpet/tiles in a room. | Replacement and repair of screed and finishes/replacement of mats/matwells. Maintenance e.g. revarnishing wooden floors. |
| **Ceilings** |
| Suspension | Repair/replacement inc from water damage & necessary decoration |
| Membrane |  |
| Fixed | Repair/replacement inc from water damage. |
| Access panels | Repair replacement |
| Specialist removal/replacement of damaged/disturbed Asbestos based materials, planned or emergency | Inspection/air testing. Applying sealant coats to asbestos surfaces for protection |
| **External Walls – masonry/cladding** |
| Structure. Underpinning/propping for new build. External finish on new build | Repairs/preventative measures e.g. tree removal. Repairs/replacement of small parts of an existing structure e.g. repointing/recladding a proportion of a wall where failure has occurred. |
| External finish on existing build where needed to prevent imminent (or correct actual) major failure of the structure e.g. repointing/recladding work affecting most of a building/replacement build. |  |
| **Windows and Doors** |
| Framing – new build | Repair/replacement of individual frames. Repainting frames. |
| Framing – structural replacement programme | Repair/replacement of individual windows. Repainting frames. |
| Glazing – new build | Replacing broken glass |
| Glazing – upgrading existing glazing |  |
| Ironmongery | Repair/replacement |
| Improved security | Upgrading locks etc. |
| Jointing including mastic joints |  |
| Internal and external decorations to new build | Internal and external decoration to include cleaning down and preparation. |

|  |  |
| --- | --- |
| **Capital** | **Revenue** |
| **Masonry Chimneys** |
| Structure |  |
| Jointing including expansion and mortar joints/pointing/dpc | Repair/repointing |
| **Internal Walls** |
| Solid walls - complete including various internal finishes, linings and decorations | Repairs and redecoration to internal plaster/linings, pin boards, etc. |
| Partitions - complete structure including linings, framing, glazing, decoration, etc. | Repairs and redecoration |
| Refurbishment and alterations | Minor alterations |
| Glazing to meet statutory Health and Safety requirements | Replacement of broken glass |
| **Sanitary Services** |
| In new buildings provision of all toilet fittings, waste plumbing and internal drainage. | Repair/replacement of damaged sanitary ware, fittings, waste plumbing, etc. |
| Large scale toilet refurbishment | Small areas of refurbishment |
| Provision of disabled facilities and facilities related to pupils with statements | Repair/replacement of damaged fittings, waste plumbing etc. |
| Kitchens in new buildings, complete with fittings, waste plumbing and internal drainage. Internal finishes and decorations.General refurbishment.Large and costly items of equipment. | Maintenance of kitchen to requirements of local authority.Cleaning out drainage systemsRedecorationRepairs/replacement parts. |
| **Mechanical Services** |
| Complete heating and hot water systems to new projects, including fuel, storage, controls, distribution, flues, etc. | General maintenance of all boiler house plant including replacement of defective parts. Regular cleaning. Energy saving projects. |
| Safe removal of old/damaged asbestos boiler and pipework insulation, where risk to Health and Safety. | Monitoring systemsHealth and safety issues |
| Planned replacement of old boiler/controls systems past the end of their useful life. | Replacement of defective parts |
| Emergency replacement of boiler plant/systems |  |
| Provision of cold water services, storage tanks, distribution, boosters, hose reels etc. in major projects. | Maintenance and repair/replacement of defective parts such as servicing pipes. Annual servicing of cold water tanks. |
| Gas distribution on new and major refurbishments, terminal units | Repairs, maintenance and gas safetyAll servicing |
| Mechanical ventilation/air conditioning to major projects. | Provision of local ventilation. Repair / replacement of defective systems / units. |
| Swimming pool plant and its complete installation, including heat recovery systems | Repair/replacement of parts to plant, pumps and controls. Water treatment equipment and all distribution pipework.Simple heat recovery systems. |

|  |  |
| --- | --- |
| **Capital** | **Revenue** |
| **Electrical Services** |
| Main switchgear and distribution in major projects | Testing/replacement of distribution boards. The repair and maintenance of all switchgear and interconnecting cables including that in temporary buildings. |
| Control gear, distribution, fixed equipment, protection, etc. | All testing, repair and replacement of small items of equipment |
| Provision of luminaries and emergency lighting | Replacement of luminaries, all testing, adjustments and improvements to emergency lighting. |
| Lightning protection in new build. | Repair/replacement |
| Alarm systems, CCTV, lifts/hoists, etc | Repair and maintenance |
| New installation of communication systems, radio/TV, call, telephone, data transmission, IT etc. and provision in new build | Repair/replacement/maintenance, including all door access systems |
| **External Works** |
| Provision of new roads, car parks, paths, courts, terraces, play pitches, steps and handrails, as part of major project, including disabled access | Maintenance and repairCar park and playground markings |
| Provision of walls, fencing, gates and ancillary buildings as part of major project | Maintenance and repair of all perimeter/boundary/retaining walls, fencing and gates. |
| Drains, soakaways, inspection chambers and sewage plant as part of new projects | Maintenance and repair of drains, gullies, grease traps and manholes between buildings and main sewers. Cleaning of the above and unblocking as necessary. |
| Open air pools - structure, hygiene/safety in new build | Hygiene, cleaning, maintenance and repairs, including replacement parts. Simple energy saving systems |
| Services distribution - heating mains, gas mains, water mains, electricity mains, renewal of any of the above | Annual servicing. |

**Capital Works at VA Schools – Deciding who has responsibility**

The Governing Body’s responsibility extends only to premises expenditure, specifically excluding playing fields, sports pitches, and buildings upon the fields or pitches that are related to their use. The responsibility includes “fixed” furniture (e.g. laboratory tables), fixtures, and fittings that form part of the infrastructure, as well as fencing and perimeter walls. It does not include “loose” items, for example freestanding desks and freestanding educational equipment e.g. laptops, kindles, iPads etc.

The following table provides guidance on what ICT expenditure is regarded as premises related:

|  |  |
| --- | --- |
| **Premises (GB Responsibility)** | **Non-Premises (LA Responsibility)** |
| **Note: VA Schools are allowed to use capital grant funding to pay for ICT equipment, but VAT will not then be recoverable** |
| **ICT** |  |
| * Building of an ICT Suite as a single project - including construction works and all equipment, furniture & fittings installed.

*These become part of the premises.** Installation of:
	+ ICT cabling;
	+ WiFi systems, incl. ethernet & routers;
	+ Security systems, incl. proximity cards

*Where these are purpose built for premises, and not removable for use elsewhere.* | * PCs, servers, interactive electronic whiteboards, projectors, printers and fax machines installed individually (not as part ICT suite)
* Laptops, kindles, iPads and other ‘hand held’ equipment used on the premises.
* Laptop trolleys (storage / connection facilities)
* Electronic tills and biometric identification scanning devices

*All of the above are not part of premises as removable and available for use elsewhere.* |

**Capital Works at VA Schools – Flowchart**

**Is the value of the work under £2,000?**

**LA responsibility expenditure**

Is the work in respect of the school premises?

*(“Premises” excludes: playing fields / sports pitches, and related buildings on such areas)*

**Is the expenditure on “loose” items of equipment?**

**Is the expenditure capital in nature?**

**GB responsibility expenditure**

**Is the work funded by 90% DFC plus 10% delegated budget/Governors contribution, or by any other monies awarded to the Governing Body?**

**No VAT is recoverable by the Local Authority**

**Has the LA placed a central order directly with a supplier using its own funds?**

**No VAT is recoverable by the Local Authority**

**VAT is recoverable by the Local Authority.**

**NO**

**YES**

**YES**

**NO**

**VAT recovery is dependent upon recipient of supply and ownership of funding.**

**VAT may be recovered via the Local Authority when paid from the delegated budget or other Local Authority funds.**

**YES**

**NO**

**NO**

**NO**

**NO**

**YES**

**YES**

**YES**

**Zero rating on Capital Works – New Buildings/Annexes**

Although recovery of VAT is not allowed in relation to Governor responsibility capital projects this does not mean that all works at a VA school will necessarily incur VAT.

The aiding body of most, if not all, VA schools and by extension the governing body will be registered charities. There are a number of reliefs available to charities in relation to VAT, the most important for VA schools being the ability to have some new building works zero rated.

The buildings which can be zero rated are those that form either a separate new building or an independent annexe to an existing building, which will be used by a charity for a wholly (or substantially wholly) non-business charitable activity (other than as an office, new offices will be standard rated).

HMRC accept that the making available of a building by a charity to a local authority for the purposes of providing education is not a business supply and thus these works can be zero rated at VA schools. To receive zero rating the school needs to provide the building contractor with a certificate certifying that it is a charity and that it will be using the buildings for its charitable purposes.

There are a number of important points to bear in mind with this;

* The building must have wholly (or substantially wholly) charitable use, this means that if any areas of the building are to be let, or have paid for community use, then the building might not meet the criteria. This would also prevent the school using the building itself for a business use, i.e. if the school ran paid for adult education classes then if taught in the new building these would be seen as business use of the building.

In this instance the ‘substantially wholly’ is the important part, if it can be demonstrated that business use of the building will be below 5% of the total usage then HMRC will allow the zero rating, if it exceeds this limit then the building is taxable. This 5% can be calculated using any fair and reasonable measure.

* The building must be either a separate building or an independent annexe, this means it should not have internal access to any existing building, and it must be suitable for independent use i.e. if all other buildings were closed the new building could still be used for its intended purpose.

This generally means that it should have its own toilet facilities, and main entrance. Having separate supplies of utilities is not a necessary condition of this however so electricity received from a single line onto the school site will not prevent zero rating applying.

Although an annexe can make use of party walls integration with an existing building should really go no further than this, it is important that any existing structures cannot be seen as being enlarged or extended by the presence of the new works.

The rules regarding new buildings and annexes for charities can be quite complex and it is suggested that if you are planning a project on these lines that you contact the Taxation Specialist at an early stage to discuss the project and the possibilities for zero rating.

***Part 7 – Extended School services***

**Introduction**

Parents and government are placing increasing reliance on schools to provide a range of activities that run from before the start of the nominal school day until well after the school day has finished.

Sometimes these are seen as provided by the local authority as part of a child’s statutory education, but sometimes they can be provided by the governing body in its own right, and sometimes by third parties for profit or charity.

Some of these services may also be aimed at a wider community than purely current SCC school pupils.

Under Section 27 of the Education Act 2006, governors of local authority schools are empowered to act in their own right to provide facilities for the benefit of the local community.

If any activities are delivered under the power of Section 27 then the Governing Body will be seen to be acting independently and should be allocating income and expenditure to a bank account separate to the delegated budget account. This also means that as the governors are acting independently of the local authority, they need to make sufficient insurance arrangements to cover the extended schools activities as they will not be seen to be covered by SCC insurance cover.

Local authorities do however have a wide range of residual powers that they are able to utilise to undertake extended schools activities themselves, so if the powers of section 27 are not in use for a particular extended activity it will normally be seen as provided by the local authority.

Additionally of course SCC can allow third parties to utilise its premises for the provision of extended schools activities. Sometimes commercial rents may be received in relation to the use of the premises.

These different modes of provision will all have a different effect on the schools treatment of income and expenditure relating to these activities for VAT purposes.

Much of the information in this section can be found in other sections of the manual that deal with subjects such as whether a governing body is acting in its own right or as agent of SCC in making supplies [Part 5 – Private Funds], or how to treat recharges to tenants [‘Recharges to tenants’ in Part 3 – Land and Buildings], but is bought together here to provide a central quick reference for point affecting extended services.

**Third Party Providers**

Some extended schools services may be run by charitable or private companies using school premises. In these situations the income will normally be taken by the service provider with the school only receiving income from the letting of school property.

The letting of property will be exempt, although if the entire charge is at a peppercorn rent then this may be seen as non-business and hence outside the scope of VAT. To be properly seen as a peppercorn rent the rental should not include any charges other than the peppercorn i.e. recharges of costs will normally be seen as a charge for rental and as such will move the rent away from peppercorn rate. [See also ‘Recharges to Tenants in Part 3 – Land and Buildings]

If third party services are bought in by the school for onward provision to pupils then the VAT on these will be recoverable where the school is acting as the agent of SCC in procuring the services, i.e. if onward charges to pupils are banked to the delegated budget, or where the service is provided free of charge.

**Governing Body/Private Fund Provision**

Where extended schools activities are run by the governing body then both income and expenditure sit outside SCC VAT accounting, with VAT not being payable on income but also not recoverable on expenditure.

It may be the case that where there is governing body/private fund provision that the extended schools service will be subject to recharges from the school/SCC i.e. for staff use, use of premises etc., in these cases HMRC have confirmed that such recharges will be treated as outside the scope/non-business i.e. where a school raises invoices for necessary recharges to its governing body/private fund then there is no VAT charge. This is for recharges only, any equipment which the extended school requires cannot be procured by the school for recharge to avoid a VAT liability.

**SCC provided activities**

Where a local authority provides for pupils at their schools to attend before and after school clubs, these supplies may be treated as closely related to education and therefore non-business when supplied at or below cost.

This applies even where the activities do not appear to be linked to the curriculum, for example, snooker and football, as they are considered to be “social education”.

Where services are provided for pupils or non-pupils that amount to the provision of childcare i.e. nursery provision, play groups etc. then the government has decided that such services provided by local authorities may be treated as non-business services and hence will be accounted for outside the scope of VAT.

For SCC to be seen to be providing any of the above services with the governing body acting as its agent then employees running the club must be SCC employees, and all income and expenditure must be through the delegated budget.

SCC provided activities are less likely at VA schools as the governing body is the employer and also owns the premises, however if the services are specifically requested by, and any deficit funded by, SCC then their provision can be seen to be in the course of acting as an agent of the local authority. Provision instigated by the governors will normally be seen to be independent of the local authority and thus should be treated under governing body/private fund provision.

***Part 8 - Transactions outside the UK***

**Introduction**

When dealing with customers and suppliers outside the UK there are different procedures that need to be adopted and different rules to be borne in mind.

The first thing to be aware of is that the world is split into 3 different areas for VAT purposes;

UK, European Union, Outside the European Union.

This split is due to the fact that as part of EU membership there are certain regulations to stop one countries tax falling as a burden to those in another EU member state, and also to stop traders gaining a tax advantage by trading with the UK whilst being in another member state.

**Territory of the European Union**

The following countries are members of the European Union,





**Purchases of Goods:**

*EU:*

These transactions are called Acquisitions. When purchasing goods from somewhere in the EU always make sure you inform the seller that you are VAT registered and provide your VAT registration number, this should allow them to make the sale without VAT. These purchases should be notified to the Tax Specialist in CSD as they have different reporting requirements to normal transactions.

*Outside the EU:*

These are known as imports. When purchasing outside the EU it is possible that you may be charged a local sales tax, in addition to this imports are also liable to both VAT and duty when they enter the European Union.

When goods are bought into the UK HM Revenue and Customs may assess the package and add charges that will be passed through the shipping agent or requested by the courier. Any duty will be charged first with VAT added on top. This can lead to a significant increase in the price, although of course the VAT element is recoverable as Input Tax subject to the normal rules.

In order to recover the VAT on Imports we need proper certification from HMRC you should therefore make sure that any shipping agents you use have a proper record of SCCs VAT number as entering this on customs forms is what generates the required documents.

Small value packages (under £18 value) do not normally have duty or VAT applied (this is why many CD and DVD retailers have set up in the Channel Islands [Outside the EU] to lower costs by not incurring VAT or duty).

In addition to the duty and VAT, postal imports will normally have an administration charge applied by the courier/post office which is typically £8 or more.

Purchases made whilst abroad:

If you make purchases whilst for example on a school trip in the EU you will be charged the local VAT equivalent and although there are methods for recovering this they are only cost effective where the VAT amounts are quite large and so in most cases this will need to be absorbed through the budget.

**Purchases of services:**

*EU:*

Again it is best to ensure that any supplier of services is aware that you are VAT registered and has a copy of your VAT registration number, in most situations this should avoid them needing to charge VAT.

*Outside the EU:*

Supplies of services from outside the EU will be subject to the local tax regime, but if you purchase large value supplies there is even a possibility that the supplier may be required to register for VAT in the UK.

**VAT charged by foreign traders.**

If you are charged foreign VAT for any reason, then it should never be entered as VAT through any accounting system and must be absorbed through the budget. If you feel VAT has been charged incorrectly then contact the Tax Specialist who may take the case up and will make any necessary adjustments.

You will of course also be charged VAT by foreign traders whilst abroad on school trips, this VAT cannot be entered to the financial systems as VAT. However if there are any significant VAT values involved then there is a mechanism that gives the opportunity to recover some of this.

The refund mechanism is an EU wide scheme that allows member states to refund VAT that traders have incurred whilst within the member state. However each state has its own rules which will apply to a claim, and in most cases costs such as hotel accommodation and catering are excluded from recovery. For school VAT would be recoverable where a school within the relevant member state would also be able to recover that VAT from the relevant tax authority.

It can be a complex procedure to arrange recovery of these amounts, and many states do not treat schools within their jurisdiction as favourably as the UK does, for these reasons we will only pursue claims where significant amounts of VAT are at stake.

**Record of Changes from version 1.0**

Jan-2010 Added section ‘School Plays/Concerts - Sale of recordings’.

 VAT Number added to title page.

 Added paragraph to ‘School Plays/Concert/Disco’ to clarify that where staged for a syllabus reason, ticket sales will remain taxable.

Mar-2010 Added paragraph to ‘School Uniforms’ clarifying liability where a taxable charge has been incurred in altering uniform clothing (i.e. adding a crest).

 Added cross-reference from ‘Fuel and Power’ in Part 4 to ‘Recharges to Tenants’ in Part 3.

Jan-2011 Amended rates of VAT to reflect new 20% standard rate.

May-2012 Updated ‘School Trips’ to clarify the application of the term ‘Educational Trip’, added a section on ‘leasing’ to clarify information in the ‘Land and property’ section that may otherwise be missed.

Removed Appendix dealing with change in VAT rates from January 2011.

Aug-2014 General Update, also incorporating revised VA schools Guidance.